

Silicones —
A World
of Unlimited
Potential

2016



14

Silicon

WACKER — At a Glance

€ million	2016	2015	Change in %
Results/Return			
Sales	5,404.2	5,296.2	2.0
EBITDA ¹	1,101.4	1,048.8	5.0
EBITDA margin ² (%)	20.4	19.8	n.a.
EBIT ³	366.2	473.4	-22.6
EBIT margin ² (%)	6.8	8.9	n.a.
Financial result			
Financial result	-101.4	-66.7	52.0
Income before income taxes	264.8	406.7	-34.9
Net income for the year	189.3	241.8	-21.7
Earnings per share (basic/diluted) (€)			
Earnings per share (basic/diluted) (€)	3.61	4.97	-27.4
ROCE (%)	6.1	8.1	n.a.
Financial Position/Cash Flows			
Total assets	7,461.6	7,264.4	2.7
Equity	2,593.2	2,795.1	-7.2
Equity ratio (%)	34.8	38.5	n.a.
Financial liabilities	1,458.2	1,455.4	0.2
Net financial debt ⁴	992.5	1,074.0	-7.6
Capital expenditures ⁵	427.6	834.0	-48.7
Depreciation/amortization	735.2	575.4	27.8
Net cash flow ⁶	400.6	22.5	>100
Research and Development			
Research and development expenses	183.4	175.3	4.6
Employees			
Personnel expenses	1,379.4	1,350.1	2.2
Employees (December 31, number)	17,205	16,972	1.4

¹ EBITDA is EBIT before depreciation and amortization.

² Margins are calculated based on sales.

³ EBIT is the result from continuing operations for the period before interest and other financial results, and income taxes.

⁴ Sum of cash and cash equivalents, noncurrent and current securities, and noncurrent and current financial liabilities.

⁵ Capital expenditures excluding acquisitions.

⁶ Sum of cash flow from operating activities (excluding changes in advance payments) and cash flow from long-term investing activities (before securities), including additions due to finance leases.

Annual Report 2016

Silicones — A World of Unlimited Potential



Silicon is essential for silicone production at WACKER. The shiny gray semimetal is processed into thousands of silicone products at the company's sites in Burghausen, Nünchritz and Zhangjiagang.

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Vision —

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

2016 — Key Events

March —

WACKER expanded its technical competence center in Singapore to include a new development and test lab for silicone elastomers, which are used, for example, in the electronics and healthcare sectors. The silicones and polymeric-binder labs for construction applications were also modernized.

April —

The new polysilicon site in the us state of Tennessee officially opened. The site in Charleston is WACKER's largest single investment ever, totaling some us\$2.5 billion. We finished commissioning the production facilities there on schedule in the third quarter. Full capacity is over 20,000 metric tons per annum. Around 650 people work at the Charleston site.



June —

WACKER began expanding its production capacities for silicone rubber at the Jincheon site in South Korea. We are erecting new plants for manufacturing more silicone sealants, specialty silicones and liquid silicone rubber for the construction, electronics and automotive industries.

To mark World Refugee Day on June 20, SchlaU, a Munich-based refugee initiative, and Wacker Chemie AG launched a project to enable young refugees in the Bavarian district of Altötting to start their working lives. We donated a total of €200,000 to the SchlaU School. The collaboration with WACKER's Burghausen Vocational Training Center (BBiW) aims to help young refugees living in Bavaria's Altötting district learn German and to find them suitable training places.

August —

Dr. Alexander Filippou, Professor of Inorganic Chemistry at the University of Bonn, Germany, received the 2016 WACKER Silicone Award. The award was presented at the eighth European Silicon Days in Poznań, Poland, in recognition of Filippou's groundbreaking work in the field of organosilicon chemistry.



October —

WACKER presented the Alexander Wacker Innovation Award 2016 to a research team in Burghausen for developing a 3D printing process. The first industrial 3D printer manufactures parts from silicones. The high-tech printer is called ACEO® Imagine Series κ, and the procedure developed by WACKER researchers is a milestone in additive manufacturing.

WACKER is boosting its R&D for silicones in the USA with a new lab complex in Ann Arbor, Michigan. The complex is dedicated to developing new products and business fields in North, Central and South America, and will officially open in the first half of 2017.

At the κ 2016 plastics show in Düsseldorf, WACKER presented innovative products and technologies for key industries such as the automotive, electronics, lighting and healthcare sectors. Among other innovations, WACKER showcased textile sensors of silicone film, crystal-clear encapsulation compounds for LEDs, and optical lenses. WACKER also presented the world's first-ever industrial 3D printer for silicones.



November —

A pilot reactor for vinyl acetate-ethylene copolymer (VAE) dispersions came on stream at the Nanjing site in the Chinese province of Jiangsu. With the new plant, we are intensifying our local R&D and expanding our local product developments, application technology and customer service offerings.

December —

WACKER BIOSOLUTIONS acquired a large-scale fermentation plant in northern Spain. The plant at the León site will produce cysteine for foods and pharmaceutical products by fermentation processes. The acquisition is a strategic step toward meeting our customers' cysteine demand in the long term and offering other bioengineered products.

Silicones — Truly Multi-Talented

We encounter them every day — in smartphones, cars, textiles, paints and coatings, but also in lipsticks, detergents and medical applications. They are the 3,000 different silicone products that WACKER manufactures.

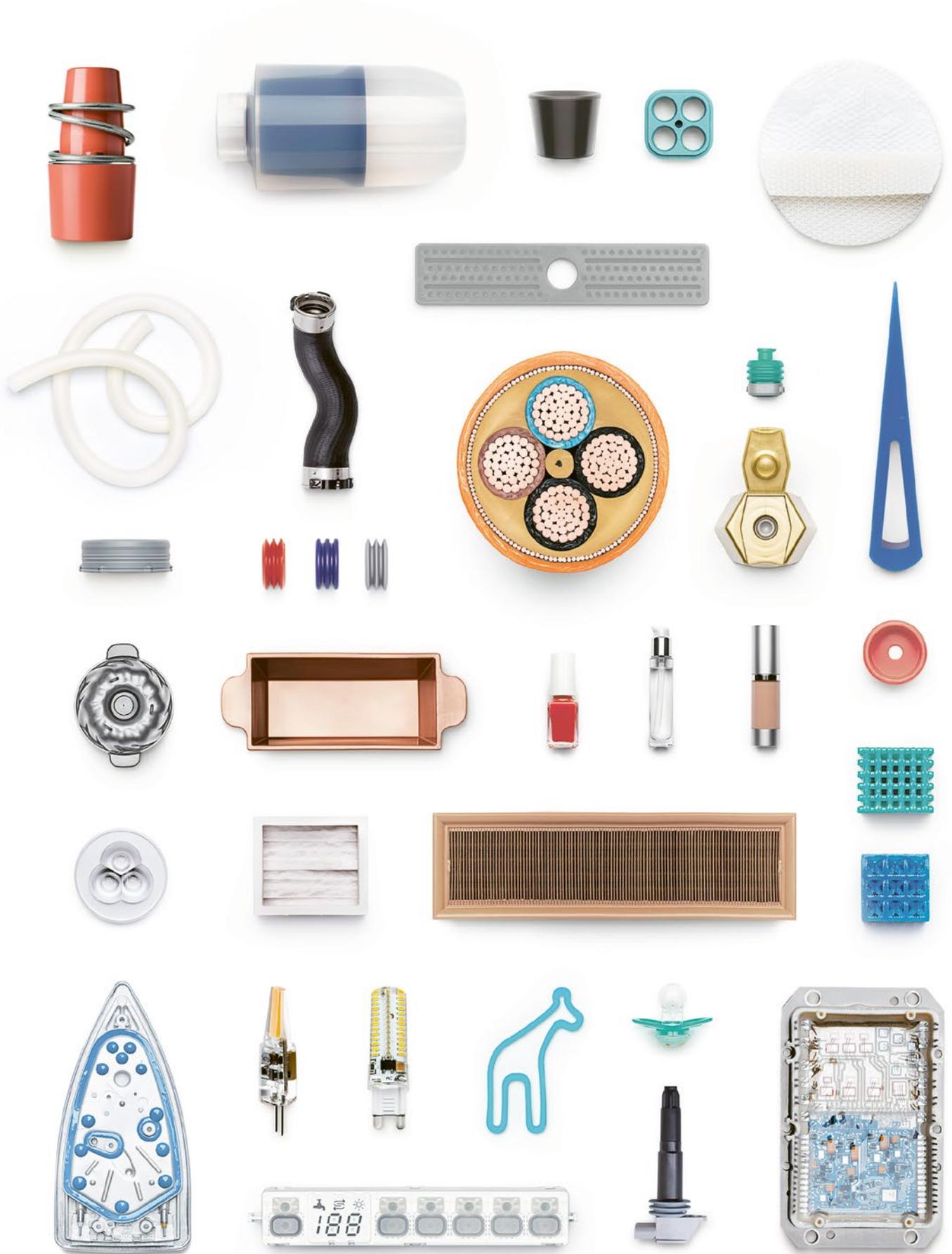
3

They have unique properties unsurpassed in their diversity by any other polymer. They are resistant not only to heat, but also to low temperatures. They are sealants and insulating materials, but also lubricants and release agents. They are water-repellent, elastic, UV-resistant and extremely durable. And they provide glossy surfaces while making textiles soft and supple.

Silicones — Diverse Applications

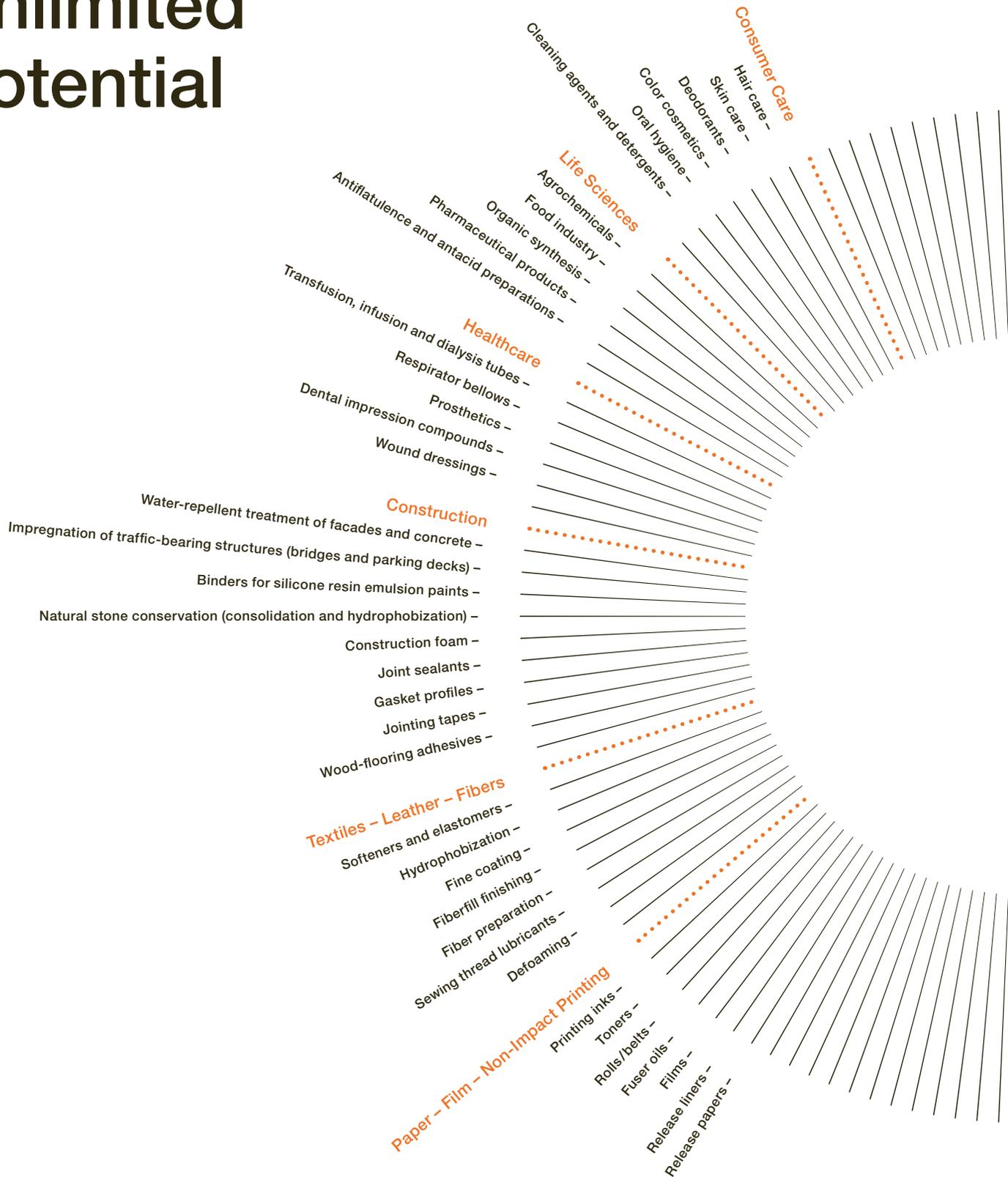
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Silicones — Unlimited Potential

6



~ €36 billion

in industry value added is generated annually by silicones

Automotive – Transport

- Cylinder-head gaskets
- Engine gaskets
- Air filters
- Automotive electronics
- Vibration dampers
- Headlamps
- Shipbuilding and trains
- Viscous clutches
- Airbags
- Aerospace
- Radiators

Energy – Electrical and Electronic Systems

- Composite insulators
- Insulator coatings
- Cable accessories
- Transformers
- Measuring instruments
- Consumer and power electronics
- Semiconductors
- Photovoltaics

Elastomers – Plastics – Composites

- Printed articles
- Extruded articles
- Injection-molded articles
- Composites
- Cable manufacture and sheathing
- Pad printing
- Additives
- Impregnating agents
- Polyethylene crosslinking
- Precision casting
- Moldmaking

Coatings – Adhesives

- Glass jugs
- Corrosion protection
- Coil coatings
- Equipment engineering
- Household appliances
- Glass/glass-reinforced laminates
- Mica impregnation
- Highly heat-resistant coatings
- Electromagnets
- Wood coatings
- Filter and clean-room technology

Chemical Industry

- Water treatment
- Oil and gas extraction
- Antifriction agents and lubricants
- Welding filler materials
- Release agents

Chameleon-Like

Silicones are chameleons among materials. Displaying an astonishing capacity for change, they range from silicone fluids, emulsions and resins through to silicone elastomers. WACKER's product portfolio covers some 3,000 different silicones. Hardly any material has so many useful properties. Silicone elastomers are used, e.g., to protect car electronics against moisture and dirt, and to prevent short circuiting in high-voltage power lines. Anti-foam agents prevent washing machines from foaming over. Silicones give skin and hair a silky sheen. Specialty silanes and silicone resins keep the walls of buildings dry while allowing water vapor to escape from the interior. When it comes to applications, silicones offer almost unlimited potential.

45%

Liquid Silicones

Almost half of WACKER silicones are fluids, emulsions, resins and silanes, i.e. liquid in form. They usually act behind the scenes, as it were, providing special surface effects or serving as processing aids.

55%

Solid Silicones

Most WACKER silicones are solids – i.e. rubbers that cure to form solid elastomers. Elastic silicone moldings are used in the plastics industry and many other sectors.

Silicones — Our Business at a Glance

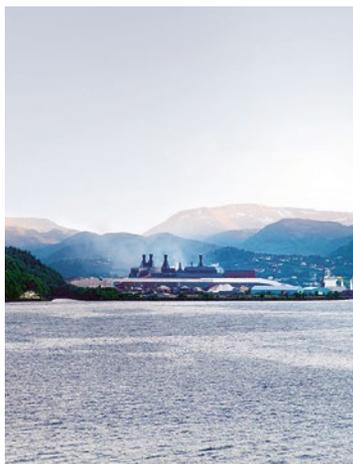


70 Years

The age of silicones began at WACKER on August 2, 1947, making the chemical company Europe's first silicone producer. Today, silicones account for over a third of WACKER's total sales of €5.4 billion.

Raw Material from Holla

Silicone production requires one thing in particular: silicon metal. It is the most important raw material after methanol. WACKER's production site in Holla, Norway, meets about a third of our total demand. The remainder is purchased on global markets. Captive production has key advantages, making WACKER slightly less dependent on price trends.



Silicon-metal production site in Holla, Norway

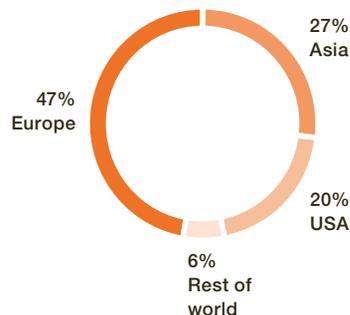
~€10 Billion

Silicone Market

The silicone market is polarized. Accounting for 35 percent of the market, Dow Corning is currently the largest silicone manufacturer capable of producing its own raw materials. WACKER ranks second with 17 percent, just ahead of Momentive. WACKER is world No. 1 in a variety of application fields, such as building protection. The value chain operated by the largest silicone producers with backward integration amounts to around €10 billion.

Breakdown of Sales

WACKER SILICONES has been steadily increasing its sales for years. 2016 was the first time that its sales surpassed the two-billion-euro mark.



27%

Sales in Asia

WACKER SILICONES generates somewhat less than 30 percent of its sales in Asia, making it the second-largest market after Europe. Our silicone business in India and Southeast Asia grew at a particularly fast rate in 2016. Rising living standards in emerging Asian markets are fueling demand for high-quality products that contain silicone.



WACKER's Zhangjiagang plant in China



12

Sites

WACKER operates 26 production sites around the world, 12 of which belong to the integrated production network run by WACKER SILICONES. Located in Europe, Asia and the Americas, these sites supply global growth markets. The company's Burghausen and Nünchritz sites in Germany and Zhangjiagang in China play a key role.

They make sales products, as well as silanes and siloxanes, which are key upstream and intermediate products. The division's fully integrated production system is unique, making it possible to treat byproducts and return them to the production cycle, where they are processed into value-added sales products.

22

Technical Competence Centers

Our technical centers are based locally to enable us to develop tailored market solutions – a service that benefits silicone customers as well. Every country has its own distinct raw materials, processing conditions, applications, legal regulations and standards, not to mention consumer expectations. WACKER's silicone experts adapt products accordingly and show customers how to get the most out of silicones. WACKER ACADEMY regularly provides training at our technical centers, with courses designed for sales staff, customers, distributors and universities.



Technical competence center in Pangyo, South Korea

3,000

Products

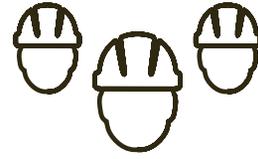
Turn two into seven and then into 3,000: that's silicone production at WACKER in a nutshell. WACKER uses two raw materials – silicon metal and methanol – to make 3,000 different silicone products in seven product lines: silanes, siloxanes, silicone fluids and emulsions, elastomers, resins, pyrogenic silica and, the most recent addition to the WACKER SILICONES family, organofunctional silanes.



Highly elastic silicone elastomer for vibration dampers



WACKER: the world's second- largest producer of silicones



4,566

Employees

Nearly a third of WACKER employees work at the company's largest business division, most of them in research, technical support and production. Almost 60 percent of them are based in Germany. Investments and expanding sales markets, especially in Asia, are causing the number of employees based outside Germany to rise at an above-average rate.



4,200 m²

R&D Lab Facility

The Group's largest silicones research laboratory facility is in Burghausen. In this facility, which occupies an area of 4,200 square meters, we develop silicone film, encapsulants, coatings, silicone gels and surfactants for the next generation of products. WACKER SILICONES' technical support and quality control units are among the departments that use a number of laboratories there.

Five Questions — On Course for Growth with Silicones



Interview with
Dr. Robert Gnann,
President of
WACKER SILICONES

1 —

WACKER is currently the world's No.2 silicones producer. What is your strategy for further growth?

Dr. Gnann: We have a clear goal. We want to continue growing at over 4 percent per year – significantly faster than the global chemical industry. We have created the best conditions for this with our full-scale production plants for upstream products. Now, we are selectively expanding our capacities for downstream products. In the USA, we are currently building a new pyrogenic silica plant in order to become the No.2 producer in this business. At the same time, we are continuing to expand our consultancy and service portfolio – particularly in growth regions such as Asia and South America, where we have a policy of using strong, locally based teams that work closely with customers. As far as our products are concerned, we want to offer more high-quality specialties, while also continually optimizing our technologies and processes – thus further improving our cost position.

2 —

What makes WACKER SILICONES better than its rivals?

In other words, how do you hold your own against the competition?

Dr. Gnann: One of our biggest strengths is the comprehensive customer service our first-rate specialists provide all over the world. We operate over a dozen technical competence centers across five continents. This proximity to our customers, understanding their requirements and developing solutions with them is what distinguishes us from many of our competitors.

A good example of our extensive customer policy can be seen in South Korea. We have our Center of Excellence for Electronics Applications there, and work hand in hand with the world's leading electronics companies to develop new solutions. In the USA, we are currently building a new research center at Ann Arbor. Customers get far more from us than just silicone: they gain a highly experienced advisor and reliable development partner, who has a detailed understanding of their needs, and helps them to reach their goals.



3 —

So the aim is to keep on improving silicones and modifying their properties for new applications?

Dr. Gnann: Yes, but not only that. We are heavily reliant on fundamental innovations. Take 3D printing of silicone parts, for example. Until recently, there was no mature industrial 3D printing technology available for silicones. We developed everything from scratch – starting with the technology and the specialty silicone through to control software for the printer.



4 —

That doesn't sound like a business that will consume thousands of tons of silicone per year. Do you see WACKER SILICONES' future in niche applications?

Dr. Gnann: First, I don't think it's at all justified to assume that 3D printing will remain a niche application. The technology may still be young, but it has enormous potential. However, it's true that global-scale plants like the ones we operate will never be utilized to capacity just by producing specialty products. We also need commodity

silicones, which are in huge demand. The issue here is to produce materials of uniformly high quality at the lowest possible cost. We are pursuing an optimum-mix strategy, not only offering high-efficiency production of commodity silicones, but also a growing share of tailored specialties that add value for customers.

5 —

WACKER already manufactures over 3,000 different silicone grades, which are used in almost every area of industry, from construction to electronics. Won't the range of new applications be exhausted sooner or later?

Dr. Gnann: I've got no worries on that score. First, new technologies that use silicones are coming along all the time. Just think of electromobility. Second, existing applications are being continually enhanced. The traditional self-adhesive plaster complete with wound dressing is almost 100 years old, but wound dressings with silicones set entirely new benchmarks. They are soft, flexible, breathable and adhere securely, yet can be peeled off much less painfully afterward.

And we can even modify established products such as silicone fluids so that they can be used as heat-transfer media in solar thermal power generators, where they significantly improve efficiency. These are just two examples of many. I'm convinced silicones will demonstrate their superior properties in many applications that we haven't even thought of yet. There are no limits to the creativity of our outstanding teams around the world.

Gentle Protection — Less Pain

Healthcare

Solid Silicones



12

“We want wound patients to suffer less pain in the future,” says Dr. Birgit Auzias. To meet this goal, she and her team in Burghausen are testing a wide variety of silicone gels used to coat bandages and wound dressings for treating chronic and extensive wounds. Changing dressings is traumatic for some 40 percent of patients. “With our silicone gel, we are helping these people,” she adds. Such gels are breathable and adhere gently to the skin, promoting the healing process.

Silicone Dressings Are in Demand

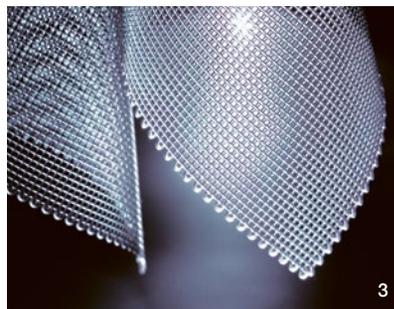
There is considerable demand for professional wound dressings. This is because more and more people in industrialized countries suffer from chronic wounds. People with diabetes are particularly affected: there are over 360 million of them worldwide and their number might even rise to 900 million by 2030. “Demand is very strong and growing fast,” says Auzias, who collaborates with all major dressing manufacturers. In Europe, WACKER is now a leader in this segment. The company has been producing medical silicones for 20 years. Respirator masks, artificial limbs and baby pacifiers are just some of the varied applications available. “We are constantly



1



2



3

developing our silicones,” Auzias explains. The latest trend is functional wound dressings with integrated sensors that can release medication or measure whether patients are losing too much fluid. Silicones are ideal for embedding sensors in a wound dressing.



4

“There is huge demand for professional silicone wound dressings.”

Dr. Birgit Auzias
Chemist

- 1 Self-adhesive pad for electrotherapy
- 2 Determining the softness of silicone gel
- 3 Silicone wound contact layer, developed together with KET-LIEGAU
- 4 Dr. Birgit Auzias is responsible for silicone wound-care products at WACKER.

Smart Silicones — Thinner than a Human Hair

Textiles

Solid and Liquid Silicones



Leggings with integrated silicone sensors caused a minor sensation at the K 2016 international plastics trade show in Düsseldorf. These high-tech tights can measure body movements and visualize them on a smartphone or PC. Currently, only one company can supply the precision silicone films for this application in the high quality required: WACKER. These films are produced in cleanroom conditions in Burghausen. They are extremely elastic and ultrathin, sometimes even thinner than a human hair.

LEAP Technology of Denmark – which has partnered WACKER to develop wearables – coats the films with conductive electrodes, enabling the sensors to measure deformations precisely. Demand for such technologies is huge. Experts expect the market for pressure sensors and stretch sensors to grow by 40 percent over the next ten years.

Functional Clothing

Equipping textiles with smart technology is a future trend in the functional clothing sector. Yet, even without sensors, these fabrics still have to be multi-talented. They are expected to be water-repellent and light as a feather as well as breathable, hard-

wearing and soft. That's not a problem for silicones. Specialty silicone fluids ensure that sportswear feels soft and keeps out moisture, yet absorbs sweat. Silicone additives create brilliant colors and stop fabric from creasing. Work clothing is often coated with flame-retardant silicones, which can be a life-saving feature for firefighters.

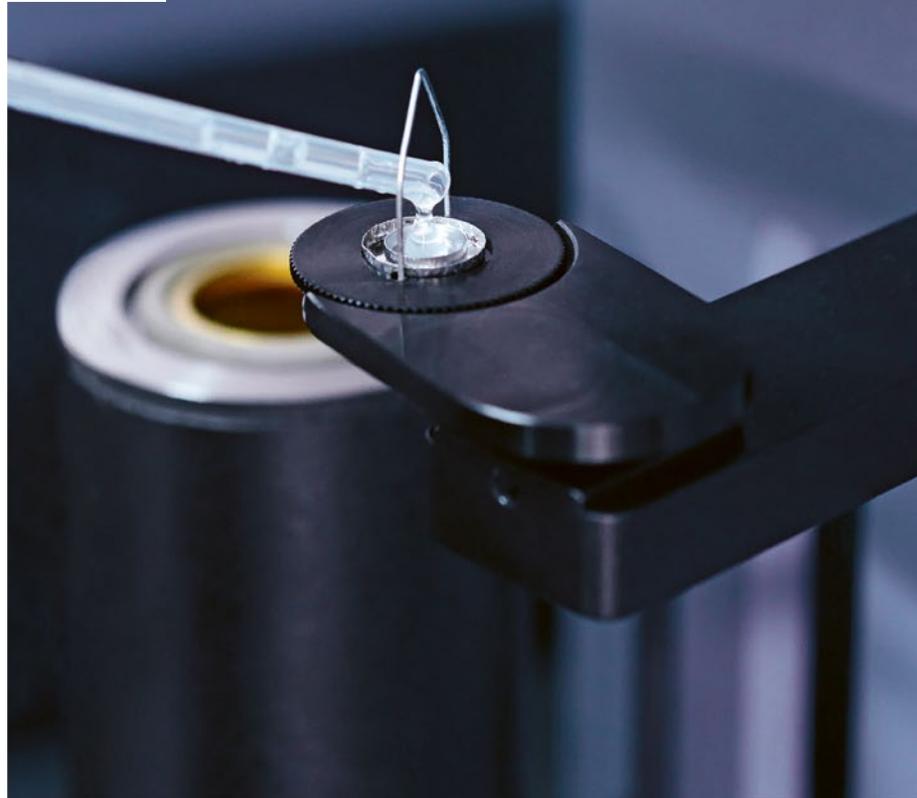
Facts and Figures

Experts expect the market for stretch sensors to grow by 40 percent over the next ten years.

WACKER developed the first silicone products for the textiles and leather sectors 50 years ago. Today, silicones are used at every manufacturing stage, ranging from fiber production to textile finishing. Innovative precision silicone films from WACKER now make textiles not only soft, water-repellent and breathable, but also smart.



- 1 Functional textiles for sport and leisure are very popular.
- 2 Silicones cause water to roll off in beads. The textile can still breathe.
- 3 Absorbent yet fluffy textiles – both are possible with specialty silicones.



Crystal-Clear — Protection for LED Chips

Light and Lighting

Solid Silicones



The revolution is already well underway. Light from LEDs (light emitting diodes) dominates our living rooms, our offices, schools, streets and cars. Where lighting is still provided by conventional luminaires, it will be replaced by LEDs before too long. According to the Boston Consulting Group, six out of every ten luminaires retailed in 2020 will be LEDs. And for professional applications, the share will be as high as 80 percent.

Far Eastern Developments

Growth will be generated mainly in Asia. Electronics companies in countries such as Japan, South Korea and China are designing ever more efficient luminaires. That is why WACKER is developing high-performance silicones – without which the current boom in LED performance would not be possible – in Pangyo, South Korea’s Silicon Valley. “We are in constant contact with the local electronics companies,” says Dr. JeonHan Kim, head of the Center of Electronics Excellence (CoEE) in Pangyo. “Speed is everything in this business. We often have only a few months in which to supply our customers with new silicone materials.”



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“Our silicones provide the key material properties for the luminaires of tomorrow.”

Dr. JeongHan Kim
Head of the Electronics Competence Center

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High-Tech Protection for LED Chips

The increase in light output makes greater demands on the encapsulation of the sensitive LED chips, and silicones from WACKER have proven particularly suitable for this. They protect the electronic components against mechanical influences and corrosive airborne pollutants such as sulfur.

They act as optical lenses, deflecting the light. Special additives can also be used to modify the light color. One property is essential: the silicone must be crystal-clear and must not yellow at high temperatures. “We develop silicones specifically tailored to the specifications of high-performance LEDs,” explains JeongHan Kim, who, with his team, also develops silicone gels for non-reflective displays. “Our silicones provide the key material properties for the luminaires of tomorrow.”



- 1 Cleanroom for high-performance silicones in Jincheon, South Korea
- 2 Optical lenses made of highly transparent silicone
- 3 Test rig for LED luminaires
- 4 Analysis of encapsulants and thermally conductive silicones
- 5 Silicone gel for LED luminaires
- 6 Dr. JeongHan Kim is head of the Electronics Competence Center in Pangyo, South Korea.

Toughest Demands — Silicones on the March

Electrical and Automotive Systems

Solid Silicones



In the electronics lab in Burghausen, Germany, tension is mounting. The metering device starts moving almost as soon as the lab assistant has secured the engine controller circuit board on the test rig. The nozzle zig-zags across the circuit board, dispensing a viscous fluid onto the electronic components. The process is not complete until all the wires and chips have been coated with a thick layer of silicone. “It’s looking good,” says Julia Henn, head of the Industrial Solutions business team, who is watching the test closely. “It is crucial to completely cover the circuit board with silicone gel. Only then is it reliably protected.”

Car drivers never see the specialty gel that WACKER has developed in Burghausen and in Pangyo, South Korea. All the same, large quantities of this high-tech silicone can be found in virtually every vehicle. Each of the 60 control devices installed in the average mid-range car is coated with a protective layer of silicone. The sensors that supply data for ever more sophisticated driver-assistance systems are coated in silicone as well.

“Whereas car production has increased by about 3 percent over the



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“When it comes to silicones, developers always contact us first.”

Dr. Wolfgang Schattenmann
Head of Rubber Solutions

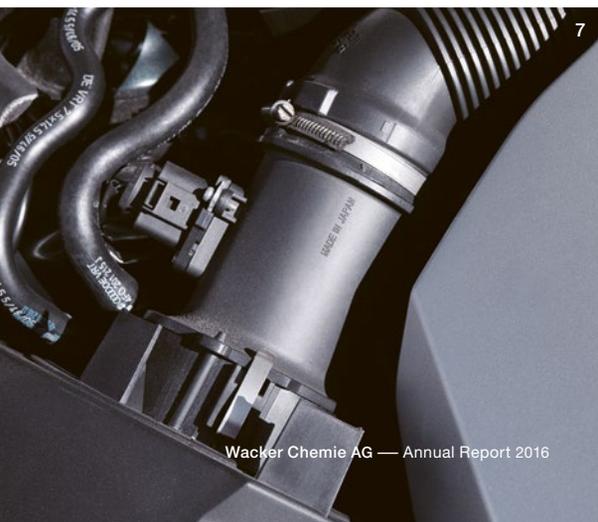
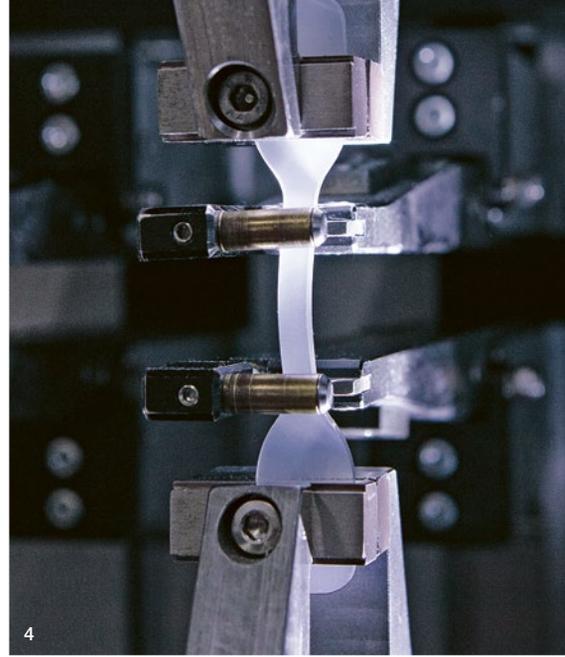
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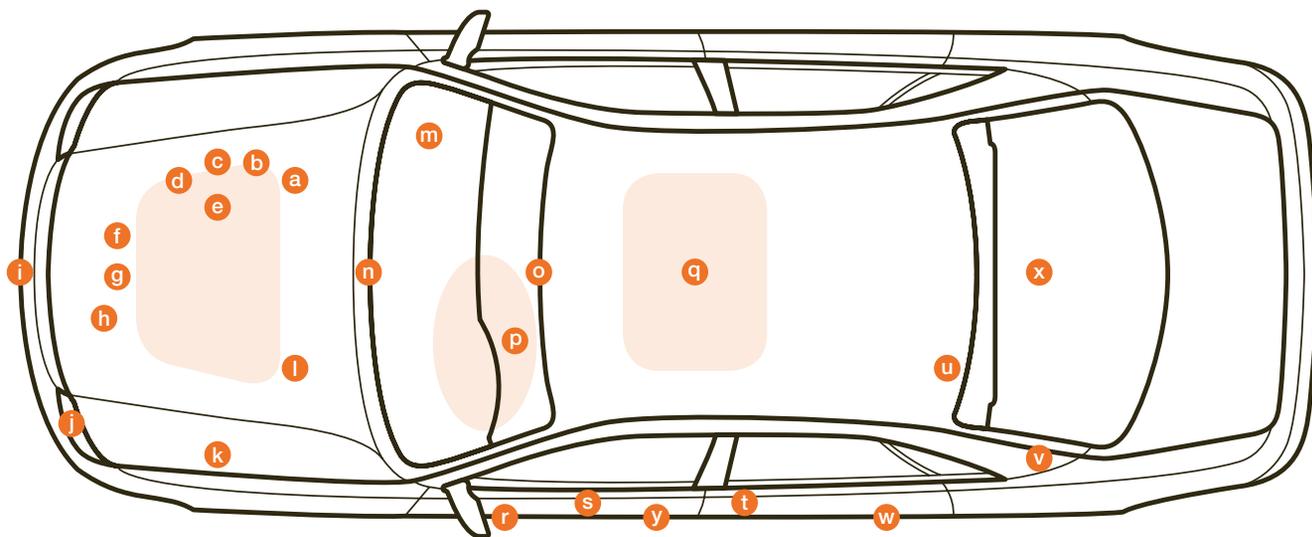
last five years, the demand for silicone gel has risen by a multiple of that,” says Henn. In addition, many of the displays in today’s vehicles are now bonded with a high-tech specialty silicone from WACKER. It is heat-resistant and does not yellow.

For over 60 years, WACKER has been developing silicones for the auto industry. It all started with lubricants, impact absorbers and cylinder-head gaskets. Then came spark plug boots, turbocharger hoses and radiator gaskets. “Now, our range includes 800 silicone products for the automotive industry – almost a third of our silicone portfolio,” says Dr. Wolfgang Schattenmann, head of the Rubber Solutions business team.

WACKER now supplies every major automotive contractor in the world. “When it comes to silicones, develop-

- 1 Burghausen is the biggest production site for silicone products for the automotive industry.
- 2 Dr. Wolfgang Schattenmann is responsible for silicone rubber business.
- 3 Optical lenses for driver assistance systems
- 4 Tensile testing of silicone disks on the elastomer testing machine
- 5 Silicone engine mounts suppress unpleasant vibrations in a car.
- 6 The number of newly registered vehicles is growing worldwide. Combustion engines, electric power trains or hybrid models – whatever drive is used, the industry is increasingly relying on silicones.
- 7 The engine compartment of a car: silicones can be found everywhere.





ers always contact us first,” explains Schattenmann, who has a doctorate in chemistry. Take mass dampers, for example. They suppress vibrations and ensure that driving is safe and comfortable. WACKER has developed a particularly robust silicone rubber for this application. “Silicones have the advantage of providing consistently good damping, regardless of how hot or cold the conditions are.”

But the future belongs to electromobility. Sales of electric cars are still very modest. There are 45 million cars on German roads, but only 156,000 are electric or hybrid models. Nevertheless, the number of electric cars worldwide rose by 73 percent in 2016. In China alone, the number has tripled since 2015. Henn and Schattenmann agree: “The automotive industry is facing completely new challenges. Silicones are going to play an even greater role in the development of technical solutions.”

Batteries are just one example. Alongside electric motors and controllers, batteries are the most important component in the next generation of electric cars. Thermal management is one of the major challenges. Overheating considerably shortens the

battery’s service life. One solution would be thermally conductive silicones, for which a dedicated production plant is being built in South Korea. They not only seal the battery, but also ensure highly efficient thermal management. Self-adhesive, electrically insulating silicones are already used in the on-board electrical systems of hybrid vehicles, ranging from high-voltage cables to weatherpacks.

What with electromobility, digitalization and autonomous driving, cars are being completely reinvented. Yet many materials are already reaching their limits. That is why industry is increasingly focusing on silicone. “Silicones still offer a huge potential and scope for development,” says Schattenmann, adding that this is true of both conventional combustion engines and battery-operated drives or fuel cells. “In a great many cases, silicones are simply the best alternative.”

- | | |
|---|---|
| a Electric auxiliary heater: seals | n Windshield wipers |
| b Actuators: membranes | o Rain sensor/camera: protective pane |
| c Fuel cell: gasket | p Airbag coating |
| d Air circulation: valves, gaskets | q Sunroof seals |
| e Spark plug boots, ignition and battery cables | r Drive train: decoupling |
| f Turbo-charger and radiator hoses | s Cable protection: weatherpacks, sealing mats |
| g Engine-/charge-air cooler: gaskets | t ABS/ESP systems: sealing, vibration decoupling |
| h Engine-oil system: non-return valves | u Exhaust-pipe mounts: shock absorbers |
| i PDC, radar, airbag sensors: gaskets | v Hybrid cables, weatherpacks |
| j Lights: gaskets, optical lenses | w AdBlue systems: heating mats, seals |
| k Dust protection, sleeves | x Interior: switches, ambient lighting, cup holders |
| l Engine mounts | y Car keys |
| m Vibration dampers and shock absorbers | |

Water-Repellent — Molecular Umbrellas

Building Protection

Liquid Silicones



The Capitol Building in Washington, the statue of Christ the Redeemer in Rio de Janeiro, and the moai figures on Easter Island – these three internationally acclaimed landmarks could not be more different, yet they have one thing in common: they are protected against damp and corrosive salts by building-protection silicones from WACKER. Thanks to the hydrophobic effect of these silicones, water simply rolls off the surface, while water vapor can pass unhindered. Consequently, moisture can escape from the inside and the building material remains permanently dry.

.....

“WACKER is the technology leader when it comes to building protection. Our products enjoy benchmark status across the industry.”

Dr. Rudolf Hager
Head of Construction Chemicals

.....

protect not only architectural monuments across the globe, but also concrete bridges and road tunnels, such as the Gotthard Tunnel in the Swiss Alps, which is exposed to aggressive road salt.

Innovations are essential in securing future business, which is why WACKER's technical service engineers all over the world are constantly working on new products and solutions. The latest highlight is an anti-graffiti coating, developed in Burghausen, which finally makes expensive cleaning and repair work a thing of the past. The silicone protects the facade so well that graffiti and stubborn stickers can be easily removed with water only.



Water-Repellent Network

The protective effect hinges on specialty silicones and silanes, which react with the substrate, forming a water-repellent network that keeps out moisture like an invisible umbrella. WACKER was the first silicone producer to recognize this phenomenon and to focus on the development of high-quality building-protection agents.

We are now the market and technology leader in this segment. Our market share in Europe and South America is over 50 percent, while our additives and binders enjoy benchmark status across the industry. They

- 1 Silicones and silanes protect facades against damp and driving rain.
- 2 The statue of Christ the Redeemer in Rio de Janeiro was treated with a WACKER product.
- 3 Silicones can be used to protect reinforced concrete bridges against aggressive salts.



20

1



3



2



4

Less Foam — Less Water Consumption

Consumer Care

Liquid Silicones



We have developed specialty silicones that help improve the standard detergents used around the world for decades, making them more sustainable and more easily tailored to the individual needs of customers in different regions. That has enabled us to tap new growth potential.

Conserving Water

Half the world's population still washes clothes by hand, and washing machines remain a luxury in countries such as Vietnam, the Philippines and Thailand. The foam needed to begin the washing process has to be rinsed away afterwards with large amounts of water.

This is where WACKER's innovative silicone fluids for fabric care come into play. As additives in innovative detergents, they rupture the foam lamellae, with amazing results. Total water demand drops by 50 percent because fewer rinses are necessary. That is a huge advantage for countries where clean water is scarce.

Soft and Absorbent

Rising standards of living are driving global demand for paper-based cosmetic wipes and moist tissues. The market for such tissues is growing by around 5 percent annually. A key



- 1 WACKER develops tailored products for detergent manufacturers.
- 2 BELSIL® silicone elastomer gel for cosmetics and skin-care products
- 3 Silicone defoamers keep foam under control.
- 4 GMP emulsion facility in Nünchritz
- 5 Absorption test: specialty silicone softeners improve water absorption.
- 6 Filling facility for cosmetic-grade silicone emulsions

Facts and Figures

.....
WACKER's antifoam agents reduce water consumption in handwashed laundry by 50 percent. That saves up to 20 liters of water per rinse.
.....

.....
requirement is that the surface of these paper tissues feels soft to the skin.
.....

Silicones from WACKER make that possible. They can be anchored on the fibers and project out of the paper surface like hairs. When skin brushes against them, they bend extremely easily with hardly any perceptible resistance, while having next to no effect on the tissue's tensile strength or water absorption.

To further enhance these properties, WACKER experts incorporate hydrophilic molecules into the silicones. And, with specialty additives that we develop in our local applications labs, the paper products can be customized to meet the individual needs of consumers all over the world.

Looking to the Future — Shaping Tomorrow's Trends

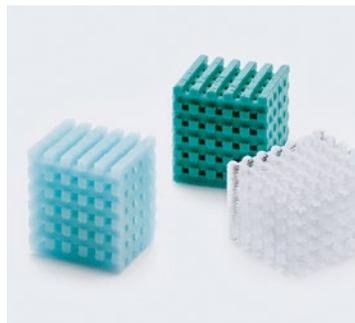


US\$26 Billion

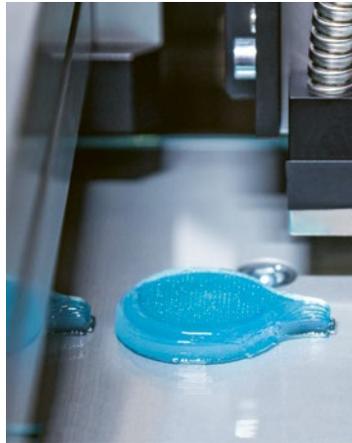
3D Printing

There was an eager throng around the booth as many visitors to the 20th International Trade Fair for Plastics and Rubber – K 2016 – jockeyed to see the first industrial-scale 3D printer for silicones. WACKER was unveiling a genuine world's first, and its business model is no less groundbreaking. Customers can upload their design to our Webshop or print it themselves under professional guidance at our Open Print Lab. The finished article is then shipped to them.

According to Wohlers Associates, an independent us consultancy, 3D processes are set to reach sales of over US\$26 billion by 2021.



3D printing of silicone elastomers



ACEO® technology uses a drop-on-demand method.

WACKER's technology uses the "drop-on-demand" method, in which the printer head deposits tiny silicone droplets on a substrate, building up a homogeneous silicone layer extremely rapidly.

Printing then starts again on the next layer. In this way, parts with widely varying shapes, colors and hardnesses are built up layer by layer – there are no limits to the creative potential. With the aid of support material, it is even possible to print overhangs, lattice structures and complex geometries.

WACKER markets the new 3D process under the name ACEO®. It offers entirely new production and design potential. Silicone prototypes can now be printed rapidly with relatively modest technical effort – it is enough to use a computer drawing or a model generated by imaging techniques. Even spare parts manufacturers benefit from WACKER's new technology – gas-

kets or other silicone components now no longer need to be made in large production runs for reasons of cost. They are simply printed on demand. Even web-based supply chains are possible – which are important for reaping the benefits of Industry 4.0. Not only major automotive and aerospace companies are interested in the innovative 3D process, but also manufacturers from the sports, leisure and life sciences sectors. The vision of printing three-dimensional objects with an industrially mature process has become reality.



Wave Power

When waves strike the quay wall sending spray high into the air, even landlubbers can appreciate the massive energy being released. According to United Nations projections, the world's wave energy potential is 29,500 terawatt hours – more than the entire

Waves store an energy potential of 29,500 TWh



Transforming the power of nature into energy

planet's annual energy demand. Up to now, however, no systems have been available that are technologically mature enough to harness this power. Mechanical or hydraulic power stations are out of the question, since they have to be continually maintained on the high seas.

So industry has taken a different approach, namely water-filled rubber tubes fitted with flexible capacitors of electroactive material. The rise and fall of the waves continually stretches and compresses these mini power stations, converting the mechanical wave energy into electrical power. The tubes are maintenance-free and extremely efficient.

WACKER supplies the key starting materials for the converters: ultrathin silicone films. They are the only materials with the right electrical properties and are also extremely flexible and maintenance-free.

WACKER is the only company in the world to manufacture this precision film in large quantities. The first prototypes with the WACKER material are already being tested, and the first power stations should be ready for service within a few years. Wave converters made of silicone should then be able to generate electricity from the inexhaustible rise and fall of the waves.



1,000°C

Perfect Process

Every top athlete knows that the only way to reach peak performance is to never stop working on yourself. Those who don't will fall behind.

120 processors, 8 million points — 10 seconds of real time takes 3 weeks to compute

Exactly the same principle applies at WACKER. Five decades ago, we started manufacturing pyrogenic silica. This colorless powder – highly pure amorphous silicon dioxide – is to be found in many day-to-day products.

It thermally insulates refrigerators, controls the flow of paints and adhesives, prevents toner from forming lumps, and makes silicones as solid as rubber.

WACKER is now the world's No. 3 manufacturer in this business, and demand for HDK®, as the product is called at WACKER, continues to rise. Chemists and engineers in Burghausen are therefore developing the perfect reactor. Their goal is to increase yield, produce HDK® in even better quality, and slash manufacturing costs.

Pyrogenic silica is produced in an oxyhydrogen flame at over 1,000°C. To understand how the process works, WACKER researchers have developed a computer model in which 120 processors compute over eight million points in every run. Ten seconds of real-time process takes up to three weeks to compute, with the high-performance computers working around the clock.

The effort is worth it, however. These computer models have allowed WACKER to build a pilot reactor in Burghausen, where tests are now being carried out that will benefit all WACKER's HDK® plants, including the new production facility in Charleston, Tennessee (USA).



HDK® facility



R&D

Where do innovations come from? They emerge from knowledge, creativity and persistence, and the determination to improve things. At WACKER SILICONES, over 400 employees – about 10 percent of the division's workforce – are working on tomorrow's products. Silicones have exceptional chemical and mechanical properties, giving them a more diverse range of applications than almost any other material, and are an important source of our future growth. Currently, over 100 research projects are in progress at WACKER SILICONES – a strategy that is paying off. The new-product rate, i.e. sales of products that are less than five years old, is growing three times faster than business with our longstanding silicone grades.



Research is one of the key sources of future growth.

2017

Ann Arbor

Another success factor is the internationalization of our R&D work. Our three-step model consists of technical competence centers, WACKER ACADEMY and international research centers. Our new lab in Ann Arbor (Michigan, USA) is the latest addition to our global silicones research network. In mid-2017, we will begin developing innovative products there for markets in North, Central and South America, including



400 employees at WACKER SILICONES are developing the next generation of products.

applications and solutions for the healthcare, medical, electronic, life sciences and coatings industries. Covering 1,000 square meters and featuring its own analytical facilities, the huge lab complex is located close to the University of Michigan – one of the most reputable in the USA. The blend of science, numerous start-ups and well-established companies offers just the right climate for developing new applications and products. The goal is clear: WACKER wants to continue to grow in the world's second-biggest chemical market.



WACKER's Silicon Chemistry Institute at the Technical University of Munich

WACKER also benefits from the expertise of external specialists and scientists. That is why, together with the German elite university TU München, we created the internationally unique Institute of Silicon Chemistry over a decade ago. Silicon chemistry is still a young field, whose potential is by no means exhausted. Key megatrends, such as information technology, renewable energy generation and elec-

tromobility, would be completely unfeasible without silicon chemistry. Our goal is to combine the latest research findings with WACKER's experience and knowledge gained from over 70 years in the field of silicone research. The first fruits of this union of science and industry are impressive: over 30 research projects, ten new patents and 35 scientific publications.



19 Prize-winners

Silicone Award

WACKER carried out pioneering work some 30 years ago when it set itself the goals of promoting progress in silicon chemistry, kick-starting new research strategies, and facilitating product innovations. We created the WACKER Silicone Award with the aim of fostering outstanding research work in the field of organosilicon chemistry. It is among the most important international awards in this sector. So far, 19 international researchers have received the Silicone Award. The latest winner is Professor Alexander Filippou, silicon researcher at the University of Bonn, who was able to accept the award personally in September 2016 at the European Silicone Days in Poznań, Poland.

25 — 40 For Our Shareholders



Whether as molded parts, cable insulation or nail care additives in nail polish – silicones are highly versatile, and the material of choice in many applications.

A — For Our Shareholders

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Dear Shareholders,

Fiscal 2016 was a good year for WACKER. Sales grew by 2 percent to €5.40 billion. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) increased by more than 18 percent to reach €1.08 billion, an even better figure than we had forecast. Substantially higher levels of depreciation – a result of our capital expenditures in recent years – did lower our net profit for the year at the Group level, though.

The positive business trend was also evident in other key financial indicators. We reduced our net financial debt to below the one-billion-euro mark and, at around €400 million, our net cash flow grew significantly.

These results would not have been possible without the high levels of commitment and outstanding expertise of our employees. Their strong performance was a key factor in our success. On behalf of the entire Executive Board, I sincerely thank all our employees for their hard work.

Commissioning of our new production site in Charleston, Tennessee (USA) was one of the most important events for us in 2016. Ramping up such a technically complex greenfield plant was a formidable task – and everyone involved accomplished it with great success. All of the facilities are now in operation and we are producing polysilicon of exceptional quality at the site.

WACKER's three chemical divisions again lifted their sales last year amid strong volume growth. WACKER SILICONES even surpassed the two-billion-euro sales mark for the first time and continued to consolidate its position as the world's second-biggest manufacturer of silicones. This trend underscores the fact that our products offer us plenty of potential for further growth in global markets. EBITDA at our chemical divisions totaled around €660 million, climbing even faster than sales.

Our polysilicon business performed well amid continuing low prices and the remaining commissioning costs incurred for our new production site in Charleston. Our sales volumes continued to rise and our production capacities were fully utilized, enabling us to increase our total sales.

Our semiconductor wafer business benefited from strong customer demand in the second half of the year. Higher sales volumes, further cost reductions and lower currency-hedging expenses all helped Siltronic grow EBITDA significantly, which more than made up for the generally lower silicon wafer prices.

At our Capital Market Day in Burghausen in October 2016, we presented WACKER's strategic priorities for the period up to 2020.

The key pillars of our strategy are as follows:

- Our capital expenditures will remain below the level of depreciation over the period. We will invest in plants for producing intermediates and downstream products in order to leverage growth potential in specific regions.
- With these new capacities, we intend to grow more strongly than the chemical-industry average. Product innovations and a higher share of specialty products in our portfolio should help secure this growth.
- Sustainability will become an ever more crucial factor in all our business processes – from the optimal use of raw materials and greater process efficiency through to the development of sustainable products that reduce CO₂ emissions.
- Our operating activities will focus on ensuring a high level of profitability. We are targeting an EBITDA margin of over 16 percent for our chemical divisions, while the target margin for our polysilicon business will be in excess of 30 percent.

— Lower capital expenditures, sustained growth, cost improvements and highly profitable operations will all ensure a continuously positive net cash flow.

The fact that analysts, investors and other capital market players all responded very positively to our strategy has reinforced our resolve to implement it consistently.

Over the last 15 years, WACKER has spent a lot on its investment and internationalization initiative. Now, you – our shareholders – should reap the benefits. Previously, WACKER's policy was to distribute at least 25 percent of net income as a dividend. That figure will now rise to around half of net income. Consequently, at the Annual Shareholders' Meeting in May 2017, the Supervisory Board and Executive Board will propose a dividend payment of €2.00 per share, corresponding to more than half of our net income for 2016.

After a successful 2016, we are also optimistic about the current year. We expect growth momentum to be similar to last year. As regards sales, we are confident of achieving a slightly higher percentage increase than last year. Headwinds will mainly come from raw-material prices, which are currently rising substantially. This could also impact the EBITDA trend. As a result, we anticipate that EBITDA (adjusted for special income) will come in at a similar level to last year. If current market conditions remain positive during the year, there will be additional opportunities.

A topic that concerns us deeply at the moment is the gradual abandonment of the principle of free trade. We have been witnessing an increase in protectionism, and not just since the Brexit vote in June 2016. Since the global financial crisis in 2008, more and more countries have been trying to protect their national economies.

The number of trade barriers erected has been on the rise for years. They include anti-dumping measures, i.e. import duties on foreign products. According to a survey carried out by the Centre for Economic

Policy Research, the number of protective measures introduced has risen from 155 in 2009 to more than 460 today. We know from our own experience what a strong impact such trade barriers can have on business.

As a company, we are doing everything in our power to support free trade. We are convinced that free trade is the only way to create affluence and growth in the future and to ensure that more and more people around the world benefit.

With its broad range of quality products, WACKER makes the everyday lives of people across the world's regions easier, simpler and more convenient. We aim to continue devoting all our strength to harnessing these opportunities – the potential is huge.

On behalf of the entire Executive Board, I sincerely thank our customers and suppliers for their constructive collaboration and our shareholders for their trust. We look to the future with optimism and hope that you will stay with us on the path ahead.

Munich, March 2017

A handwritten signature in black ink, appearing to read 'R. Staudigl', written in a cursive style.

Dr. Rudolf Staudigl

President & CEO of Wacker Chemie AG

Executive Board



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Dr. Christian Hartel

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

Auguste Willems

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

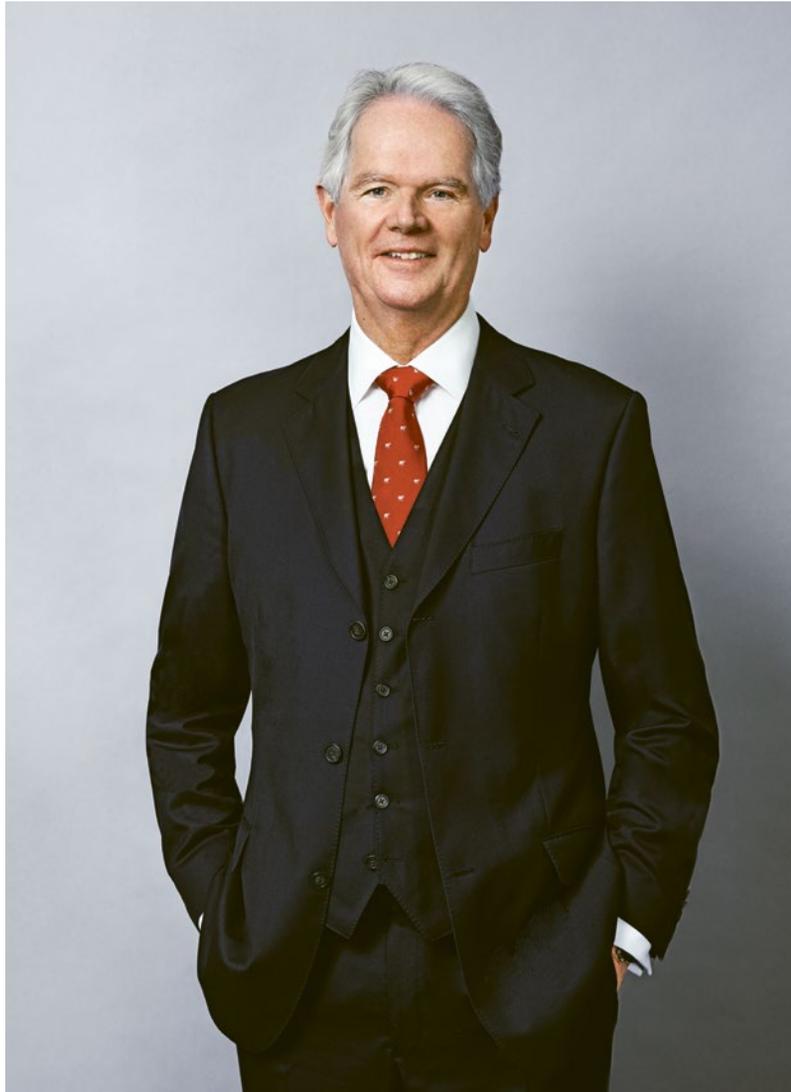
Dr. Rudolf Staudigl President & CEO

WACKER POLYSILICON
Executive Personnel
Corporate Development
Corporate Communications
Investor Relations
Corporate Auditing
Legal
Compliance
Retirement Benefits
(since July 1, 2016)

Dr. Tobias Ohler

SILTRONIC
Corporate Accounting and Tax
Corporate Controlling
Corporate Finance and Insurance
Information Technology
Technical Procurement & Logistics
Raw Materials & Energy
Region: The Americas

Report of the Supervisory Board



32

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

Dear Shareholders,

Commissioning of the new production site in Charleston, Tennessee (USA) marked the end of a ten-year phase of high capital expenditures, during which the company at times reinvested as much as 25 percent of its sales. WACKER has now entered a new strategic phase and, in the period through 2020, will reap the benefits of these large-scale investments.

This next phase will be characterized by further organic growth in our business operations, by high inflows of liquid funds and by a substantial reduction in net financial debt. These measures will enhance the company's financial strength. At the same time, they will equip us for future business challenges and will lay the foundations for the next capital-intensive phase of the company's growth.

During our recent phase of intensive investment, we also managed in parallel to achieve strong organic growth in our three chemical divisions, to consolidate and build on our competitive position, and to enhance our profitability. Today, chemical business accounts for more than 60 percent of the WACKER Group's sales and adjusted EBITDA.

WACKER POLYMERS is the global market leader in dispersions and dispersible polymer powders based on vinyl acetate-ethylene. WACKER SILICONES is the world's second-largest silicone manufacturer and the market leader in Europe. WACKER BIOSOLUTIONS has rounded out its portfolio with selective strategic acquisitions that offer good growth opportunities in promising fields.

As for polysilicon, WACKER leads not only in cost and quality, but also in terms of quantities sold.

This trend underscores the fact that WACKER has products of recognized high quality to supply customers in almost every key industry across the globe. Our task for the future is to translate our high levels of technological expertise and innovative power into business success. To this end, we have created a strong, global position for our company over recent years.

WACKER's employees have played a major role on this road to success. The Supervisory Board of Wacker Chemie AG thanks them sincerely for all their hard work and their high level of commitment.

Continuous Dialogue with the Executive Board

At WACKER, sound corporate governance and control are built on a relationship of trust between the Executive Board and Supervisory Board as they work closely together in the company's interest. In 2016, the Supervisory Board performed – with great diligence – the duties incumbent upon it under law, the Articles of Association and its own Rules of Procedure. The Supervisory Board was involved at an early stage in every decision of fundamental significance for the company.

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

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

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

The Supervisory Board held four ordinary meetings in 2016, two in the first half of the year and two in the second. Between meetings, the Executive Board informed us in detail by means of written reports about all projects and plans of particular importance to the Group. At its full meetings and in its committees, the Supervisory Board discussed in detail business transactions important to the company on the basis of the reports submitted by the Executive Board. The full meetings were prepared by shareholder and employee representatives in their own separate sessions.

Every member of the Supervisory Board attended at least half of the meetings of the Supervisory Board, and all committee members attended all of their respective committee meetings.

The Supervisory Board's Main Areas of Deliberation

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

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

- The pyrogenic silica (HDK®) project at the Charleston site in Tennessee (USA)
- The acquisition of a fermentation plant in Spain
- Future and ongoing investment projects
- The anti-dumping proceedings against the solar industry in the USA, EU and China; their impact on WACKER; and corresponding courses of action
- The progress of construction at the polysilicon production site in Tennessee
- The new EU Market Abuse Regulation
- The requirements of the new EU Auditing Regulation and Germany's Auditing Reform Act as well as the resulting changes to the rules for the Audit Committee contained in the Supervisory Board's Rules of Procedure
- Performance of the share price
- Group financing activities

The Supervisory Board discussed the WACKER Group's plans for fiscal 2017 at its meeting of December 6, 2016. On that occasion, the Supervisory Board also dealt with medium-term corporate plans for the period 2017–2021. It also discussed and approved the capital-expenditure budget for 2017.

Work in the Committees

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

The Audit Committee met five times last year. Its work included the audit of the annual financial statements of Wacker Chemie AG and the Group for 2015 and of the consolidated interim financial statements for the first half-year. It also discussed the Group's quarterly financial figures and issues relating to risk management, compliance and auditing. The Audit Committee also submitted a recommendation to the Supervisory Board for the latter's proposal at the Annual Shareholders' Meeting for appointment of an auditor for fiscal 2016. In addition, it awarded the auditing contract for fiscal 2016 and determined the focus of auditing.

A further area in which the Audit Committee was active was in implementing a bid and selection procedure for the audit for fiscal 2017 in accordance with Art. 16 (3) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 (EU Auditing Regulation). Based on the results of this procedure, the Audit Committee made a recommendation to the Supervisory Board concerning the proposal to be made by the latter to the Annual Shareholders' Meeting to nominate the auditors for fiscal 2017. The Audit Committee also dealt with the amended requirements of the EU Auditing Regulation, in particular elaborating a policy for approving what are termed "non-audit services."

The Executive Committee met once in 2016, discussing personnel matters in relation to the Executive Board (e.g. determining overall compensation, setting the performance goals for the variable compensation component, adjusting the fixed annual salary).

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

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

Corporate Governance

Last year, the Supervisory Board again looked closely at corporate-governance standards. At its meeting of December 6, 2016, the Supervisory Board discussed application of the German Corporate Governance Code and adopted the annual Declaration of Conformity that must be submitted jointly by the Executive and Supervisory Boards in accordance with Section 161 of the German Stock Corporation Act (AktG). Shareholders can access the Declaration on the company's website.

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

⇒ For further details, please refer to page 178

At its meeting in December 2016, the Supervisory Board also discussed the efficiency of its activities and found that it works efficiently – one reason being the regular preliminary discussions regarding the Supervisory Board meetings.

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

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements of Wacker Chemie AG for fiscal 2016, the consolidated financial statements and the combined management report (as of Dec. 31, 2016), as prepared by the Executive Board, including the relevant accounts.

The Supervisory Board's Audit Committee had awarded the auditing contract in accordance with the resolution of the Annual Shareholders' Meeting of May 20, 2016. The auditors issued an unqualified audit report.

The auditors also examined the risk management system in accordance with Section 91 of the German Stock Corporation Act (AktG). The audit verified that the risk management system and internal control system meet the legal requirements. No risks endangering the continued existence of the company were identified. The financial-statement documents (including the auditors' reports, the combined management report and the Executive Board's proposal for the distribution of profits) were submitted to all the Supervisory Board members in good time.

At its meeting of February 27, 2017, the Audit Committee closely examined the aforementioned financial statements and reports, as well as the auditors' reports on the separate and consolidated financial statements, and discussed them in detail with the auditors before reporting to the full Supervisory Board. At its meeting of March 7, 2017, the full Supervisory Board closely examined and discussed the relevant annual accounting documents with knowledge and in consideration of both the report of the Audit Committee and the auditors' reports. The auditors took part in the deliberations at both meetings. They reported on the main results of the audit and were available to the Audit Committee and the full Supervisory Board to answer questions and provide supplementary information.

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

We therefore approve the annual financial statements of Wacker Chemie AG and the consolidated financial statements as of December 31, 2016 as prepared by the Executive Board. The annual financial statements of Wacker Chemie AG are hereby adopted. We concur with the Executive Board's proposal for the distribution of retained profit.

Changes in the Composition of the Supervisory and Executive Boards

Anton Eisenacker, deputy chairman of the Supervisory Board and longstanding employee representative in that body, stepped down with effect from December 31, 2016, owing to his imminent retirement (February 2017). We wish to thank him for his tireless efforts and his constructive collaboration in the past years and wish him all the very best for the future. Hansgeorg Schuster, who had already been elected an alternate member, automatically succeeded Mr. Eisenacker on the Supervisory Board with effect from January 1, 2017.

Likewise effective January 1, 2017, Manfred Köppl was elected new deputy chairman of the Supervisory Board, also automatically succeeding Mr. Eisenacker in the Executive Committee and Mediation Committee in accordance with the Rules of Procedure and/or the statutory requirements. As Mr. Köppl was already an elected member of the Mediation Committee, the employee representatives on the Supervisory Board elected Eduard-Harald Klein as an additional member of the Mediation Committee. The full Supervisory Board elected Mr. Köppl to succeed Mr. Eisenacker on the Audit Committee.

There were no changes in the composition of the Executive Board in fiscal 2016.

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

Munich, March 7, 2017
The Supervisory Board



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

WACKER Stock in 2016

WACKER's share price was influenced by a variety of factors during 2016. They included business developments in the European chemical industry, polysilicon prices and semiconductor-sector demand. Negative reports on specific topics, but also macroeconomic events such as Brexit and the economic trend in China, led to strong price fluctuations, particularly in the first half of the year. In the final third of the year, WACKER's stock price rose markedly, spurred by Siltronic's positive value trend, by the ongoing strength of business at WACKER's chemical divisions, and by the polysilicon market's price recovery amid continued robust demand.

Concerns about the future economic trend in China and the expansionary monetary policy of the major central banks in the USA and Europe dominated international financial-market sentiment in the first quarter of 2016. Investors were unsettled by the turbulence in the Chinese stock markets early in the year. The losses on Asian stock markets and the Chinese economy's marked slowdown put substantial pressure on stock prices, especially those of major exporting companies, dragging down key indices worldwide. In response to low inflation and continued deflationary fears in Europe, the European Central Bank (ECB) decided on March 10 to lower its main refinancing rate to zero percent for the first time ever. Following significant losses at the start of the year, Germany's DAX and MDAX indices had recovered somewhat by mid-February. The DAX dropped around 3 percent overall, while the MDAX closed unchanged compared with the beginning of the year.

Despite the unfavorable financial-market conditions, WACKER stock performed somewhat better than these two German benchmark indices in the first quarter of 2016. The shares opened trading in Q1 2016 at €75.61. In line with the general stock-market trend, the price initially fell, touching its low for the year of €58.73 on February 11. The stock made up that lost ground in the following weeks, closing at €77.34 on March 31.

Global stock markets were uneven and volatile in Q2 2016. Accommodative monetary policy in Europe and the USA once again supported share prices in April. But later in the quarter, the markets were increasingly dominated by concerns about a possible British exit from the European Union and its impact on the world economy. There was also speculation about the US Federal Reserve possibly raising the federal funds rate. Both of these developments unsettled the international financial markets and pushed down the world's major market indices.

At their June meetings, both the European Central Bank and the Federal Reserve left their key interest rates unchanged. The negative outcome of the referendum in the United Kingdom caught many market participants off guard, however. After the result was announced on June 24, the pound plunged to its lowest level against the US dollar in 31 years. The world's major stock indices fell by over 10 percent at times. Not until the end of the month did the markets regain some ground.

After getting off to a good start, the DAX and MDAX indices trended sideways in May. By the end of the second quarter, the two indices recovered at least part of the substantial losses triggered by the UK vote to exit the EU. On balance, the DAX dropped around 1 percent in the April-through-June quarter, while the MDAX finished June trading down 2 percent.

Despite the difficult conditions in the financial markets in the second quarter, WACKER stock outperformed both the DAX and the MDAX. The stock opened Q2 2016 trading at €76.48 and closed at €78.46 on June 30, almost 3 percent higher than at the start of the quarter and equivalent to a market capitalization of around €3.9 billion.

Global stock markets performed solidly in Q3 2016. After a slow start in early July, initial concerns about Brexit and its potential global economic impact increasingly receded.

From August onward, the world's major equity indices began to recover, mainly due to the fact that interest rates remained low in the USA, while Europe and Japan continued to pursue accommodative monetary policy. Germany's main equity benchmark, the DAX, gained around 8 percent from the beginning of July through the end of September, posting its first positive quarter of the year. The MDAX also rose in Q3 2016, gaining 7 percent.

WACKER stock started Q3 2016 at €80.03, initially trending upward in line with the DAX and MDAX. On July 27, it posted its high for the quarter of €87.49. In the weeks that followed, the stock largely moved sideways. Then came a period of extensive pressure, beginning in early September. One reason for this was rising concern among market participants about future developments in the solar industry. It was reported, for example, that the People's Republic of China had already achieved its target of around 20 gigawatts in new photovoltaic capacity for the full year in the first half of 2016. In response, prices and volumes fell in September. WACKER stock gradually declined to reach its third-quarter low of €71.50 on September 23. It did recover some ground by the end of the quarter. On balance, however, WACKER stock lost around 6 percent from the beginning of July through the end of September, closing the three-month period at a price of €75.00, equivalent to a market capitalization of around €3.7 billion.

The fourth quarter was influenced by the outcome of the us elections on November 8. Initial uncertainty in the markets turned into positive expectations as to the future development of the us economy under a President Donald Trump. The us dollar gained substantially against the euro during November and December. The DAX climbed by 8.1 percent in Q4 and the MDAX by 2.3 percent.

WACKER's share price moved upward, outperforming the two German benchmark indices by a wide margin. In early October, WACKER held its annual Capital Market Day in Burghausen. The company's Executive Board and senior management used the occasion to introduce the new corporate strategy and discuss current market developments. The stronger-than-average increase in the share price at year-end was driven by the rapid recovery in demand for high-quality polysilicon, by the positive business trend for chemicals, by favorable earnings expectations for Siltronic and by exchange-rate effects. From the beginning of October through year-end, WACKER stock gained 28.9 percent, advancing from €76.69 to €98.85, and reached its year-high on the last trading day of the year. The market capitalization at year-end was €4.9 billion.

During the year, discussions with capital-market participants were dominated by questions about market equilibrium with regard to polysilicon and the announced exit from Siltronic. In addition, there was increasing focus on the success and market prospects of the chemical divisions.

Performance of WACKER Stock Compared with DAX and MDAX

In full-year 2016, the DAX and MDAX indices gained 11.6 percent and 9.5 percent, respectively. WACKER's share price increased by 30.7 percent during the same period. The stock started the year at €75.61 (opening price on Jan. 4, 2016) and at year-end stood at €98.85.

1.1 WACKER Share Performance (indexed to 100)¹



1.2 Facts & Figures on Wacker Chemie AG's Stock

€

Year-high (on Dec. 30, 2016)	98.85
Year-low (on Feb. 11, 2016)	58.73
Year-end closing price (on Dec. 30, 2015)	77.52
Year-end closing price (on Dec. 30, 2016)	98.85
Performance for the year (without dividend) (%)	27.52
Year-end market capitalization (shares outstanding; prior year: 3.85) (billion)	4.91
Average daily trading volume ¹ (prior year: 17.9) (million)	15.8
Earnings per share (prior year: 4.97)	3.61
Dividend per share (proposal)	2.00
Dividend yield ² (%)	2.6

¹ Trading platforms (Xetra, Chi-X and Turquoise).² Dividend proposal based on an average weighted share price of €78.12 in 2016.

Earnings per Share of €3.61

Earnings per share (EPS) are calculated by dividing net income allocable to Wacker Chemie AG shareholders by the weighted average of all shares in circulation during the year. In the reporting period, the number of shares in circulation was 49,677,983. On this basis, the EPS was €3.61.

Dividend Payment of €2.00 per Share

At the Annual Shareholders' Meeting of Wacker Chemie AG held in Munich on May 20, 2016, all Executive Board and Supervisory Board proposals were adopted by large majorities. WACKER distributed a shareholder dividend for 2015 totaling €99.3 million (€74.5 million for the year before). The dividend per dividend-bearing share was €2.00 (€1.50 the year before). The dividend yield based on WACKER's average share price in 2015 was 2.2 percent (1.7 percent the year before).

1.3 Dividend Trends

€

	2015	2014	2013
Dividend	2.00	1.50	0.50
Dividend yield (%)	2.2	1.7	0.8
Net result for the year (allocable to WACKER's shareholders) (million)	246.7	203.8	2.6
Dividend payout (million)	99.3	74.5	24.8
Distribution ratio (%)	40.3	36.6	>100

Shareholder Structure

Wacker Chemie AG's largest shareholder is Dr. Alexander Wacker Familiengesellschaft mbH, Munich, with over 50 percent of the voting shares (2015: over 50 percent). Blue Elephant Holding GmbH (Pöcking, Germany) once again had no voting-share changes to report in 2016, with its holding in Wacker Chemie AG remaining at over 10 percent (2015: over 10 percent).

Free Float: Strong Growth in European Interest

According to our shareholder analysis (Dec. 31, 2016), the number of shareholders in the USA once again decreased substantially during the year. In December 2015, the level of us-held shares was 47 percent. A year later, it was 29 percent. The level of German-held shares rose to 31 percent (2015: 22 percent). Our strongest shareholder growth in 2016 came from the UK, where investors held 15 percent of the shares (2015: 7 percent). Share ownership declined in Canada (from 8 percent to 5 percent) and in Switzerland (from 4 percent to 3 percent). On the other hand, shares held by investors from the rest of Europe – excluding Germany, Switzerland and the UK – increased from 11 percent to 17 percent.

1.4 Useful Information on WACKER Stock

ISIN	DE000WCH8881
German security identification number (WKN)	WCH888
Frankfurt Stock Exchange	WCH
Bloomberg	CHM/WCK.GR
Reuters	CHE/WCHG.DE
Capital stock	€260,763,000
Number of shares (Dec. 31, 2016)	52,152,600

Market Capitalization and Weighting (Weighting as of December 30, 2016)

WACKER's year-end market capitalization increased from €3.85 billion to €4.91 billion (total stock without treasury shares). WACKER's MDAX market capitalization based on the free float was €1.5 billion (2015: €1.2 billion). WACKER thus had an MDAX weighting of 0.84 percent, after 0.75 percent in the prior year, and is currently ranked 27th by 12-month trading volume (2015: 25th) and 41st by market capitalization (2015: 47th) among the 50 companies in the index. WACKER's GEX weighting was 10.3 percent.

Deutsche Börse AG's GEX mid-cap index (introduced in January 2005) comprises owner-dominated companies listed in the Prime Standard on the Frankfurt Stock Exchange. At year-end 2016, WACKER ranked third in the GEX weighting.

Trading Volume

In the reporting period, the average daily trading volume on the Xetra, Chi-X and Turquoise trading platforms for WACKER stock was approximately 203,000 shares, which was slightly above the prior-year figure of around 197,000 shares.

Short Positions in WACKER Stock

At the end of 2016, short sales of Wacker Chemie AG's stock amounting to 6.30 percent of the shares outstanding were reported as per Section 30h of the German Securities Trading Act (WpHG). The largest position amounted to 1.47 percent. Short positions exceeding 0.5 percent of the shares outstanding are published in Germany's Federal Gazette.

www.bundesanzeiger.de

WACKER Communicates Closely with Capital Markets

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

On many occasions, Executive Board members attended events in person to answer questions from capital-market participants. There were 14 roadshows with a total of 22 roadshow days in Germany, Europe, the USA and Asia. We held about 480 meetings in total, both in person and by telephone, as well as some 70 group discussions, and we participated in various international conferences. WACKER gave presentations at the following events, among others:

- Oddo Forum in Lyon
- Commerzbank German Mid-Cap Investment Conference in New York
- Mainfirst Corporate Conference in Copenhagen
- Deutsche Bank: German, Swiss and Austrian Conference in Berlin
- Credit Suisse Global Chemicals and Agriculture Conference in London
- Warburg Highlights in Hamburg
- Berenberg Chemicals & Food Ingredients Conference in London
- Macquarie 9th Alternative Energy Conference in London

- Goldman Sachs/Berenberg German Corporate Conference in Munich
- Baader Investment Conference in Munich
- Sanford C. Bernstein 12th Annual European Strategic Decisions Conference in London
- Baird Industrial Conference in Chicago
- Citi's Milan Chemical Symposium in Milan
- Morgan Stanley Global Chemicals Conference in Boston
- Citi's Basic Materials Conference in New York
- HSBC Zurich Investors Conference in Zurich
- Berenberg European Corporate Conference in London
- Bank of America Merrill Lynch: European Chemicals Conference in London

On October 11, 2016, Wacker Chemie AG hosted investors and analysts at its 8th Capital Market Day in Burghausen. During the two-day event, German and international visitors came to Burghausen in large numbers to learn more about the WACKER Group's current positioning and strategies. The attendees also had the opportunity to get to know WACKER's management personally and ask numerous questions.

1.5 Banks and Investment Firms Covering and Rating WACKER

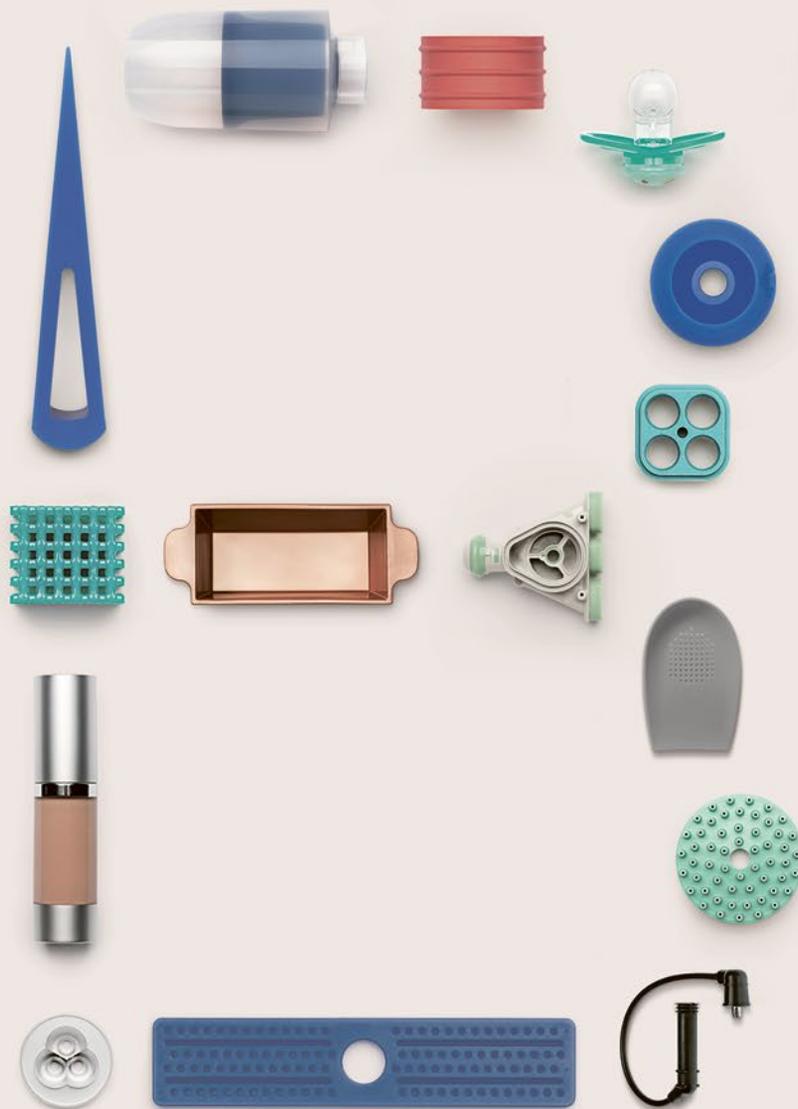
Bankhaus Lampe KG	J.P. Morgan Cazenove Ltd.
Berenberg	Kepler Cheuvreux
Citi Investment Research	Landesbank Baden-Württemberg
Commerzbank Corporates & Markets	Mainfirst
Credit Suisse Securities (Europe) Ltd.	Macquarie Capital (Europe) Ltd.
Deutsche Bank AG	Metzler Equity Research
DZ Bank AG	Morgan Stanley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

As of the end of December 2016

In 2016, many investment banks changed their analysts. As a result, there will be a new group of analysts covering WACKER in the future. Their number in 2016 was 23 (2015: 21). During the year, analysts' consensus price target for WACKER stock rose. In Q1, the average price target for WACKER stock was €78.59 (14 estimates). At year-end 2016, though, analysts set their fair-value price target at €87.82 on average (17 estimates), which was 12 percent higher than at the start of the year.

On our website, we regularly report on the consensus of analysts' expectations for the current year. Moreover, our website offers extensive information on WACKER stock. In addition to financial reports, a Fact Book, presentations and publications (viewable online or downloadable), our website lists all our key financial-calendar dates, with contact information if you have any questions. Videos of our annual press conference and other events are also available for online viewing, or as an audio stream. Investors can additionally subscribe to an email newsletter that provides immediate updates on new developments in the Group. As was the case last year, we are also offering an online version of our Annual Report for 2016.

41 — 114 Combined Management Report



The properties of silicones can be customized – making them equally suitable for shower heads or pacifiers.

B —

Combined Management Report

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Group Business Fundamentals

Business Model of the Group

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

Silicon Is Our Main Starting Material

Most of our products are based on inorganic starting materials. Silicon-based products account for 80 percent of WACKER sales, and products that are primarily ethylene-related for 20 percent. Our customers come from virtually every major sector, ranging from consumer goods, food, pharmaceuticals, textiles and the solar, electrical/electronics and base-chemical industries, to medical technology, biotech and mechanical engineering. As a manufacturer of silicones and polymers, WACKER is particularly well represented in the automotive and construction sectors. We are also a key supplier of silicon wafers to the semiconductor industry. WACKER is one of the world's largest manufacturers of polycrystalline silicon for the solar industry.

Technical Competence Centers Support Sales and Marketing Activities

WACKER operates all over the world. Our sales strategy is centered around expanding our presence in growth markets. In total, WACKER has 51 sales offices in 31 countries. Our sales organization is supplemented not only by a network of technical competence centers, where customers learn about WACKER's product portfolio, but also by the WACKER

ACADEMY, where we offer technical training sessions on our products and their application fields. In 2016, we expanded our existing technical competence center in Singapore.

26 Production Sites

WACKER's integrated global production system consists of 26 production sites (2015: 25). Ten are in Europe, eight in the Americas and eight in Asia. The Group's key production location is Burghausen (Germany). At this site alone, we have some 9,700 employees (including temporary workers and trainees). In 2016, Burghausen manufactured 810,000 metric tons of product, accounting for around 50 percent of the Group's production output. Nünchritz is WACKER's second multidivisional site alongside Burghausen.

⇒ See Figure 2.2 on page 44

Legal Structure

In November 2005, WACKER became a stock corporation (AG) under German law. Headquartered in Munich, Wacker Chemie AG holds a direct or indirect stake in 59 companies belonging to the WACKER Group. The consolidated financial statements cover 56 fully consolidated companies. Two companies are accounted for using the equity method. Wacker Chemie AG and a number of its subsidiaries also have branch offices, but they are of only minor significance for the Group.

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

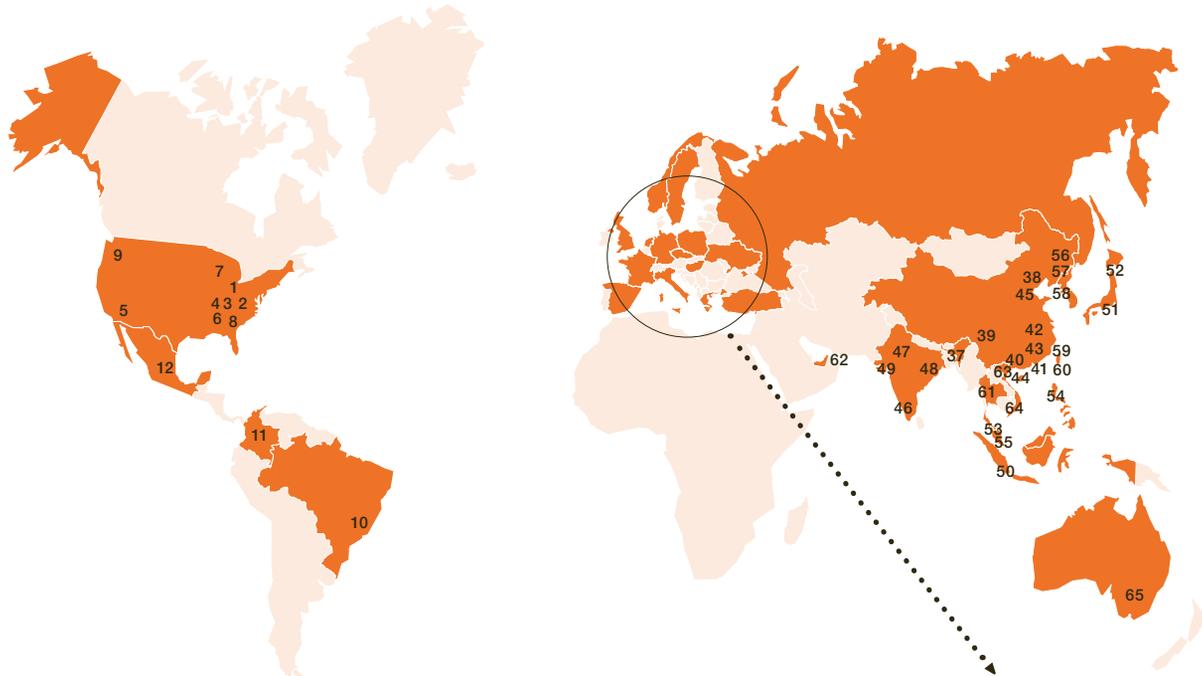
Five Operating Divisions

WACKER is based on a matrix organization with clearly defined functions. The Group has five business divisions, each with global responsibility for its products, manufacturing facilities, markets, customers and results. Regional organizations are responsible for all business in their respective countries. WACKER's corporate departments

2.1 Key Factors for Multidivisional Sites



2.2 WACKER's Production and Sales Sites and Technical Competence Centers¹



North and South America

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

Europe

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

Asia

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

Australia

- 65 Melbourne, Victoria, Australia

- Production site
- Sales site
- Technical competence center

¹ Only majority-owned subsidiaries and joint ventures

primarily provide services for the whole Group, although some also have production-related functions.

➔ See Figure 2.5 on page 46

Management and Supervision

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

2.3 Executive Board Responsibilities

Dr. Rudolf Staudigl

President & CEO

WACKER POLYSILICON

Executive Personnel, Corporate Development, Corporate Communications, Investor Relations, Corporate Auditing, Legal, Compliance, Retirement Benefits (since July 1, 2016)

Dr. Christian Hartel

WACKER POLYMERS

Human Resources (Personnel Director), Corporate Engineering Region: Asia

Dr. Tobias Ohler

SILTRONIC

Corporate Accounting and Tax, Corporate Controlling, Corporate Finance and Insurance, Information Technology, Technical Procurement & Logistics, Raw Materials & Energy Region: The Americas

Auguste Willems

WACKER SILICONES

WACKER BIOSOLUTIONS

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

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

Executive Board and Supervisory Board in Fiscal 2016

Changes occurred on the Supervisory Board in 2016.

The Vice Chairman of the Supervisory Board, Anton Eisenacker, stepped down effective December 31, 2016 upon his retirement. At its meeting of December 6, 2016, the Supervisory Board elected Manfred Köppl, already a board member, as its new Vice Chairman effective January 1, 2017. As a result, Hansgeorg Schuster, already elected an alternate member, became a full member of the Supervisory Board as of January 1, 2017.

Declaration on Corporate Management

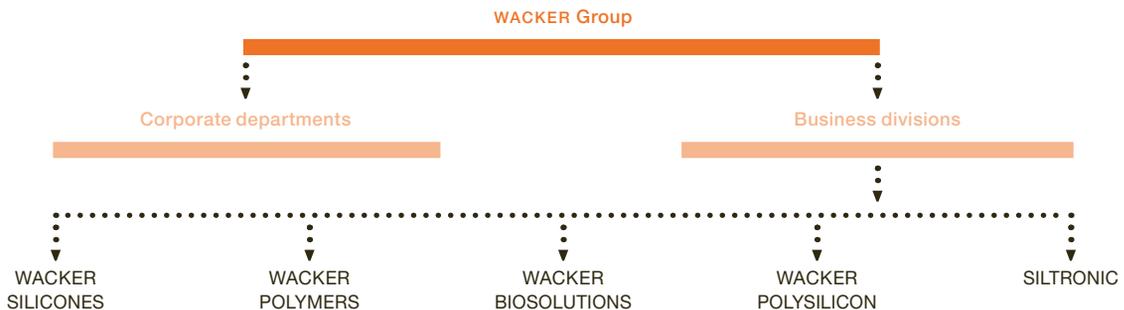
The declaration on corporate management required by Sections 289a and 315 (5) of the German Commercial Code (HGB) is included in the corporate governance report. This declaration forms part of the combined management report and is also available online. It contains the Executive and Supervisory Boards' work procedures, the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG), and information on key corporate management practices.

➔ www.wacker.com/corporate-governance

Executive Board and Supervisory Board Compensation

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

2.4 Group Structure



Key Products, Services and Business Processes

The range of products and services at each of our divisions generally remained unchanged in 2016. In several application areas, though, we expanded our product portfolio. With over 2,800 products, WACKER SILICONES has our broadest offering. The division manufactures specialties tailored to customers' specific needs, and standard products primarily used as starting materials in silicone production.

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

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

WACKER POLYSILICON produces hyperpure polysilicon for semiconductors and electronics and – above all – for the solar sector. Most of this polysilicon is sent to external customers. Internally, we provide polysilicon to Siltronic.

Siltronic, the leading semiconductor manufacturer, produces silicon wafers. They are the essential raw material for virtually all semiconductor products – whether for discrete semiconductor components (transistors or rectifiers) or for microchips (microprocessors, memory chips).

Integrated Production System – WACKER's Greatest Strength

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

Major Sales Markets and Competitive Positions

In 2016, there was a change in the competitive position of one of WACKER's four biggest divisions by sales. Following the takeover of SunEdison Semiconductor by Global Wafers, a semiconductor group based in Taiwan, Siltronic became the number four manufacturer of silicon. The competitive positions of WACKER's other divisions remained unchanged, and we are among the top three suppliers worldwide in these three areas. We are the world market leader for a number of products, such as VINNAPAS® dispersible polymer powders for the construction industry. Asia is the key sales region for our products, followed by Europe and the Americas.

⇒ See Table 2.6 on page 47

Competitive Positions of WACKER's Divisions

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

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2.5 Group Structure in Terms of Managerial Responsibility



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

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

Business at WACKER POLYSILICON is marked by volume growth and intense competition. Determining factors are the solar industry's demand for polysilicon and market trends in the world's solar sector. WACKER POLYSILICON is number two in the world in terms of production capacity. Our sales volume exceeded 66,000 metric tons in 2016.

Siltronic is one of the world's largest manufacturers of silicon wafers and other products for the semiconductor industry. Its customers include all the major global semiconductor companies, which account for over 80 percent of our sales in this segment.

Economic and Legal Factors

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

2.6 WACKER's Competitive Positions

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

Orders

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

Operational Metrics as Leading Indicators of Future Developments

By referring to specific leading indicators based on operational metrics, we try to factor potential developments into our business plans and to allocate capacities accordingly. Since our operations are based on diverse businesses and markets, we use a number of leading indicators to gain insights into potential developments at each of our business divisions. As many of WACKER's products are destined for the construction industry, we deploy various analytical tools in order to assess future growth in this segment.

⇒ See Table 2.7 on page 48

Economic Factors Impacting Our Business

The main economic factors influencing WACKER's business remained unchanged in many areas. Accounting for around 38.0 percent of production costs, energy and raw-material costs had the largest impact in 2016.

Energy and Raw-Material Costs

As a chemical company, we belong to an energy-intensive industry and require diverse raw materials to manufacture our products. Consequently, higher energy and raw-material costs impact our cost structure. WACKER is taking steps to reduce its dependence on this factor. By generating our own power at Burghausen and Nünchritz, we are reducing our energy-procurement needs and consequently the cost risk. Amendments to the regulatory framework, such as grid charges, energy or electricity taxes or levies relating to the German Renewable Energy Act (EEG), can negatively affect WACKER's energy costs both directly and indirectly – e.g. through higher grid charges or fees. However, cost reductions for energy-intensive companies in connection with the EEG levy, for example, can have a positive impact on energy costs. We continually focus on improving our energy efficiency. The goal is to reduce specific energy consumption by half between 2007 and 2022. When procuring raw materials, we increase price flexibility by sometimes concluding contracts with varying terms, with more scope regarding volumes or with regular price adjustments that reflect wholesale market prices.

Exchange-Rate Fluctuations

As a rule, WACKER hedges against exchange-rate fluctuations. We hedge at least half of our dollar and yen exposures for each subsequent year with a mix of derivative currency hedging transactions and documented stop/loss orders. In determining sensitivity, we simulate a 10-percent devaluation of the us dollar against the euro. Without hedging, an increase in the euro against the us dollar would have negatively impacted EBITDA by around €60 million.

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

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

Legal Factors Impacting Our Business

China imposed anti-dumping and anti-subsidy tariffs on polysilicon manufacturers in the USA. As things stand now, polysilicon produced at our site in Charleston, Tennessee (USA) is also affected by these tariffs. Negotiations are being conducted between China and the USA with the aim of resolving the trade dispute regarding solar products, which would also benefit WACKER. However, WACKER has the option of taking up direct contact with China to discuss an exemption from tariffs. In May 2014, WACKER and the Chinese Ministry of Commerce (MOFCOM) signed a minimum

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2.7 Leading Operational Indicators

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

price agreement for exports of polysilicon produced in Europe, which was valid until April 2016. MOFCOM, in turn, refrained from imposing anti-dumping and anti-subsidy tariffs on this material. In May 2016, MOFCOM opened a review. MOFCOM will make a decision by April 2017, at the latest, on whether to retain or rescind the measures. The stipulations of the minimum price agreement will remain unchanged until then. The measures imposed by the EU against China are also currently under review, with an EU Commission decision expected in March 2017. Until then, the agreement regulating the import of solar modules from Chinese solar companies applies unchanged.

Total of 192 Registration Dossiers Submitted as Part of REACH

By late 2016, WACKER had submitted 192 registration dossiers to the European Chemicals Agency (ECHA). For some of the phase-one and phase-two dossiers, submitted in 2010 and 2013, ECHA required additional information, which we provided in 2016. The ICCA (International Council of Chemical Associations) has developed the Global Product Strategy (GPS), which is a guideline on how to assess chemical properties and provide product safety information. In Europe, most GPS requirements are satisfied by REACH and by CLP (Classification, Labeling and Packaging of Substances and Mixtures). By the end of 2016, we had published 75 Safety Summaries on the ICCA chemicals website for the substances we have registered under REACH.

Goals and Strategies

Strategy of the WACKER Group

Our vision and five overarching strategic goals remain in place. Our strategy is focused on profitable growth and the goal of attaining a leading competitive position in most of our business fields, while observing the principle of sustainable development. Our five overarching goals are:

- WACKER products and solutions are our customers' first choice.
- We want to be one of the world's best employers.
- We tap new markets via product and process innovations for tomorrow's world.
- We continuously increase our company's value.
- Our responsibility as a company extends beyond our business activities.

As part of Capital Market Day in October 2016, we presented our strategy for the WACKER Group until 2020. Three levers determine our strategy: expansion into emerging markets and regions; innovations; and the substitution of competitors' products with WACKER products. Our strategic goals for the next five years are:

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

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

With these new capacities, we intend to grow more strongly than the chemical-industry average. Momentum will be spurred by product innovations and by raising the percentage of specialty products in our portfolio. Our focal regions and countries for further growth remain unchanged: Brazil, China, India, Southeast Asia and the Middle East. We also see opportunities for our chemical business to expand in our established markets in Europe and the USA.

We are continually striving to reduce our raw-material consumption and improve the process efficiency of our plants. In addition, we are developing a lot of sustainable products for renewable energy, thermal insulation and electromobility. The purpose of these products is to lower CO₂ emissions.

Our aim is to achieve attractive margins with our products. With chemicals, our target EBITDA margin is >16 percent, while for our polysilicon business it is >30 percent.

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

Strategy at Each Business Division

WACKER's divisions have each set their own strategic priorities.

2.8 Strategy at Each Business Division

WACKER SILICONES

Adding Value

Expanding business for specialty products

Innovation

Tapping new markets and applications

Costs

Continuously optimizing costs

WACKER BIOSOLUTIONS

Market Share

Accelerating growth with bioengineered products

Innovation

Spurring product launches

Costs

Improving the supplier structure

SILTRONIC

Siltronic's strategic focus is on its fastest growing business: 300 mm silicon wafers. One ongoing strategic task is to implement productivity, cost-saving and flexibility initiatives to improve production processes and workflows. Investments in product developments are aimed at fulfilling the latest design-rule specifications and implementing quality-enhancing measures. The IPO of Siltronic AG on the Frankfurt Stock Exchange has enhanced the company's strategic growth options and its possibilities for raising capital. WACKER remains Siltronic AG's majority shareholder.

WACKER POLYMERS

Expansion

Strengthening global presence

Substitution

Replacing conventional products with WACKER products

Innovation

Developing new applications

WACKER POLYSILICON

Costs

Enhancing cost position

Quality

Maintaining quality leadership

Customers

Acquiring new customers

Management Processes

Value-Based Management Is Integral to Our Corporate Policies

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

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

The management decision-making process makes active use of key financial performance indicators. For example, lower-than-expected net cash flow could result in our adjusting investments during the year. Being highly flexible, WACKER can react to both positive and negative changes.

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

Key Financial Performance Indicators for the WACKER Group

In 2016, we continued to use the same key financial performance indicators for value management as in previous years. These are:

- EBITDA margin (EBITDA in relation to sales). We compare historical performance with planned performance and with the competition, and use the result to calculate a target EBITDA margin. We calculate the weighted divisional average as our target margin for the Group.
- ROCE or return on capital employed. ROCE is defined as earnings before interest and taxes (EBIT) divided by capital employed. Capital employed comprises non-current assets and net current assets. ROCE clearly indicates how profitably the capital required for business operations is being employed. ROCE is influenced not only by profitability, but also by capital intensity with regard to noncurrent and net current assets. ROCE is reviewed annually as part of our planning process and is a key criterion for managing our capital expenditure budget.
- EBITDA (earnings before interest, taxes, depreciation and amortization). This demonstrates the operational performance capability of the company before cost of capital. We set absolute EBITDA targets for the business divisions and take the cost of capital into account by using BVC to determine the internal budget target. We calculate BVC by deducting the cost of capital, non-operational factors, and depreciation and amortization from EBITDA. The development of BVC depends mainly on changes in EBITDA.
- Net cash flow (defined as the sum of cash flow from operating activities and long-term investing activities before securities and including additions from finance leases, less the change in advance payments received). Net cash flow shows whether we can finance ongoing operations and necessary investments from our own operating activities. WACKER's aim is to generate a sustained positive net cash flow. Apart from profitability, the main factors affecting net cash flow are the effective management of net current assets and the level of capital expenditures.

Supplementary Financial Performance Indicators

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

These supplementary financial performance indicators include:

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

Capital expenditures: as part of our medium-term planning, we set capital-expenditure priorities and an investment budget. Investments of overriding importance for the company are decided on by the Executive Board on the basis of the Group's strategy. Other investments are planned by each business division. To this end, the individual business divisions regularly analyze their capacity utilization and anticipated capacity requirements. The respective business divisions and Corporate Engineering at WACKER are responsible for the operational management of individual investment projects (project handling, deadlines, budgets, quality and safety).

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

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Non-Financial Performance Indicators

None of the non-financial performance indicators described in detail in the Annual Report are used universally for corporate decision-making, although certain indicators, such as the accident rate, are important in some parts of the company.

2.9 Non-Financial Performance Indicators Used for Decision-Making in Parts of the Company

Non-Financial Performance Indicators

Number of employees	Corporate departments and production
Order intake	Business divisions
New-product rate	Business divisions
Electricity and energy consumption	Business divisions and sites
Production utilization	Business divisions and sites
Key environmental indicators	Business divisions and sites
Accident rate	Business divisions and sites

Development of Key Financial Performance Indicators in 2016

EBITDA margin: in 2016, the target margin was 20 percent, with the Group posting an actual EBITDA margin of 20.4 percent.

2.10 Planned and Actual Figures

€ million	Reported for 2016	Forecast 2016 ¹	2015
EBITDA margin (%)	20.4	Somewhat lower	19.8
		Slight rise when adjusted for special income ²	
EBITDA	1,101.4		1,048.8
		Substantially lower	
ROCE (%)	6.1		8.1
		Markedly more positive	
Net cash flow	400.6		22.5

¹ March 2016 forecast

² EBITDA adjusted for special income came to €911.2 million in 2015 and €1,081.1 million in 2016.

EBITDA: we were expecting EBITDA – adjusted for special income – to be marginally higher in 2016 compared with the prior year, and we exceeded this target. Compared with the prior year, EBITDA exclusive of special income rose by €169.9 million to €1.08 billion. EBITDA inclusive of special income climbed €52.6 million, from €1.05 billion to €1.10 billion. In 2016, the cost of capital before taxes was 10.1 percent. We did not reach our BVC target for the Group in 2016. At €–246.7 million, the value achieved was below the prior-year level.

2.11 ROCE and BVC

€ million	2016	2015
EBIT	366.2	473.4
Capital employed ¹	6,018.0	5,875.4
ROCE ² (%)	6.1	8.1
Pre-tax cost of capital (%)	10.1	10.4
BVC ³	–246.7	–119.1

¹ Capital employed is the sum of average noncurrent assets (less noncurrent securities and deferred tax assets), plus inventories and trade receivables (less trade payables). It is the variable used in calculating the cost of capital.

² Return on capital employed is the profitability ratio relating to the capital employed.

³ BVC is calculated by adjusting EBIT for non-operational factors.

ROCE: WACKER's ROCE in 2016 was 6.1 percent. In our forecast, we had assumed that ROCE would be significantly lower than in the prior year due to the increase in capital employed.

Net cash flow: we forecast a markedly positive net cash flow for 2016, given the strong decline in capital expenditures. At €400.6 million, net cash flow was in line with our forecast.

Two-Stage Strategic Planning

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

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

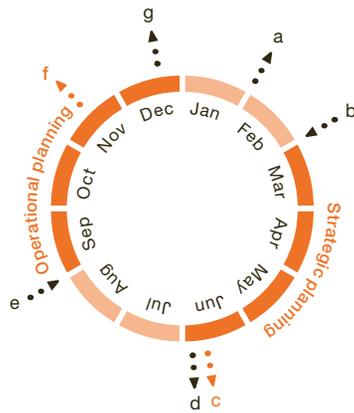
We satisfy our capital requirements by means of operating cash flow, and short-term and long-term financing.

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

Financing Measures in 2016

In 2016, WACKER repaid a loan installment of €200 million to the European Investment Bank (EIB). At the same time, a long-term financing agreement amounting to €200 million was concluded with the EIB and will be drawn in the first quarter of 2017. In addition, WACKER took out five bilateral loans at banks totaling US\$250 million for three years. In 2016, the syndicated loan of €200 million taken out in 2014 was extended by another year until 2021. Moreover, in December 2016, a syndicated loan of €400 million due to expire in 2017 was prematurely refinanced in the same amount for five years. Neither of these syndicated loans is currently being utilized.

2.12 Strategic and Operational Planning



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

Financing Strategy

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

The Group’s financing agreements contain standard market credit terms and, in the case of large loans, a net debt-to-EBITDA ratio as the only financial covenant.

For all the loans that we negotiate, we structure the agreements carefully to ensure that the financial partners are treated equally (pari passu) and that the agreements can subsequently be monitored groupwide. Some of the liabilities to banks are fixed-interest while others have variable interest rates. As of December 31, 2016, WACKER had unused lines of credit (including syndicated loans) with terms of over one year in the amount of around €800 million.

WACKER collaborates with a number of banks (core-bank principle), who must have an investment-grade credit rating and a long-term business model.

Operational Control Instruments

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

Statutory Information on Takeovers

2.13 Information Required by Section 315 (4) of the German Commercial Code (HGB)

The following table contains information required by Section 315 (4) of the German Commercial Code (HGB):

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

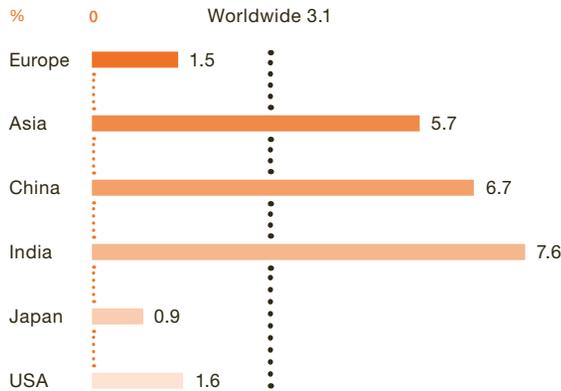
Business Report

Economic Trends

The world economy continued to grow moderately in 2016, but fell short of the original full-year expectations. According to International Monetary Fund (IMF) data, global economic output grew 3.1 percent in 2016 (2015: 3.1 percent).

In advanced economies, the reluctance of companies to invest, coupled with subdued domestic demand, weighed on growth. The somewhat weaker trend in the United States, the Brexit vote in the United Kingdom and the rising fear of terrorist attacks worldwide also slowed the global economy.

2.14 GDP Trends in 2016



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

Although low oil and commodity prices were beneficial to economies with strong manufacturing and consumer bases, they dampened the growth prospects of commodity-exporting countries, such as Russia and Brazil. China's economy also cooled off during the year, but has essentially stabilized. The People's Republic is now relying on systematic structural changes – with more accommodative monetary and fiscal policies, higher domestic consumption and a stronger service sector – to ensure more sustainable

long-term growth. According to the Asian Development Bank (ADB), lower demand in China slowed growth in other Asian countries.

Sector-Specific Conditions

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

WACKER's Chemical Divisions Report Good Sales Trend

The chemical industry expanded at a subdued pace in 2016 and chemical-product prices declined. According to the German Chemical Industry Association (VCI), global sector sales (including pharmaceuticals) totaled €4.7 trillion in 2015, with Asia accounting for just under 60 percent. The difficult international market environment also affected German chemical companies. Amid weak international demand, production had to be curbed in Germany at times. Continuing low oil prices, though, helped make German producers more competitive. The weak euro also bolstered exports. Capacity utilization at German chemical plants was 83.7 percent. According to the VCI, chemical production in Germany expanded by 0.5 percent in 2016. But with prices substantially lower, the sector's sales declined by 3 percent versus the previous year to €183 billion (2015: €189 billion).

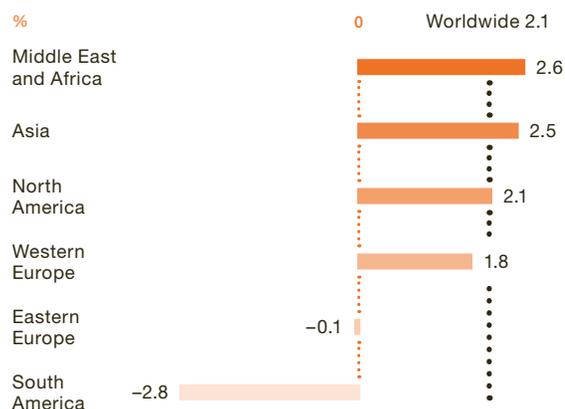
At WACKER, the chemical divisions lifted their sales year over year. The rise was mainly due to increased volumes in all segments, albeit with prices lower in a number of product groups. WACKER SILICONES recorded good demand for silicone products for electronics, consumer goods and plastics, as well as for medical technology. WACKER POLYMERS achieved a slight increase in sales of dispersible polymer powders and VAE dispersions. At WACKER BIOSOLUTIONS, pharmaceutical proteins performed particularly well.

Construction Industry Grows in 2016

According to market research institute B+L Marktdaten GmbH, the global construction industry grew by 2.1 percent in 2016 to US\$8.6 trillion (2015: US\$8.4 trillion). Construction contracts in Western Europe increased by 1.8 percent. Sales in the German construction industry reached US\$334.4 billion in real terms (2015: US\$325.6 billion). Eastern Europe saw a marginal decline of 0.1 percent in construction contracts, basically due to the sluggish trend in

Russia's construction sector. Investment spending in the US construction industry grew by 2.3 percent in 2016. At US\$1.6 trillion, China remains the largest market worldwide. After experiencing weak growth in 2015, it returned to a significantly more positive trajectory in the reporting year.

2.15 Growth Rate of Construction by Region in 2016



Source: B+L Marktdaten GmbH. Status: November 2016

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WACKER POLYMERS posted another sales increase for construction applications. Growth in dispersible polymer powders was fueled by the market for dry-mix mortar in the USA, for example, and Southeast Asia. We also generated further sales growth in Western and Central Europe. Overall, we sold around 9,000 additional metric tons of dispersible polymer powders to the construction industry. In dispersions, WACKER POLYMERS performed strongly in the Americas. Beside adhesives and sealants, another key sector for our VAE dispersions was the market for water-based, environmentally compatible coatings. At WACKER SILICONES, construction-application sales also grew. All three product segments – building protection, sealants and adhesives, and silane-modified polymers – posted further gains. In 2016, sales climbed in Europe and Asia. Our performance was particularly strong in Southeast Asia, India and the CIS countries.

Electrical and Electronics Industries Grow in Emerging Markets

According to the German Electrical and Electronic Manufacturers' Association (ZVEI), the global market for the electrical and electronics industries saw further growth, expanding 3 percent to about €3.7 trillion in 2016 (2015: €3.6 trillion). The main impetus came from China and emerging markets, which gained around 5 percent. In Germany, the fifth-largest market worldwide, sales advanced to some €182 billion according to the ZVEI (2015: €178 billion).

WACKER has three business divisions that supply customers in the electrical and electronics industries. Siltronic posted a slight year-over-year increase in volumes sold to semiconductor-industry customers. WACKER POLYSILICON supplied almost 10 percent of its polysilicon volumes to customers in the electronics industry in 2016. WACKER SILICONES lifted its product sales for electronics applications by 6 percent. We recorded sales growth in media-resistant potting compounds, in highly specialized silicone rubber grades and silanes for the semiconductor industry, and in silicone gels for automotive electronics. The cable and insulator business also grew, with sales rising by 11 percent.

Photovoltaics Established as a Mainstay of Global Energy Supply

In the global solar industry, all signs continued to point to growth in 2016. According to various market studies and our own estimates, some 76 gigawatts (GW) of capacity were newly installed worldwide (2015: 56 GW). That was about 36 percent more than the year before. As a result, globally installed photovoltaic capacity totaled some 300 GW at the end of 2016. Approximately 70 percent of the new capacity was installed in China, Japan and the USA in 2016. Incentives and substantially lower system costs made a major contribution to the expansion of PV installations.

2.16 Installation of New PV Capacity in 2015 and 2016

	Installation of New PV Capacity (MW)		Growth in 2016
	2016	2015	%
Germany	1,500	1,500	-
France	800	900	-11
Italy	400	300	33
Rest of Europe	4,000	5,900	-32
USA	14,600	7,300	100
Japan	8,300	10,800	-23
China	30,000	16,500	82
India	4,200	2,100	100
Other regions	12,200	10,900	12
Total	76,000	56,200	35

Sources: PV market in 2016: Germany's Federal Network Agency, Commissariat Général au Développement Durable, IHS, Solar Energy Industries Association (SEIA), RTS Corporation, WACKER's own market research. PV market in 2015: Germany's Federal Network Agency, Commissariat Général au Développement Durable, IHS, RTS Corporation, WACKER's own market research

Despite strong global growth in new PV installations, market conditions in this industry remained challenging, particularly in the second half of the year. Growth in PV installations was strong in the first half of the year ahead of a change in China's feed-in tariffs that came into effect on July 1, 2016. Demand was significantly lower in the months that followed. As a result, prices declined at every stage of the supply chain. Since mid-October, though, a slight price recovery has been apparent. During the year as a whole, persistently strong price pressure nevertheless prevented companies in this industry from achieving any major improvement in their financial situation.

Growing Demand for Silicon Wafers

In 2016, demand for silicon wafers for the semiconductor industry – measured by surface area sold – was higher than the year before. The SEMI trade association estimated that, compared with 2015, global volumes by surface area sold climbed by 2.9 percent. In the first quarter, demand was rather subdued and came in below the prior-year figure. As the year progressed, though, the market clearly gained momentum, with silicon demand in the following quarters even exceeding the record levels of a year earlier.

Raw-Material Costs Decline Year over Year

Raw-material costs in 2016 were lower than the year before. Ethylene was slightly cheaper, while the prices for silicon metal and vinyl acetate monomer (VAM) fell by over 14 percent. The average price of methanol dropped substantially, by around 26 percent.

2.17 Spot-Price Trends for WACKER's Key Raw Materials



Overall Statement by the Executive Board on Underlying Conditions

The global economy was influenced in 2016 by the decision of UK voters to leave the European Union, by the presidential election in the United States, and by uncertainties about future trends in the Chinese economy. Global growth was also impeded by the conflicts in the Middle East and the continued sanctions imposed on Russia by the USA and the EU. China's economic growth of 6.7 percent was in line with expectations. Germany continued to be a center of stability in Europe in 2016, and the pace of growth in other European countries like Spain and France picked up somewhat. In the USA, the upturn continued despite the (albeit very slight) interest rate increases.

WACKER's business developed well in 2016 given the geopolitical risks. Whereas many chemical companies recorded declining sales, WACKER achieved a moderate sales increase in 2016, as planned. This was due to the three chemical divisions, which succeeded in selling higher volumes. Earnings climbed even faster than sales. The positive earnings trend stemmed from our high production-capacity utilization, cost improvements and low raw-material prices. The global solar market had another growth year. Polysilicon prices, though, fluctuated strongly and, on balance, were lower, which dampened sales and earnings. After a dynamic start in the first half of 2016, business slowed somewhat in the third quarter. Volumes recovered in the fourth quarter. Silicon-wafer business for the semiconductor industry was particularly sluggish in the first half year, before picking up in the second half. Volume gains and favorable exchange-rate effects were countered by low market prices. Sales at Siltronic were slightly higher than in the prior year.

We lifted our sales in all regions in 2016, even though the increases were not particularly strong in Europe and the Americas. In Asia, growth was 3.9 percent. Business there developed very positively in Japan, South Korea and India. At 43.3 percent, Asia again accounted for the largest share in Group sales.

WACKER performed well in the first weeks of the new fiscal year prior to publication of the consolidated financial statements on February 27, 2017.

Key Events Affecting Business Performance

Divestitures

WACKER did not divest any business fields or product business in 2016.

Investments

Capital expenditures were down by almost half year over year, coming in at €427.6 million (2015: €834.0 million).

WACKER's investing activities remained centered on the construction of the new polysilicon site at Charleston, Tennessee (USA). Around €100 million was invested in 2016 to complete this project. Another focus of our capital expenditures was on plants for manufacturing downstream products in various regions. For example, we raised production capacity for cyclodextrins by 30 percent at our site in Eddyville, Iowa (USA). At the Burghausen site, we expanded production of functional silicone fluids in several stages. These fluids find application in the coatings, paper, textile, cosmetics and personal-care sectors. Capital spending on this expansion project amounted to some €25 million. In Freiberg, we invested in new pulling facilities for manufacturing monocrystals at Siltronic. Renovation of the Alz canal in Burghausen incurred capital expenditure of €25 million.

We initiated further investment projects in 2016. In Jincheon, South Korea, we are moving production to a new location and, at the same time, expanding our capacities for silicone sealants, specialty silicones and liquid silicone rubber. In Amtala, India, we are building a production plant for surfactant silicones for industrial, agricultural and personal-care applications.

Comparing Actual with Forecast Performance

During the year, WACKER specified and revised the targets originally set at the start of the year. The revisions affected the statements on EBITDA and net financial debt. As forecast, WACKER grew its sales by a low single-digit percentage. At €5.40 billion, sales were 2 percent higher year over year. This was due to higher volumes. We projected that the EBITDA margin would be somewhat below the 2015 level. This did not prove to be the case. After adjustment for special income, EBITDA was substantially higher year over year. In 2016, we again retained advance payments and received damages due to the termination of long-term polysilicon supply contracts, but the amounts involved were substantially below the prior-year level. As expected,

the business trend was positive at our three chemical divisions – WACKER SILICONES, WACKER POLYMERS and WACKER BIOSOLUTIONS – with volume growth spurring business there. On the whole, all three divisions increased their sales. EBITDA was substantially above the year-earlier figure. At WACKER POLYSILICON, solar-silicon prices fluctuated during the year. Even though prices were markedly lower, WACKER POLYSILICON grew its sales through increased volumes. At Siltronic, sales were slightly higher than the year before. Volumes rose marginally year over year. Volume gains and favorable exchange-rate effects were countered by low market prices. On balance, Siltronic's EBITDA was higher year over year. Raw-material costs, energy costs and exchange rates trended in line with our expectations.

Projections for EBITDA Specified after First Quarter

With the publication of the Q1 Interim Report in April 2016, WACKER specified its projections for EBITDA. Instead of a slight increase when adjusted for special income, the gain was now expected to be between 5 and 10 percent year over year (2015: €911.2 million without special income). At €1.08 billion, adjusted EBITDA was 18.6 percent higher than the year before. Net financial debt, previously expected to be at the prior-year level, was forecast to be slightly below that level (2015: €1.07 billion). All other performance indicators remained unchanged. In the Q2 Interim Report for 2016, we forecast that EBITDA would reach the upper end of our projected range of 5 to 10 percent.

Investment spending developed as we had stated at the Annual Press Conference in March 2016 and amounted to €427.6 million.

Net financial debt of €992.5 million at year-end was slightly below the prior-year level.

As anticipated at the start of the year, the workforce increased. As of the reporting date, WACKER had 17,205 employees, 233 more than the year before.

The Executive and Supervisory Boards will propose a dividend of €2.00 per share for 2016 (dividend for 2015: €2.00) at this year's Annual Shareholders' Meeting.

Deviations from Projected Expenses

Personnel costs were slightly higher year over year, both in absolute terms and as a percentage of sales. This was due to the increase in the workforce, which was in part attributable to commissioning of the new production plant in Charleston, Tennessee (USA). We expect the ratio of personnel costs to sales to decline slightly in the medium term due to productivity gains.

Compared with the previous year, raw-material costs declined marginally, both in absolute terms and as a percentage of sales. A more favorable product mix and our efficiency programs concerning the use of raw materials were positive factors in this trend. Raw-material prices were lower on average over the year, which also had a positive influence on our raw-material costs. We expect raw-material prices to rise in the medium term, which will lift the ratio of raw-material costs to sales.

As we had expected, energy costs declined year over year due to more favorable procurement conditions and a lower regulatory cost burden.

2.18 Comparing Actual with Forecast Performance

	Results in 2015	Forecast March 2016	Forecast Aug. 2016	Forecast Oct. 2016	Results in 2016
Key Financial Performance Indicators					
EBITDA margin (%)	19.8	Somewhat lower	Somewhat lower	Somewhat lower	20.4
EBITDA (€ million)	1,048.8	Slight increase when adjusted for special income ¹	Increase of between 5 and 10 percent when adjusted for special income ¹	Increase of between 5 and 10 percent when adjusted for special income ¹	1,101.4
ROCE (%)	8.1	Substantially lower	Substantially lower	Substantially lower	6.1
Net cash flow (€ million)	22.5	Markedly more positive	Markedly more positive	Markedly more positive	400.6
Supplementary Financial Performance Indicators					
Sales (€ million)	5,296.2	Slight increase	Slight increase	Slight increase	5,404.2
Investments (€ million)	834.0	Approx. 425	Approx. 425	Approx. 425	427.6
Net financial debt (€ million)	1,074.0	At the prior-year level	Slightly below the prior-year level	Slightly below the prior-year level	992.5
Depreciation (€ million)	575.4	Approx. 720	Approx. 720	Approx. 720	735.2

¹ EBITDA adjusted for special income amounted to €911.2 million in 2015 and €1,081.1 million in 2016.

Both in absolute terms and as a proportion of sales, depreciation was substantially higher year over year due to the start of depreciation of the polysilicon production facilities at our new Charleston plant. We expect depreciation to decline slightly in 2017 and to return to the levels of 2015 in the medium term.

2.19 Expenses by Cost Type

% of sales	Reported for 2016	2015
Personnel costs	26.1	25.7
Raw-material costs	23.8	25.0
Energy costs	7.2	7.7
Depreciation	13.6	10.9

WACKER generated the majority of its sales outside Germany. International sales came in at €4.69 billion – after €4.61 billion a year earlier – representing 87 percent of total sales.

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

Group EBITDA at €1.10 Billion – EBITDA Margin at 20.4 Percent

Group EBITDA rose 5 percent year over year and amounted to €1,101.4 million (2015: €1,048.8 million). In spite of a reduction in income from advance payments retained and damages received, WACKER posted substantially higher EBITDA in 2016. In 2015, WACKER had recognized €137.6 million in special income from advance payments retained and damages received, which had a positive effect on EBITDA. In 2016, special income received in connection with terminated contracts amounted to €20.3 million. Adjusted for this effect, EBITDA actually climbed 18.6 percent year over year to €1,081.1 million (2015: €911.2 million).

⇒ For further information on the business divisions, please refer to the segment information starting on page 62.

2.20 Reconciliation of EBITDA to EBIT

€ million	2016	2015	Change in %
EBITDA	1,101.4	1,048.8	5.0
Depreciation/ appreciation of fixed assets	-735.2	-575.4	27.8
EBIT	366.2	473.4	-22.6

Higher Depreciation Reduces EBIT and Net Income for the Year

Group earnings before interest and taxes (EBIT) totaled €366.2 million in 2016 (2015: €473.4 million). That represented a decrease of 23 percent from a year earlier and corresponded to an EBIT margin of 6.8 percent (2015: 8.9 percent). This drop was due to higher depreciation, which rose 28 percent in 2016 to €735.2 million (2015: €575.4 million), as expected.

Earnings

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Group Sales Climb 2 Percent Year over Year to €5.40 Billion

In 2016, the WACKER Group again increased its sales, which came in at €5.40 billion (2015: €5.30 billion). This almost 2-percent increase was driven by robust customer demand and the associated volume growth, as well as by positive exchange-rate effects. Compared with the previous year, each business division sold more in terms of volume and generated higher sales. The chemical divisions, in particular, contributed strongly to the rise in sales by delivering substantial volume growth. In an intensely competitive environment marked by lower prices, WACKER POLYSILICON increased its sales by 3 percent. Siltronic slightly outperformed prior-year sales despite lower prices.

⇒ For further information on the business divisions, please refer to the segment information starting on page 62.

⇒ See Figure 2.22 on page 61

Cost of Goods Sold Rises

6 Percent Year over Year

At €990.7 million, gross profit from sales was 12 percent lower than a year earlier (2015: €1.13 billion). The gross margin was 18.3 percent (2015: 21.3 percent). Alongside the effect of higher depreciation, this decline reflected the start-up costs at the new Charleston production site, which increased the Group's cost-of-sales ratio from 79 percent to 82 percent.

Functional Costs Climb

Other functional costs (selling, R&D and general administrative expenses) were 5 percent higher year over year, rising to €652.3 million (2015: €623.5 million). General administrative expenses, in particular, were higher due to commissioning of the Charleston site.

Other Operating Income and Expenses

In 2016, the balance of other operating income and expenses was €26.7 million (2015: €-35.3 million). Income of €20.3 million (2015: €137.6 million) from advance payments retained had a positive effect on the net result. A substantially reduced net foreign-currency loss of €-17.5 million (2015: €-69.1 million) and the elimination of costs arising from the commissioning of the Charleston site led to markedly lower other operating expenses.

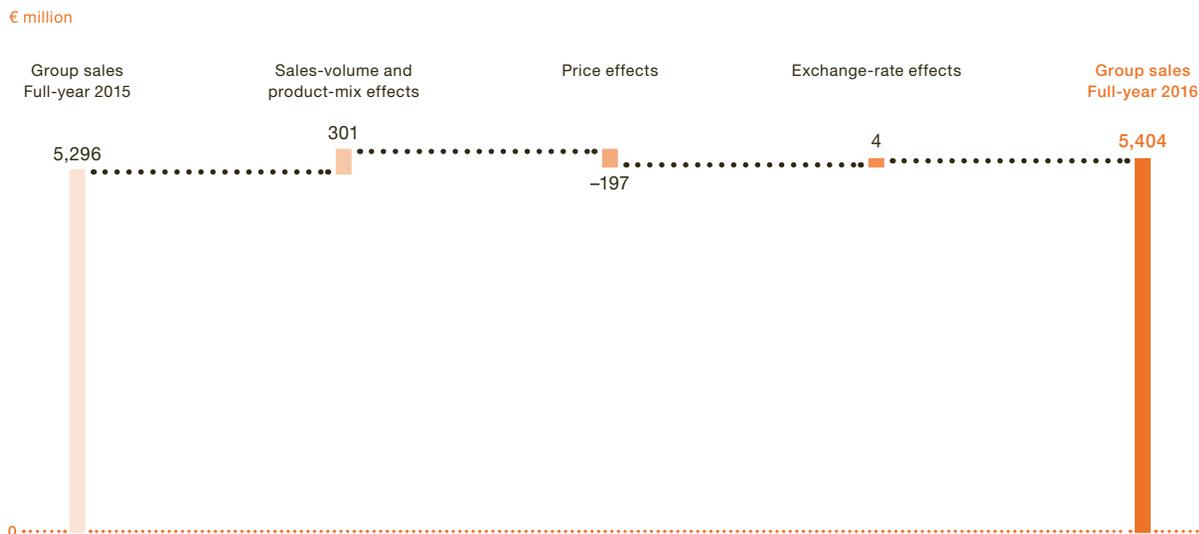
2.21 Reconciliation of EBIT to Net Income for the Period

€ million	2016	2015	Change in %
EBIT	366.2	473.4	-22.6
Financial result	-101.4	-66.7	52.0
Income before income taxes	264.8	406.7	-34.9
Income taxes	-75.5	-164.9	-54.2
Net income for the year	189.3	241.8	-21.7
Of which			
Attributable to Wacker Chemie AG shareholders	179.2	246.7	-27.4
Attributable to non-controlling interests	10.1	-4.9	n.a.
Earnings per common share (€) (basic/diluted)	3.61	4.97	-27.4
Average number of shares outstanding (weighted)	49,677,983	49,677,983	-

Financial and Net Interest Result

As expected, WACKER's financial result was weaker than the year before. It amounted to €-101.4 million (2015: €-66.7 million). Interest income was €6.0 million (2015: €7.3 million), while interest expenses were €42.4 million (2015: €31.8 million). The net interest result amounted to €-36.4 million (2015: €-24.5 million). Due to commissioning of the Charleston production site, capitalization of construction-related borrowing costs was significantly lower in the reporting year. As a result, interest expenses increased year over year to €17.4 million.

2.22 Year-over-Year Sales Comparison



The other financial result amounted to €–65.0 million (2015: €–42.2 million). It primarily comprised interest-bearing components of pension provisions and other noncurrent provisions. In addition, it contained gains and losses on price fluctuations in financial assets and associated hedging instruments. The prior-year figure had included the positive effects on financial assets of changes in exchange rates.

Income Taxes

For 2016, the Group reported tax expenses of €75.5 million (2015: €164.9 million). The Group's effective tax rate was 28.5 percent (2015: 40.5 percent). This positive change stemmed from the elimination of start-up costs for the Charleston production site that are not recognized in the tax accounts and from a reduction in the losses incurred at some subsidiaries.

Consolidated Net Income

As a result of the effects mentioned, consolidated net income fell to €189.3 million (2015: €241.8 million).

ROCE

The return on capital employed (ROCE) sets earnings before interest and taxes (EBIT) in relation to the capital employed for business activities.

In the reporting year, ROCE came in at 6.1 percent (2015: 8.1 percent). This decrease was essentially due to the high amount of capital employed coupled with lower EBIT. The high level of capital employed stemmed from our substantial capital spending on new production facilities last year. At €6,018.0 million, capital employed climbed slightly in the reporting period.

Segments

WACKER SILICONES

At €2.00 billion in 2016, sales at WACKER SILICONES topped the two-billion euro mark for the first time, after €1.94 billion in 2015. That was an increase of 3.0 percent. Higher volumes were the main growth driver, though they were partially offset by somewhat lower prices. WACKER SILICONES was able to increase its sales in all three of its business sectors, with sales of specialty products continuing to rise disproportionately. Silicones and silicone rubber – for consumer goods, chemicals, energy and electronics applications, and high-value construction products – sold especially well. From a regional perspective, growth was strongest in Europe, while WACKER SILICONES posted further sales gains in Asia.

Compared with the previous year, EBITDA outpaced sales growth, climbing 30.8 percent to €361.2 million (2015: €276.2 million). The rise was fueled by volume growth, good plant utilization and high levels of cost efficiency. At 18.1 percent, the EBITDA margin was markedly higher (2015: 14.2 percent).

Investment spending rose by 8.0 percent year over year, amounting to €88.6 million (2015: €82.0 million). The funds were primarily for expanding silicone plants at the Burghausen site and for expansions at the Nünchritz site. The division had 4,566 employees as of December 31, 2016 (Dec. 31, 2015: 4,353).

2.23 Key Data: WACKER SILICONES

€ million	2016	2015	2014	2013	2012
Total sales	2,001.1	1,943.3	1,733.6	1,672.2	1,648.0
EBITDA	361.2	276.2	209.8	230.2	189.3
EBITDA margin (%)	18.1	14.2	12.1	13.8	11.5
EBIT	280.8	194.5	128.9	151.1	106.4
Investments	88.6	82.0	88.5	85.4	158.8
Employees (December 31, number)	4,566	4,353	4,240	4,109	3,960

WACKER POLYMERS

Sales at WACKER POLYMERS rose by 1 percent in 2016 to €1.195 billion (2015: €1.186 billion). The increase was fueled by higher volumes for dispersions and dispersible polymer powders, which were partly offset by lower prices.

WACKER POLYMERS posted a substantial increase in sales of dispersions, especially in the Americas, and continued to grow in Asia. The highest growth rate, of around 20 percent, was achieved in India. Sales of dispersible polymer powders grew strongly, especially in North America and Europe.

At €261.0 million, EBITDA was clearly above the year-earlier level (2015: €222.2 million). This reflected the impact of much higher volumes, good plant capacity utilization and very high levels of cost efficiency. The EBITDA margin improved to 21.8 percent (2015: 18.7 percent).

Investments decreased year over year, amounting to €37.5 million (2015: €47.4 million). Funds were spent on the expansion of existing production facilities and on a new pilot reactor for dispersions at the Nanjing site in China. With its new plant, WACKER POLYMERS is developing local R&D activities in China and expanding its product range, application technology and customer service there. As of December 31, 2016, the division had 1,484 employees, slightly more than the year before (Dec. 31, 2015: 1,461).

2.24 Key Data: WACKER POLYMERS

€ million	2016	2015	2014	2013	2012
Total sales	1,194.8	1,185.5	1,064.4	978.7	1,003.1
EBITDA	261.0	222.2	149.5	147.8	147.4
EBITDA margin (%)	21.8	18.7	14.0	15.1	14.7
EBIT	223.7	184.4	118.7	112.9	110.7
Investments	37.5	47.4	56.3	36.8	58.8
Employees (December 31, number)	1,484	1,461	1,408	1,377	1,365

WACKER BIOSOLUTIONS

The sales trend was positive at WACKER BIOSOLUTIONS, too. Sales rose by 4.7 percent in 2016 to €206.4 million (2015: €197.1 million). Higher volumes essentially prompted the increase, while lower prices had the opposite effect. Pharmaceutical proteins and nutrition products performed especially well, recording double-digit growth. From a regional perspective, sales growth was strongest in Europe and Asia.

EBITDA increased by 14.9 percent to €37.0 million (2015: €32.2 million), mainly due to volume growth and high production capacity utilization. The EBITDA margin improved to 17.9 percent (2015: 16.3 percent).

Investments increased year over year to €9.1 million (2015: €6.2 million). The funds were used to expand existing production facilities. In particular, capital spending focused on expanding the cyclodextrin plant in the United States. In addition, WACKER BIOSOLUTIONS acquired a large-scale fermentation plant in Spain. The aim is to meet rising customer demand for cysteine in the long term and to manufacture other biosynthetic products. As of December 31, 2016, the number of employees reached 510 (Dec. 31, 2015: 491).

2.25 Key Data: WACKER BIOSOLUTIONS

€ million	2016	2015	2014	2013	2012
Total sales	206.4	197.1	176.2	158.4	157.6
EBITDA	37.0	32.2	23.6	23.6	24.5
EBITDA margin (%)	17.9	16.3	13.4	14.9	15.5
EBIT	25.7	21.0	13.6	17.2	17.8
Investments	9.1	6.2	8.4	10.2	19.3
Employees (December 31, number)	510	491	484	371	357

WACKER POLYSILICON

Sales at WACKER POLYSILICON climbed by 3 percent in 2016, to €1.1 billion (2015: €1.06 billion). The rise was due to substantial volume growth, despite average solar-silicon prices being lower. Asia retained its position as the key sales region in the reporting year.

At €285.9 million, EBITDA was clearly below the year-earlier level (2015: €402.4 million). The decline was basically caused by lower average prices, by start-up costs at the new production site at Charleston, Tennessee (USA), and by a substantial reduction in special income from advance payments retained and damages received from customers. The EBITDA margin was 26.1 percent (2015: 37.8 percent).

In 2016, investments at WACKER POLYSILICON decreased significantly on completion of the production facilities at Charleston. Capital spending fell 77.6 percent to €130.0 million (2015: €581.8 million). The number of employees rose to 2,490 (Dec. 31, 2015: 2,373).

2.26 Key Data: WACKER POLYSILICON

€ million	2016	2015	2014	2013	2012
Total sales	1,095.5	1,063.6	1,049.1	924.2	1,135.8
EBITDA	285.9	402.4	537.0	233.9	427.5
EBITDA margin (%)	26.1	37.8	51.2	25.3	37.6
EBIT	-117.1	162.6	305.3	0.1	200.8
Investments	130.0	581.8	334.5	290.0	698.1
Employees (December 31, number)	2,490	2,373	2,093	2,102	2,349

Siltronic

Siltronic's sales in 2016 were roughly on a par with the previous year and amounted to €933.4 million (2015: €931.3 million). Volume gains and favorable exchange-rate effects were countered by lower prices. Sales of 300 mm silicon wafers continued to rise. Asia retained its position as the key sales region in the reporting year. Europe also saw sales growth.

EBITDA improved by 17.7 percent year over year, climbing to €145.9 million (2015: €124.0 million). Positive factors influencing EBITDA were additional cost-reduction measures, high rates of production-capacity utilization and a decrease in currency-hedging expenses. The EBITDA margin was 15.6 percent (2015: 13.3 percent).

Siltronic's investments in property, plant and equipment and in intangible assets rose in 2016, reaching €89.5 million (2015: €75.1 million). That was a year-over-year increase of 19.1 percent. The invested funds were used especially for modernizing crystal-pulling facilities and for the ongoing automation of production. At 3,757, the number of employees at Siltronic was lower than a year earlier (Dec. 31, 2015: 3,894).

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2.27 Key Data: SILTRONIC

€ million	2016	2015	2014	2013	2012
Total sales	933.4	931.3	853.4	743.0	867.9
EBITDA	145.9	124.0	114.0	26.5	0.7
EBITDA margin (%)	15.6	13.3	13.4	3.6	0.1
EBIT	28.7	4.5	-43.5	-95.9	-92.2
Investments	89.5	75.1	40.7	30.9	103.2
Employees (December 31, number)	3,757	3,894	4,165	3,746	3,978

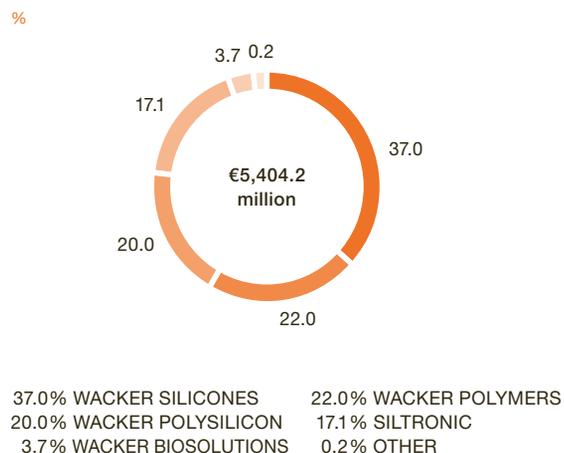
Other

Sales reported under "Other" totaled €162.6 million in 2016 (2015: €197.5 million). That was 17.7 percent less than a year earlier. The mild winter of 2015/2016 weighed on the salt business.

"Other" EBITDA amounted to €10.2 million in the year under review (2015: €-8.9 million), with lower currency-hedging costs having a positive influence. "Other" EBIT amounted to €-76.0 million (2015: €-94.5 million).

As of December 31, 2016, the "Other" segment had 4,398 employees (December 31, 2015: 4,400). This segment at WACKER covers, for example, the management and employees of the infrastructure units at the Burghausen and Nünchritz sites as well as corporate functions.

2.28 Divisional Shares in External Sales



Regions

WACKER's operations are highly international. In 2016, 86.9 percent of the Group's €5.40 billion in sales (2015: €5.30 billion) were generated by international business. Germany accounted for 13.1 percent.

Further Sales Growth in Asia

Asia accounts for the largest portion of our business. The main impetus in the region is the rising affluence of the emerging economies there. The region accounted for 43.3 percent of total Group sales (2015: 42.5 percent). Sales in Asia reached €2.34 billion (2015: €2.25 billion), an increase of 3.9 percent. Sales in the Greater China region (including Taiwan) climbed by 2.0 percent to €1.37 billion (2015: €1.34 billion).

Modest Growth in Europe

In Europe, a market where WACKER has a strong position, sales remained virtually unchanged in the reporting year, rising 0.3 percent to €1,894 million (2015: €1,887.6 million). Europe accounted for 35.0 percent of Group sales (2015: 35.6 percent).

2.29 External Sales by Customer Location

€ million	2016	2015	2014	2013	2012
Europe	1,894.0	1,887.6	1,794.2	1,720.8	1,776.7
The Americas	950.9	945.1	810.7	761.0	834.2
Asia	2,340.5	2,253.1	2,039.7	1,826.1	1,862.0
Other regions	218.8	210.4	181.8	171.0	162.0
Group	5,404.2	5,296.2	4,826.4	4,478.9	4,634.9

Slight Increase in Sales in the Americas

Sales in the Americas increased 0.6 percent to €950.9 million (2015: €945.1 million). The region accounted for 17.6 percent of Group sales (2015: 17.8 percent).

Continuing Growth in “Other” Regions

Sales in the other regions of the world increased by 4.0 percent in 2016 to €218.8 million (2015: €210.4 million). More than 40 percent of these sales were in Middle Eastern countries. The “Other” regions accounted for 4.0 percent of Group sales (2015: 4.0 percent).

2.30 External Sales by Group Company Location

€ million	2016	2015	2014	2013	2012
Europe	4,362.5	4,466.6	4,144.3	3,927.0	4,129.7
The Americas	1,319.0	892.8	769.7	742.1	817.6
Asia	1,317.5	1,164.5	962.3	761.6	729.7
Other regions	10.4	9.2	7.6	7.0	6.8
Consolidation	-1,605.2	-1,236.9	-1,057.5	-958.8	-1,048.9
Group	5,404.2	5,296.2	4,826.4	4,478.9	4,634.9

Net Assets

WACKER's total assets increased by close to 3 percent compared with December 31, 2015. Rising by €196.2 million, they amounted to €7.46 billion as of December 31, 2016 (Dec. 31, 2015: €7.26 billion). Essentially, both trade receivables and inventories grew. Lower capital spending and good operating cash flow lifted liquid assets significantly. On the other side of the balance sheet, provisions for pensions rose 30 percent as discount rates continued their downward trend. Advance payments received declined substantially. This was because the agreed polysilicon volumes corresponding to these payments were delivered to customers and other customer contracts were terminated. Group equity fell 7 percent, reflecting primarily the increases in provisions for pensions, which are recognized in other comprehensive income. A year earlier, the proceeds received from third-party investors in the successful IPO of Siltronic AG had increased Group equity by €361.9 million.

⇒ See Figure 2.33 on page 66

2.31 Trends: Assets

€ million	2016	2015	Change in %
Intangible assets, property, plant and equipment, and investment property	4,646.8	4,832.7	-3.8
Investments in joint ventures and associates accounted for using the equity method	11.2	21.2	-47.2
Other noncurrent assets	621.1	440.9	40.9
Noncurrent assets	5,279.1	5,294.8	-0.2
Inventories	846.3	785.2	7.8
Trade receivables	775.7	679.4	14.2
Other current assets	560.5	505.0	11.0
Current assets	2,182.5	1,969.6	10.8
Total assets	7,461.6	7,264.4	2.7

Fixed Assets Decline Due to Depreciation

Primarily as a result of higher depreciation, fixed assets decreased to €4.65 billion (Dec. 31, 2015: €4.83 billion). Depreciation amounted to €735.2 million. With the Charleston site coming on stream in the reporting year, capital expenditures fell substantially. They came in at €427.6 million (2015: €834.0 million). Approximately one-quarter of these expenditures went toward final completion of the Charleston site. The remainder was spent predominantly on investments at WACKER SILICONES and Siltronic. The full consolidation of the joint venture WACKER Asahikasei Silicone led to a reduction in equity-accounted investments. Changes in exchange rates increased the carrying amount of fixed assets by €90.3 million.

Other Noncurrent Assets and Securities

Other noncurrent assets totaled €621.1 million as of December 31, 2016 (Dec. 31, 2015: €440.9 million). That was a rise of 41 percent year over year. WACKER invested surplus liquidity of €56.0 million (Dec. 31, 2015: €3.7 million) in noncurrent securities. But the majority of the increase comprised deferred tax assets, which rose €128.5 million to €449.9 million, mainly due to higher actuarial losses from provisions for pensions.

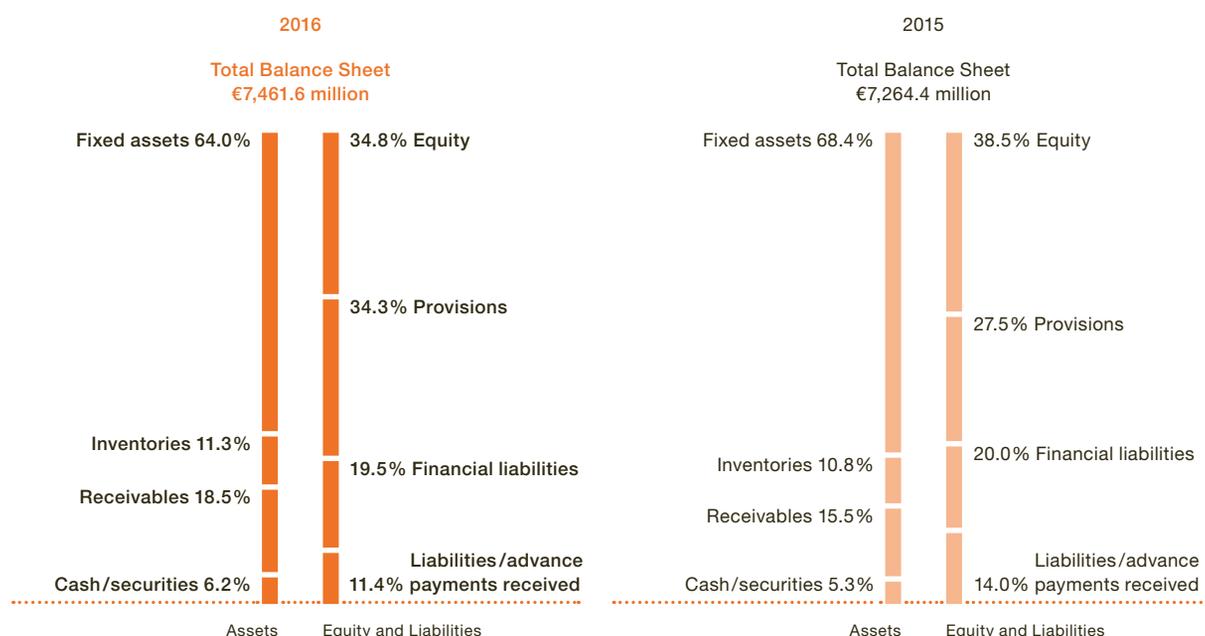
Working Capital Rises Due to Higher Receivables and Inventories

Current assets grew by just under 11 percent year over year. They came in at €2.18 billion (Dec. 31, 2015: €1.97 billion). One factor in this rise was a higher level of working capital, reflecting an operations-driven increase in trade receivables and higher inventories. Exchange-rate effects lifted trade receivables and inventories by €18.0 million.

2.32 Working Capital

€ million	2016	2015	Change in %
Trade receivables	775.7	679.4	14.2
Inventories	846.3	785.2	7.8
Trade payables	-369.7	-378.3	-2.3
Working capital	1,252.3	1,086.3	15.3

2.33 Asset and Capital Structure



2.34 Trends: Equity and Liabilities

€ million	2016	2015	Change in %
Equity	2,593.2	2,795.1	-7.2
Noncurrent provisions	2,428.9	1,881.5	29.1
Financial liabilities	791.1	1,136.7	-30.4
Other noncurrent liabilities	172.7	293.5	-41.2
Of which advance payments received	164.1	287.5	-42.9
Noncurrent liabilities	3,392.7	3,311.7	2.4
Financial liabilities	667.1	318.7	>100
Trade payables	369.7	378.3	-2.3
Other current provisions and liabilities	438.9	460.6	-4.7
Current liabilities	1,475.7	1,157.6	27.5
Liabilities	4,868.4	4,469.3	8.9
Total equity and liabilities	7,461.6	7,264.4	2.7
Capital employed	6,018.0	5,875.4	2.4

Liquidity Up 22 Percent

Securities and cash and cash equivalents are a major component of other current assets. Current securities reached €126.2 million at the end of 2016 (Dec. 31, 2015: €67.2 million), with WACKER investing liquid funds in fixed-term deposits and short-term bonds. There was a modest decline in cash, which amounted to €283.5 million as of the balance sheet date (Dec. 31, 2015: €310.5 million). Thus, total liquid assets (current and noncurrent securities, cash and cash equivalents) increased by 22 percent year over year.

Other current assets included income tax receivables of €18.5 million (Dec. 31, 2015: €19.0 million) and other tax receivables of €45.4 million (Dec. 31, 2015: €41.5 million).

Equity Ratio at 34.8 Percent

Group equity fell by €201.9 million compared with a year earlier. It amounted to €2.59 billion as of December 31, 2016 (Dec. 31, 2015: €2.79 billion). The resulting equity ratio was 34.8 percent (Dec. 31, 2015: 38.5 percent). Retained earnings rose, due to the Group's net income for the year, and declined, on the other hand, by €99.4 million due to the dividend paid by Wacker Chemie AG. Other equity items lowered equity, basically as a result of the adjustment to pension provisions that was recognized in other comprehensive income. The remeasurement of defined benefit

plans at the end of the year resulted in higher actuarial losses, which reduced equity by €356.2 million. Currency translation effects lifted equity by €43.4 million.

Liabilities Increase Amid Higher Pension Obligations

Compared with the previous year, WACKER's liabilities increased by €399.1 million or 9 percent to €4.87 billion. This change was attributable especially to the provisions for pensions, which rose by €496.1 million to €2.11 billion. This 30-percent increase reflects the lower discount rates used for defined benefit plans. These discount rates were 1.94 percent in Germany (Dec. 31, 2015: 2.75 percent) and 3.92 percent in the USA (Dec. 31, 2015: 4.2 percent). As a result, actuarial losses rose substantially. Other noncurrent provisions increased, amounting to €247.4 million (Dec. 31, 2015: €217.0 million). Here, low interest rates had an impact on provisions for jubilee benefits and for environmental protection. Provisions for phased early retirement increased due to the corresponding new contracts concluded during the reporting year. Overall, other noncurrent liabilities were lower at €172.7 million (Dec. 31, 2015: €293.5 million). This was due to the reclassification to current liabilities of formerly noncurrent advance payments received.

At €369.7 million, trade payables were roughly the same as the year before (Dec. 31, 2015: €378.3 million). Other current provisions and liabilities fell 5 percent to €438.9 million (Dec. 31, 2015: €460.6 million). Current advance payments received amounted to €106.6 million at the reporting date (Dec. 31, 2015: €165.8 million). The change in current income tax provisions and liabilities for forward-exchange contracts was insignificant as of the balance sheet date. Personnel liabilities, including those related to vacation, flextime and performance-related compensation, were slightly higher at the closing date.

Financial Liabilities Remain Constant

As of the balance sheet date, noncurrent and current financial liabilities were unchanged at €1.46 billion. In March 2016, WACKER took out new bilateral loans totaling US\$250 million, taking advantage of prevailing low interest rates for refinancing. Financial liabilities totaling €200 million were repaid on schedule in December 2016. The share of current financial liabilities increased because certain financing arrangements previously reported as noncurrent moved closer to maturity. Exchange-rate effects likewise led to an increase in financial liabilities.

Unrecognized Assets and Off-Balance-Sheet Financing Instruments

An important asset that does not appear in our statement of financial position is the value of the WACKER brand and other Group trademarks. We consider the high profile and reputation of our trademarks to be a key factor influencing customer acceptance of our products and solutions. Moreover, there are other intangible assets that are vital for success and have a positive impact on our business – for example, long-standing customer relationships and customer trust in our product- and solution-related expertise. Just as important are our employees' skills and experience, and our many years of expertise, not only in R&D and project management, but also in designing products and production- and business-process structures. In particular, our integrated production system gives us an edge over our rivals. Another key success factor is WACKER's sales network, which has evolved over many years and enables the Group to market and sell its range of products and services locally to customers. Various rented and leased goods (operating leases) reported on in Note 15 are another item that do not appear in the statement of financial position, and the same applies to other self-constructed assets. WACKER does not use any off-balance-sheet financing instruments.

corresponding tasks and responsibilities. Capital-structure management involves shaping the capital structure of the Group and its subsidiaries. The latter are capitalized and financed in accordance with the principles of cost and risk optimization. This involves taking account of restrictions on the movement of capital, as well as other capital and foreign-currency transfer constraints.

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

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

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

Financial Analysis

The Group's cash flow is a key instrument of liquidity management. Net cash flow serves as the internal indicator for liquidity measurement.

Financial Position

Financial-Management Principles and Goals

Our key financial-management goal is to maintain WACKER's financial strength. The central task is to sufficiently cover the financial needs of our operations and investment projects. Financial management at WACKER comprises capital structure management, cash and liquidity management, and the management of market-price risk (currencies, interest rates). Financial management at the Group is centrally organized. A groupwide financial regulation sets out the

Net Cash Flow

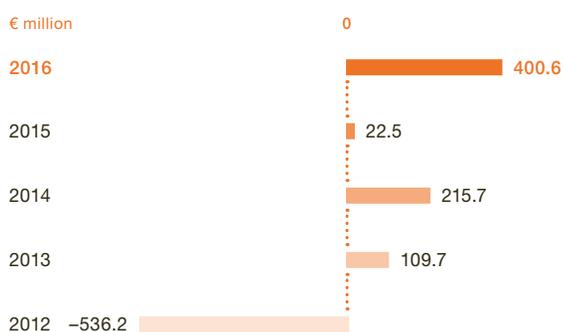
In 2016, WACKER complied with its long-term policy of financing its investments essentially from its own cash flow. Net cash flow totaled €400.6 million in 2016 (2015: €22.5 million), demonstrating that long-term investments are predominantly covered by cash flow from operating activities.

2.35 Net Cash Flow

€ million	2016	2015
Cash flow from operating activities (gross cash flow)	736.6	617.2
Changes in advance payments received	183.1	238.3
Cash flow from long-term investing activities before securities	-516.9	-815.6
Additions from finance leases	-2.2	-17.4
Net cash flow	400.6	22.5

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

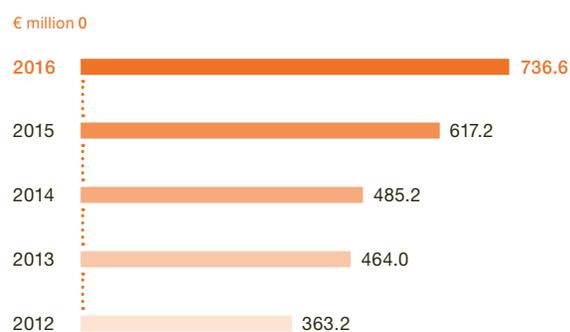
2.36 Net Cash Flow



Gross Cash Flow

Cash flow from operating activities (gross cash flow) totaled €736.6 million in 2016 (2015: €617.2 million), up 19 percent. Gross cash flow was negatively impacted by lower net income of €189.3 million (2015: €241.8 million) and by higher payments from working capital of €-57.3 million, after €-28.3 million a year earlier. On the other hand, gross cash flow was supported by lower tax payments of €79.5 million (2015: €218.7 million) and by a smaller reduction in advance payments received of €183.1 million (2015: €238.3 million). Depreciation of €735.2 million recognized in the net income for the period was substantially higher than the year before (2015: €575.4 million).

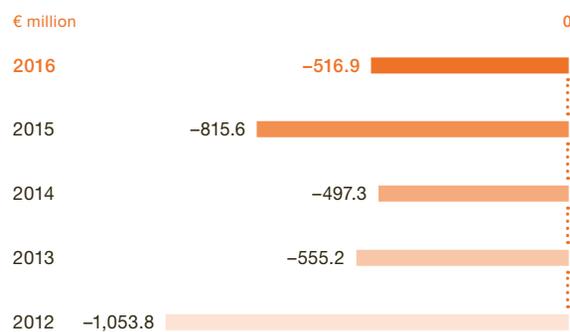
2.37 Cash Flow from Operating Activities (Gross Cash Flow)



Cash Flow from Long-Term Investing Activities

The Group's investment projects influence cash flow from long-term investing activities. In 2016, cash payments of €516.9 million for investments were substantially below the prior-year figure (2015: €815.6 million). This was due to the completion of investment spending on the polysilicon facilities at the Charleston production site. Acquisitions led to a cash outflow of €8.8 million relating to the purchase of large-scale fermentation facilities at the new León site in Spain.

2.38 Cash Flow from Long-Term Investing Activities before Securities



Cash Flow from Financing Activities

Cash flow from financing activities totaled €-135.8 million in 2016 (2015: €57.9 million), reflecting primarily the refinancing of external financial liabilities amounting to around €250 million. WACKER took out new bilateral loans totaling US\$250 million in March 2016 and repaid financial liabilities of €200 million on schedule in December 2016. In the second quarter of 2016, WACKER paid its shareholders a total dividend of €99.4 million. A year earlier, the proceeds from the IPO of Siltronic AG had added €361.9 million to cash flow from financing activities.

Cash and Cash Equivalents

Cash and cash equivalents decreased from €310.5 million to €283.5 million. However, liquidity from cash and from current and noncurrent securities rose from €381.4 million to €465.7 million.

Net Financial Debt Down

WACKER defines net financial debt – which is one of its financial indicators – as the balance of gross financial debt (current and noncurrent financial liabilities) and existing noncurrent and current liquidity, consisting of securities, cash and cash equivalents. Net financial debt amounted to €992.5 million as of December 31, 2016 (Dec. 31, 2015: €1.07 billion), down 8 percent year over year.

High cash inflows from operating activities led to an increase in liquidity, with financial liabilities remaining unchanged. Exchange-rate effects increased net financial debt by around €28 million.

Aside from the financial liabilities disclosed in the report on net assets, WACKER has at its disposal adequate unused loans for around €800 million, with maturities of over one year. Our existing lines of credit provide us with enough financial scope to secure the Group's continued growth. The Group does not use any off-balance-sheet financing instruments.

Rating

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

Proposal on Appropriation of Profits

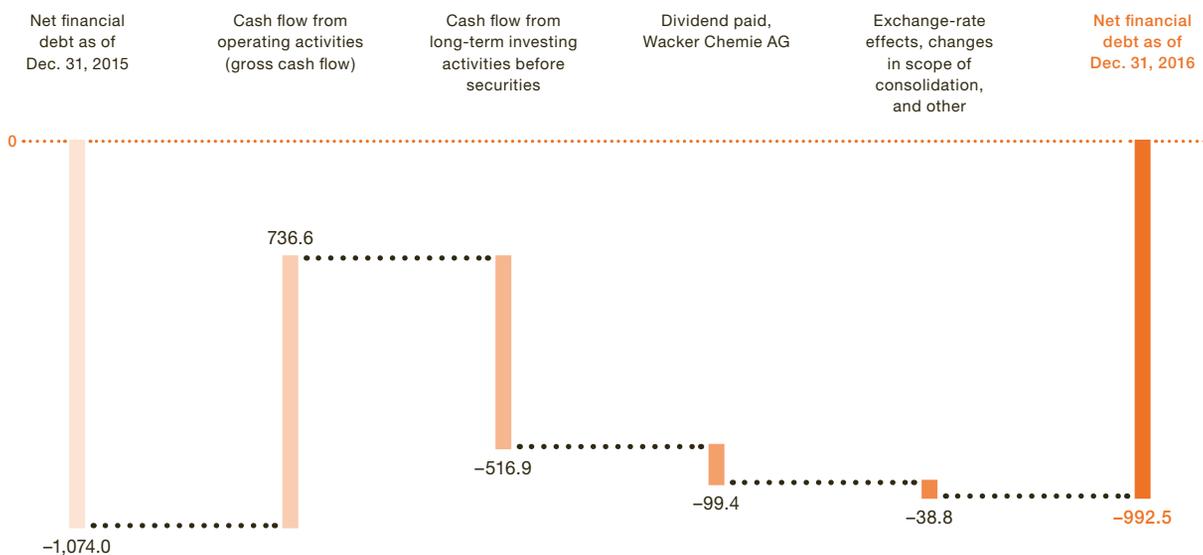
In 2016, Wacker Chemie AG posted retained profit of €1,243.8 million under German Commercial Code accounting rules. The Executive and Supervisory Boards will propose a dividend of €2.00 per share at the Annual Shareholders' Meeting. Based on the number of shares entitled to dividends as of December 31, 2016, the cash dividend corresponds to a payout of €99.4 million. Calculated in relation to WACKER's average share price in 2016, the dividend yield is 2.6 percent. At the Annual Shareholders' Meeting, the Executive and Supervisory Boards will propose treating the amount remaining after deduction of the dividend as profit carried forward.

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

In 2016, WACKER's operations were characterized by volume growth at all five business divisions in combination with lower prices. Advance payments retained and damages received (in connection with terminated long-term delivery contracts with solar-sector customers) no longer had any

2.39 Net Financial Debt

€ million



major effect on earnings. Their share in earnings declined substantially. Overall, the Group achieved its annual forecast for all its key performance indicators.

Chemical sales continued to rise, mainly thanks to volume gains. Lower prices had a contrary effect. EBITDA at the chemical divisions grew significantly versus the year before. The rise was fueled by high capacity utilization, cost efficiency and lower raw-material costs. At WACKER POLYSILICON, we sold markedly more volume, although prices were lower. The polysilicon production facilities at our Burghausen and Nünchritz sites ran at full capacity throughout the year. The facilities at the new site in Charleston were ramped up to production levels as planned. Siltronic posted marginally higher semiconductor sales than a year earlier. Stronger volumes and positive exchange-rate effects made up for weaker silicon-wafer prices.

Personnel expenses rose slightly, both in absolute terms and as a percentage of sales. Raw-material costs edged down, both in absolute terms and as a proportion of sales. Energy costs were lower than a year earlier. As forecast, depreciation rose substantially – in absolute figures and as a percentage of sales.

At €2.59 billion, Group equity declined by €201.9 million relative to the prior-year closing date. This was chiefly due to pension-provision adjustments recognized in other comprehensive income. The equity ratio dropped from 38.5 percent to 34.8 percent. The Group's net financial debt decreased, as expected. This was primarily the result of high cash inflows from operating activities while financial liabilities remained unchanged. Net financial debt amounted to €992.5 million as of December 31, 2016. Capital expenditures were down by almost half year over year. At €427.6 million, they were markedly below depreciation. Net cash flow developed as expected. Coming in at €400.6 million, it was considerably higher than the year before.

Non-Financial Performance Indicators and Other Information

This section provides further information on our non-financial performance indicators. While not used for corporate decision-making, these indicators play a key role in WACKER's continuing success.

Research & Development

WACKER's research and development activities pursue three goals:

- We contribute to our customers' market success by searching for solutions that meet their needs.
- We optimize our processes in order to be the technology leader and to be sustainably profitable.
- We concentrate on creating innovative products and applications for new markets and on serving future trends, such as the increase in mobility, urbanization and digitalization, and the rise in prosperity.

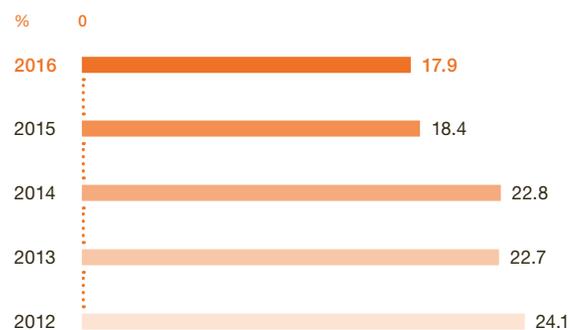
2.40 R&D Expenses

€ million	2016	2015	2014	2013	2012
Research and development expenses	183.4	175.3	183.1	173.8	173.7

The R&D rate – research and development spending as a percentage of Group sales – was 3.4 percent (2015: 3.3 percent). It was at the prior-year level despite the positive sales trend, since our expenses climbed in areas such as process engineering.

In 2016, we received about €3.0 million from licensing agreements (2015: €4.2 million). We filed 116 patent applications in 2016 (2015: 114). Our portfolio contains about 5,600 active patents worldwide, as well as 1,900 patent applications currently pending. We license very little R&D know-how from third parties. When we collaborate with universities on research, the results are usually made available to us free of charge or by transfer of rights of use.

2.41 New-Product Rate (NPR)¹



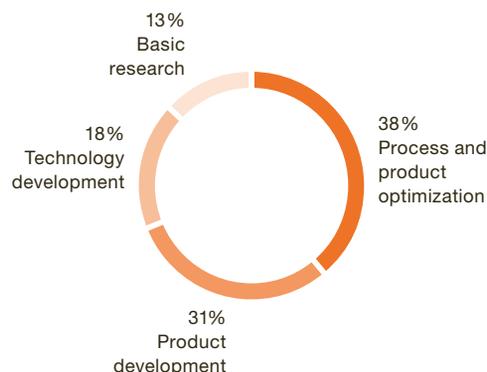
¹ Percentage of sales accounted for by products launched in the last five years

Among our investments were new pilot reactors, in which the production of successful product developments is scaled up from laboratory quantities to industrial volumes. One example is the pilot reactor at WACKER POLYMERS in Nanjing, China. Additional investments included upgrades to laboratory facilities at our subsidiaries in China, South Korea and India in order to facilitate R&D carried out locally at customer locations.

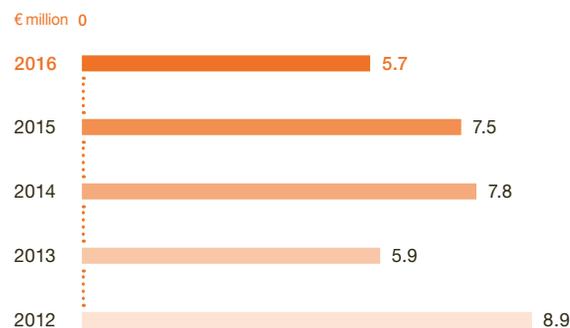
to projects as needed. We have conducted market launches of new and existing products for innovative applications under this initiative, one of these being 3D printing.

Some of our research projects are subsidized by government grants. They include the OPERA (Organic Phosphor for Efficient Remote LED Applications) project, which we completed in 2016. The objective of this EU-sponsored project was to develop LED-based optical components that could enhance luminous efficacy by means of remote phosphor technology (separation of the LED chip from the phosphor layer that generates the white light) and, for example, function as a substitute for daylight. Between 2013 and 2016, six project partners from Germany, Finland and the Netherlands developed novel optical components for the scattering, reflection and transmission of light.

2.43 Breakdown of R&D Expenditures



2.42 Investments in R&D Facilities



The development of new products and production processes accounted for the majority of our R&D costs. WACKER scientists are currently working on some 300 projects based on more than 30 technology platforms. WACKER operates in highly promising fields, ranging from energy recovery and storage, electronics, automotive engineering and construction to household, medical, health-care and cosmetics products to food and biotechnology.

Research and Development at Two Levels

WACKER conducts R&D at two levels: centrally at our Corporate Research & Development department and locally at our business divisions. Corporate R&D coordinates activities on a company-wide basis and involves other departments, such as Corporate Engineering (during process development). We also use a management process to keep our R&D projects transparent throughout the Group. We manage our product and process innovations groupwide in Project System Innovation (PSI), our project management system, where we systematically evaluate customer benefit, sales potential, profitability and technology position.

In 2013, we launched the New Solutions initiative, the goal of which is to rapidly develop technically and commercially superior solutions for new applications. Expertise from all over the company is consolidated groupwide and applied

Strategic Collaboration with Customers and Research Institutes

Our business divisions conduct application-driven R&D. They focus on product and process innovations in semiconductor technology, silicone and polymer chemistry, and biotechnology, as well as on new processes for producing polycrystalline silicon. We collaborate with customers,

scientific institutions and universities to achieve successful research results more quickly and efficiently. In 2016, WACKER worked together with more than 40 international research institutes from three continents on some 44 research projects. Our collaborative efforts cover topics that include electricity storage, process simulation and process development.

WACKER attaches considerable importance to fostering young scientific talent and maintaining close contacts with universities. In 2016, we sponsored some 170 degree theses and internships with students at over 60 universities worldwide. In 2006, Wacker Chemie AG joined with the Technical University of Munich (TUM) to establish the Institute of Silicon Chemistry, located on TUM's Garching research campus near Munich, and has funded the institute since then.

Since 1987, we have honored outstanding research with the WACKER Silicone Award. Dr. Alexander Filippou, Professor of Inorganic Chemistry at the University of Bonn, Germany, was our award recipient in 2016. We presented what is now the 16th edition of the award to Dr. Filippou at the eighth European Silicon Days in Poznań, Poland.

Research Work at WACKER

As the center of WACKER's R&D activities, Corporate R&D has the task of researching scientific correlations to develop new products and processes efficiently. Another task is to harness and develop new business fields that complement the Group's core competencies. Our scientists and engineers conduct basic research, develop new products and processes, and improve existing processes. The lab and technical staff at our R&D, applications-technology and production-support facilities work in our laboratories and in our production and pilot plants, and also support application trials on-site at our customers.

2.44 Employees in R&D as of December 31

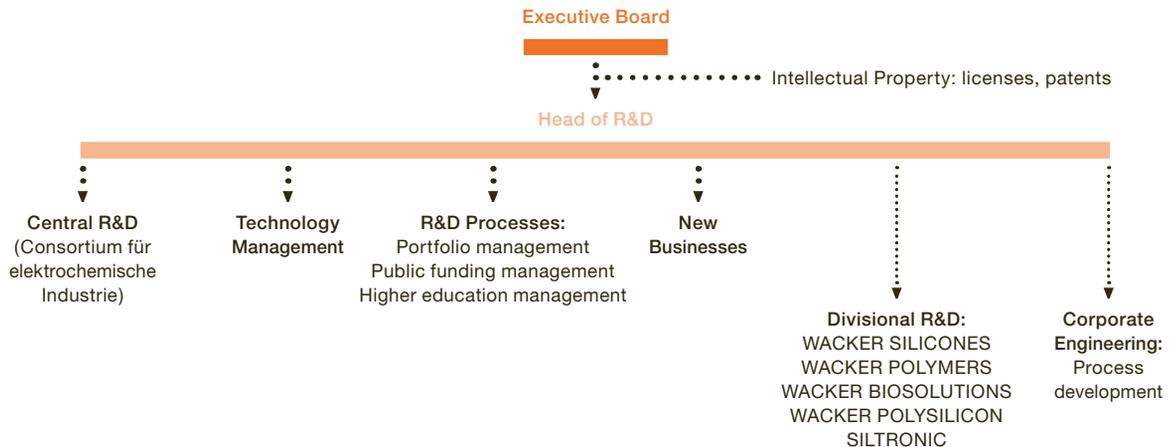
Number	2016	2015	2014	2013	2012
Group R&D employees	1,060	1,043	1,061	987	1,008
R&D ratio ¹ , groupwide (%)	6.2	6.1	6.4	6.2	6.2
R&D employees, Germany	830	821	833	817	849
R&D employees, international	230	222	228	170	159

¹ Ratio of R&D employees to total number of Group employees

Alexander Wacker Innovation Award

The Alexander Wacker Innovation Award, a €10,000 prize bestowed annually since 2006, recognizes excellence in categories alternating between product innovation, process innovation and basic research. In 2016, WACKER honored a team of four researchers in the process innovation category. They had developed our new 3D printing process for manufacturing printed silicone parts. Our 3D printing technology, launched under the ACEO® brand, uses the "drop-on-demand" method, in which the printer head deposits tiny silicone droplets on a substrate. Layer by layer, the droplets become the workpiece, which ultimately does not differ much from injection-molded parts. With the aid of water-soluble support materials, it is possible to make parts with complex geometries, even those with an internal structure. Customer sectors for 3D printing include medical technology, the automotive industry (e.g. for prototypes) and the aerospace industry.

2.45 R&D Organization



Siltronic Inventor Award

Siltronic AG confers its Inventor Award, also endowed with €10,000, on employees who have produced technological innovation. The 2016 prize went to a team of two Burghausen employees and one from the Freiberg site. They had developed a new pp epitaxial wafer that is harder and exhibits less tension within the crystal lattice. The electronic components manufactured from it deliver better performance.

Selected Corporate R&D Research Topics

We have set a new research focus on the chemistry of low-valence silicon. The Institute of Silicon Chemistry at the Technical University of Munich is working on this topic, with the aim of implementing the findings in industrial applications such as catalysis in the medium to long term. Our research and development work on silicon-containing anode-active materials for lithium-ion batteries have advanced to a stage where we now fulfill the market requirements for capacity and stability of charge-discharge cycles in the next generation of batteries. We submit our materials to global technology leaders for testing.

In our silicone copolymer technology platform, we are focused on manufacturing processes and additives for plastics. Here, we are improving the properties of casting resins and optimizing processes for the extrusion of plastics, employing renewable raw materials such as wood as fillers, in particular.

Selected Divisional Research Projects

New materials for electrical insulation and heat management to improve conductivity in electronics applications are at the focus of our research teams at WACKER SILICONES. The division is also working on electroactive silicone polymers (EAPs) for sensors and actuators. Silicones featuring enhanced adhesive strength and gentle removal offer better wound care and targeted delivery of actives. In consumer care, we are developing silicone particles with new functionalities for cosmetics applications and to achieve better hold in hair-care products.

WACKER POLYMERS focuses its research on polymers that allow the formulation of low-emission end products, thereby fulfilling the requirements of the most stringent ecolabels. We are working hard to make products that are free of alkylphenol ethoxylate (APEO) surfactants and formal-

2.46 Key Product Launches in 2016

Product	Description	Application	Sector
ACEO® Imagine Series K	Industrial-scale 3D printer for silicone rubber	Additive manufacturing of prototypes, small series and assemblies with complex geometries	Prototyping, aerospace, medical and biomodeling
BELSIL® REG 1102	Film-forming silicone resin elastomer gel	Skincare lotions and sunscreens, make-up	Cosmetics
ELASTOSIL® LR 3003/90	Silicone elastomer with high Shore hardness	Large-scale production of dimensionally stable silicone products and hard/soft composites	Plastics
ELASTOSIL® LR 5040	Liquid silicone rubber with substantially reduced VOC content	Babycare, medical technology, food processing	Plastics
GENIOPLAST® for Wood-Plastic Composites	Thermoplastic silicone additives	Manufacture of wood-polymer composites	Wood processing
LUMISIL® 590 & 591	High-refractive-index silicone	High-performance LEDs, optical components	Manufacture of LEDs
LUMISIL® LR 7601	Highly transparent liquid silicone rubber with substantially reduced VOC content	Optical lenses, sensors and coupling elements in lighting technology	Plastics
SILPURAN® 2122	Gelatinous silicone adhesive	Adhesive plasters, therapeutic tapes	Wound care
VINNAPAS® EP 3360 ULS	VAE dispersion	Environmentally compatible interior paints	Paints and coatings
CAVAMAX® W6	Alphadextrin	Vegetarian-grade emulsifier-substitute for baked goods	Food
WACKER process to produce Spectrila®	Microbial manufacturing process for biologics	Cost-efficient production of a leukemia medication for children	Pharmaceuticals
VINNAPAS® 5005 N	VAE dispersible polymer powder	Cost-efficient binder for dry-mix mortars	Construction

dehyde, and low in volatile organic compounds (VOCs). Examples include functionalized polymer dispersions for cementitious sealing compounds and interior dispersion paints, as well as polymer dispersions for use as finishes for mineral-based surfaces.

WACKER BIOSOLUTIONS has successfully implemented its ESETEC® 2.0 process in manufacturing an antibody fragment for MedImmune, the global biologics research and development arm of AstraZeneca. Our technology has been found to deliver improved productivity and simplified purification processes. The division's new CANDY2GUM® technology enables the addition of water-based, fat-containing and natural ingredients such as fruit juice, cocoa and coffee in a boiling process to produce chewy candy that turns into chewing gum during consumption. We have also developed a 3D printing process for customizable chewing gum shapes.

WACKER POLYSILICON's newly commissioned production site in Tennessee, USA, is equipped with an energy-efficient generation of deposition reactors delivering higher output. Technological progress in the development of solar modules is proceeding by leaps and bounds. Our customers have steadily reduced both cutting waste and wafer thicknesses. Cell efficiency is being elevated in parallel. The highest cell efficiencies can be achieved only with hyperpure polycrystalline silicon of the kind produced by WACKER POLYSILICON. Cell efficiency is over 18 percent for multicrystalline standard cells and around 20 percent for monocrystalline cells. High-efficiency monocrystalline cells have efficiency levels ranging from over 20 to as much as 25 percent. At the same time, our customers are continuously enhancing the efficiency of their modules, with commercial solar modules performing at efficiencies as high as 22 percent. The energy payback time, which is the service life of a photovoltaic module required to generate the energy expended for its manufacture, varies by geographical location from six months (in the Sahara) to 18 months (in northern Europe).

Our Siltronic division supports its customers with multi-year design-rule projects aimed at achieving steady integration-density increases on memory chips and micro-processors. The quality parameters of the wafers we produce are flatness and absence of ever smaller surface defects. We are thus contributing to making the sensors installed in cameras and other small electronic devices more compact. In addition, we are providing the basis for higher performance in power electronics by improving the efficiency of components such as power supply units. With its custom-designed development projects, Siltronic serves many specialty applications such as electromobility and Industry 4.0.

➔ See Table 2.46 on page 74

Employees

Slight Increase in Staff

WACKER's workforce increased by 1.4 percent in 2016. The main reason for the slight growth was the start-up of polysilicon production in Tennessee, USA. Siltronic continued to carry out its productivity measures in the reporting period.

71 percent of WACKER's employees work in Germany and 29 percent at international sites.

2.47 Number of Employees at December 31

	2016	2015	2014	2013	2012
Germany	12,138	12,251	12,366	12,322	12,635
International	5,067	4,721	4,337	3,687	3,657
Group	17,205	16,972	16,703	16,009	16,292

As a manufacturing company, WACKER has a large contingent of industrial workers (54.0 percent), roughly one-seventh (14.3 percent) of whom are women.

75

2.48 Number of Temporary Workers at December 31

	2016	2015	2014	2013	2012
Germany	649	358	393	286	14
International	63	54	134	58	77
Group	712	412	527	344	91

Personnel expenses rose 2.2 percent year over year to €1,379.4 million, and included outlays for social benefits and the company pension plan amounting to €272.5 million (2015: €279.9 million). The increase in personnel expenses was due to the higher number of employees and the increase in the standard pay scale.

2.49 Personnel Expenses

€ million	2016	2015	2014	2013	2012
Personnel expenses	1,379.4	1,350.1	1,246.9	1,133.0	1,196.8

In addition to their fixed base salary (which includes vacation and Christmas bonuses), WACKER employees usually also receive some variable compensation – a voluntary payment to employees on both the standard and above-standard pay scales. This payment comprises a profit-sharing amount and a personal-performance component. Variable compensation payments totaled €69.3 million groupwide in 2016.

The IG BCE labor union and chemical-industry employers agreed on a new 24-month collective-bargaining agreement in June 2016. The first stage of the agreement saw the standard pay scale increase by 3 percent on September 1, 2016. Effective October 1, 2017, it will rise by a further 2.3 percent. A WACKER company pension is an important compensation component and is available at most of our German and international sites, except for regions where the statutory pension appears sufficient or legal provisions are inadequate. Wacker Chemie AG's pension fund – Pensionskasse der Wacker Chemie VVaG – provides a company pension to WACKER employees in Germany. The fund has around 17,000 members and provides pension payments to some 8,200 retirees. The average pension paid was around €650 per month. WACKER pays in up to four times its employees' annual pension contributions, with the exact amount being determined by the type of agreement. Employees can supplement their company pensions by making their own additional contributions. WACKER matches supplementary contributions as provided for by the collective wage agreements. Employees in Germany also receive an additional supplementary pension for that portion of their salary that exceeds the pension insurance contribution assessment ceiling.

Basic and Advanced Training at High Levels

In its personnel development activities, WACKER also relies on vocational training. In 2016, 174 young people began their training at WACKER or at the Burghausen Vocational Training Center (BBIW). In total, the company employed 596 trainees, roughly the same as in the prior year (597). At 4.7 percent, the percentage of trainees (ratio of trainees to Group employees in Germany) was on a par with the prior year (4.7 percent). In 2016, WACKER offered jobs to the majority of suitable trainees – 154 graduates – hiring 41 of them on temporary contracts and 113 on permanent contracts. The BBIW also provides training for 22 partner companies.

Overall, WACKER invested €7.9 million in personnel-development measures and advanced training in 2016 (2015: €7.7 million).

Diversity and Inclusion in the Workforce

Since joining Germany's nationwide Diversity Charter initiative in 2015, WACKER has focused every year on specific

topics aimed at making employees aware of the opportunities and challenges associated with a diverse workforce. The focus in 2016 was on the company's generational mix. The fact is that, in years to come, different generations will be working together some ten years longer than today, making the workforce more heterogeneous in this respect. This is because older employees are staying in the company longer owing to the increase in the retirement age just as younger staff enter the company sooner because of the Europe-wide harmonization of study programs in higher education and, in Germany, the reduced number of school years.

In addition to this issue, diversity management at WACKER is placing greater emphasis on gender and cultural background. People from 69 different nations work for WACKER. At the end of 2016, 43 of the groupwide total of 196 executive personnel were of non-German nationality – which corresponds to 22 percent of the total. Overall, 17 nationalities were represented at the executive level.

The German statute on equal opportunity for women and men in management that became law on May 1, 2015, has been implemented at WACKER as follows:

Executive Board: While Wacker Chemie AG attaches considerable importance to diversity as regards appointments to the Executive Board, expertise and qualifications remain the principal criteria for such appointments. There are no regular new appointments planned for the next available date (June 30, 2017). Under these circumstances, the target for the proportion of women in the Executive Board for the period up to June 30, 2017, is zero.

Management levels below the Executive Board: WACKER is focusing its attention on the two levels of management below the Executive Board as depicted in the Wacker Chemie AG organizational chart. With regard to the second reporting level, we have also decided to include only managerial employees from the highest above-standard pay scale or those who are OFK executive personnel with responsibility for managing employees.

We have also designated the period up to June 30, 2017, as the reporting period for the two management levels below the Executive Board. Because our numbers are based on the status quo as of June 30, 2015, we will have a two-year period to observe developments.

Proportion of women: We aim to increase the proportion of women in the first level of management from 8 percent to 10 percent. For the second level of management, we have set a goal of raising the proportion of women from 14.5 percent to 17.5 percent.

Idea Management: Streamlining the Process

The ideas submitted by WACKER's employees help it to do things better and stay competitive. In 2016, the number of improvement suggestions submitted was up 6 percent year over year. The participation rate (number of submitters per 100 employees) and the total benefit rose as well. We revised the idea management system in the reporting period, and streamlined the processes for handling ideas.

WACKER has been addressing demographic change for many years. The average age of the Group's workforce at the reporting date was 43.0. Employees at non-German sites are younger than in Germany. The age structure abroad varies greatly from region to region. Staff at Asian sites are comparatively young (average age: 35.6), while staff at us locations have an average age of 44.7. Regional variations in age structure are not exclusive to WACKER; they reflect the age structures of the populations in the respective continent or country.

2.50 Idea Management

	2016	2015	2014	2013	2012
Number of improvement suggestions	7,885	7,429	7,672	9,159	8,982
Participation rate (%)	32	29	30	32	34
Total benefit (€ million)	7.0	6.8	8.3	7.7	4.9

Good social benefits, competitive compensation and motivating tasks make WACKER an attractive employer. This explains our high level of employee loyalty. The average length of service in Germany (permanent staff) was 18.8 years (2015: 18.4 years).

2.51 Employee Turnover Rate

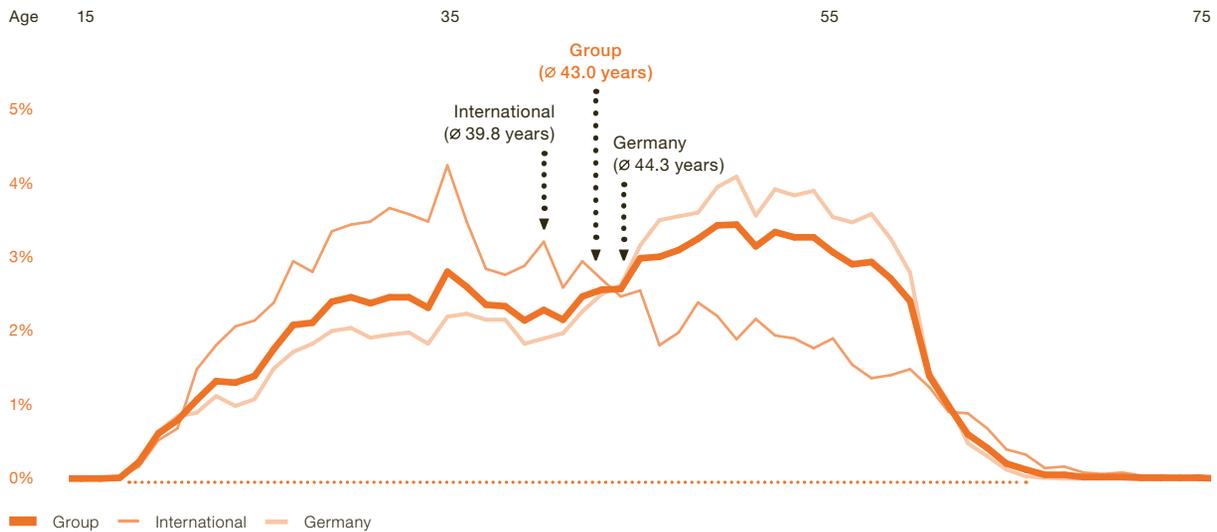
%	2016	2015	2014	2013	2012
Germany	0.8	1.1	0.8	0.9	0.9
International	10.9	14.6	13.8	11.9	30.8 ¹
Group	3.6	4.6	4.1	3.4	7.9

¹ Higher employee turnover rate due to closure of Siltronic's production site at Hikari (Japan) and the job cuts at the Portland (USA) site.

A Popular Employer Among Managers

According to its own managerial employees, WACKER ranks among the top three most popular employers in the German chemical and pharmaceutical industries. In the member satisfaction survey conducted every year by Germany's Association of Chemical-Industry Executives (VAA), WACKER placed third in the reporting period. The average score for all of the 24 participating companies was unchanged from the year before at 3.1 (with 1 being the highest and 5 the lowest). With a score of 2.63, WACKER performed better than average and, at the same time, made the largest jump of any of the participating companies.

2.52 Demographic Analysis of German and International Sites in 2016



Sustainability

Managing Sustainability

Sustainability has been firmly rooted in our business processes for many years. Its importance to our company is shown by the fact that we have made sustainability one of our five strategic goals and have compiled our own Code of Sustainability. Sustainable development means balancing economic, ecological and social factors in everything we do.

Two voluntary global initiatives form the basis for sustainable corporate management at WACKER: the chemical industry's Responsible Care® initiative and the UN's Global Compact. These voluntary measures to protect the environment, employees and society go beyond what is legally required. We also expect our suppliers to observe the principles of the UN's Global Compact and the Responsible Care® initiative, and have anchored this in our general terms of procurement.

WACKER made substantial progress on strategic sustainability-management projects in 2016.

Regional Emphasis

In 2016, the regional focus of WACKER's sustainability management activities was on Europe, where we examined environmental, health and safety aspects of individual sites, including the Stetten and Halle sites in Germany, as well as our silicon-metal plant in Holla, Norway.

Group Certificate

Our Group certification program ensures that customer-driven specifications and our corporate standards are implemented at all WACKER sites. Almost all WACKER production sites are included in the ISO 9001 (quality) and ISO 14001 (environment) Group certificates. Exceptions are Wacker Química do Brasil, the Kolkata plant belonging to Wacker Metroark Chemicals Pvt. Ltd., India, and the Tsukuba site of Wacker Asahi Kasei Silicone Co., Ltd., Tokyo, Japan. All these sites have corresponding individual certificates. After commissioning, the new plant in Charleston, USA, was also incorporated into the ISO 9001 Group certificate.

As of 2012, all German sites belonging to Wacker Chemie AG, Siltronic AG and Alzwerke GmbH have been certified to ISO 50001 (energy management systems). Wacker Biotech GmbH and DRAWIN Vertriebs-GmbH were successfully certified to this standard in the reporting period. The silicone-producing sites in Burghausen and Nünchritz (both Germany), Jandira (Brazil), Zhangjiagang (China) and Amtala (India) are certified to the ISO 22716 standard for the cosmetics industry.

Our Sustainability Report: Best in the Industry

In 2016, the Institute for Ecological Economy Research (IÖW) and the business initiative "future e.V." published their ranking of corporate sustainability reports. Conducted on behalf of the German Federal Ministry of Labour and Social Affairs, the initiative has now evaluated the sustainability reports of the 150 largest German companies for the ninth time. The 2013/2014 WACKER Sustainability Report was ranked 11th, which represents an improvement relative to our last ranking (2011: 14th place). It took the top spot in the chemical/pharmaceutical sector.

Analysis of Fundamental Sustainability Issues

Following up on the regular stakeholder surveys conducted as part of our sustainability reporting, we also interviewed our top management on fundamental sustainability issues for the first time in 2016. The result was that compliance, product safety and plant safety are the top three issues as seen by the company and stakeholders.

Workplace and Plant Safety

Operating plants and processes in a manner that poses no risk to people or the environment is an important objective at WACKER. To this end, we have installed a groupwide safety management system that addresses both workplace and plant safety. Systematic workplace safety includes regular evaluation of hazards and work-area monitoring. The first step in ensuring plant safety is to systematically identify risks and assess them. This includes analyzing how well we control the energy present in a process (e.g. pressure, heat) and determining the effect that a single error might have on a chain of events that could lead to the escape of a substance or to an accident. On completion of this comprehensive analysis, we specify safety measures to prevent undesirable incidents.

WACKER attaches particular importance to providing its safety experts with ongoing training. We hold regular training sessions on topics such as plant safety.

Our goal for occupational safety is to reduce our groupwide accident rate (the number of workplace accidents per million hours worked) to at least 1.7 by 2020. Groupwide, we registered 3.0 workplace accidents with missed workdays per 1 million hours worked in the reporting period. In terms of reportable accidents (accidents with more than three days of absence), WACKER's numbers are far better than the German chemical industry average. The reportable accident rate in 2016 was 1.6 per 1 million hours worked, whereas in 2015, Germany's BG RCI (the statutory employer liability insurance carrier of the basic materials and chemical industries) registered 9.4 reportable accidents per 1 million hours worked in chemical companies.

2.53 Workplace Accidents Involving Permanent Staff and Temporary Workers – Group

Number	2016	2015	2014	2013	2012
Accidents ¹ per 1 million hours worked	3.0	2.6	2.8	3.8	4.7
Reportable accidents ² per 1 million hours worked	1.6	1.0	1.2	1.4	2.1

¹ Accidents leading to at least one day off work
² Accidents leading to over three days off work

Safe Transport of Hazardous Materials

WACKER ensures that its products are safely transported and stored, especially if hazardous goods are involved. In 2016, we had inspections carried out on over 9,500 trucks. Failure rates have been low for years now. In 2016, the rate was about 1.3 percent for hazardous goods shipments in Germany (2015: 1.5 percent). WACKER regularly audits its hazardous goods shippers. Through the use of standards and specifications, WACKER ensures that even the sub-contractors working for our logistics providers meet our stringent safety requirements.

In 2016, we recorded seven transport incidents. They include incidents that did not involve hazardous goods, whether or not they adversely impacted people or the environment.

For high-risk products, we use packaging and tanks that meet the highest quality standards – in some cases exceeding statutory requirements.

Commitment to Refugees

WACKER takes seriously its social responsibilities, especially in communities around our sites. Training young people in the natural sciences is especially important to us because we need dedicated scientists and engineers in order to remain competitive.

2016 saw us take the helm as statewide sponsor and organizer of the Young Scientists competition in Bavaria for the tenth time.

Since 2007, we have been a supporter of “Die Arche” (The Ark), a Munich-based Christian charity working with some 400 children and young people from socially disadvantaged families, including refugee children. In the reporting period, WACKER presented its tenth annual donation of €100,000 to the charity’s Munich branch.

WACKER’s Burghausen Vocational Training Center (BBIW) and SchlaU, a Munich education initiative focusing on refugees, began working together in 2016. The collaboration aims to help young refugees living in Bavaria’s Altötting district (home to our Burghausen site) learn German, and to find them suitable training places. In this effort, WACKER is funding the SchlaU initiative with a sum of €200,000 over six years. The BBIW, supported by SchlaU, launched a career orientation week for young refugees, which was attended by 18 adolescents. The BBIW accepted two refugees as business trainees in the reporting period. Of the twelve unaccompanied refugee minors cared for in the BBIW youth guest house, six started apprenticeships with local craftsmen.

In recognition of its refugee-themed trainee project, the plant in Nünchritz, Germany, was honored with the Companies for Tolerance award, which the “Arbeit und Leben Sachsen” organization presents to companies that actively promote integration, diversity and tolerance and take a stand against discrimination and racism.

WACKER HILFSFONDS: Helping Flood Victims

Parts of the Lower Bavaria region in Germany were hit by a once-in-a-millennium flood in June 2016. Many individuals and social institutions were affected, including WACKER employees. WACKER HILFSFONDS, the Wacker Chemie AG foundation for disaster aid, is assisting those affected in the region. In a donation campaign organized by the relief fund, WACKER HILFSFONDS raised approximately €156,000. With a matching contribution from the company, a total of some €312,000 was provided to assist the rebuilding effort. WACKER also made a separate donation of €100,000 in emergency aid for flood victims.

Environmental Protection

WACKER attaches particular importance to integrated environmental protection, which commences with product development and plant planning. Our environmental protection measures often surpass statutory requirements – in the spirit of the central idea behind the Responsible Care® initiative. WACKER constantly works on improving its production processes, with the aim of conserving resources. One of our main tasks is to close material loops and recycle byproducts from other areas back into production, enabling us to reduce or prevent emissions and waste.

Our commitment to environmental protection is visible in the awards we have won. For example, WACKER Greater China was once again presented with Shanghai’s Magnolia Silver Award in recognition of its contribution to the city’s sustainable development. The Safety Committee of the Zhangjiagang Free Trade Zone recognized the safety and environmental-protection measures of the WACKER produc-

tion site in this zone. The City of Portland presented its Gold Sustainability at Work Certification to Siltronic's us production site in honor of its sustainability activities. It also presented its Gold Compliance Award for the safe, sustainable operation of the Portland wafer production facility's wastewater treatment plant.

In 2016, WACKER invested €5.5 million in environmental protection (2015: €5.7 million). In the same period, environmental operating costs amounted to €81.0 million (2015: €83.8 million).

Water Consumption Tested Using the Global Water Tool®

We use the Global Water Tool® (GWT) developed by the World Business Council for Sustainable Development (WBCSD) to analyze the annual relative water stress index of the countries in which our main global production sites are located. This assessment has been conducted since 2012, based on analyses using the water stress index developed by the Water Systems Analysis Group of the University of New Hampshire, USA. This index provides information on the relationship between water consumption and the availability of renewable fresh water. The outcome of the analysis is that our most important production sites are located in regions with a low relative water stress index. These regions account for more than 97 percent of our annual water use and over 90 percent of our production volume. Production sites in countries for which no GWT-based water stress index information is available account for less than 0.5 percent of our water consumption.

As part of the Bavarian Environmental Pact, we joined with seven other companies from ChemDelta Bavaria to establish Naturnahe Alz (Natural Alz), an association through which we support the state of Bavaria in renaturalizing the Alz river and enhancing its ecosystem long-term.

Environmentally Relevant Projects at the Production Sites

In 2016, we cleaned up and repaired the roughly 17-kilometer Alz canal at the Burghausen site. Its water is used to generate power as well as supply cooling and process water for the Burghausen site. To ensure that the waterway ecology would not be compromised during the clean-up phase, we used a monitoring program to control the alternative intake of cooling and process water and the altered disposal of cooling/process water and wastewater. We used the Salzach river as an alternative source of cooling and process water. As the temperature of this water is much lower than that of the Alz canal, much less water was required.

cod effluent burdens rose as a result of the new polysilicon production plant in Charleston (TN, USA).

The increase in AOX (adsorbable organic halogen compounds) was caused by discharge from a company based at the Burghausen site entering WACKER's captive sewer system; the discharged substance did not adversely impact the environment.

Commissioning of the Charleston site led to a 4.3-percent rise in direct emissions of carbon dioxide (Scope 1) group-wide.

There were two reasons for increased nitrogen oxide emissions (NOx): first, the new Charleston site; second, the legally required recording of emissions data at the Holla site in Norway involved a new measurement method.

Emissions of non-methane volatile organic compounds (NMVOCs) at Burghausen fell; groupwide, they rose slightly as a result of higher production volumes at the sites in Nanjing (China) and Ulsan (South Korea).

One of our environmental targets is to halve specific dust emissions per metric ton of product groupwide between 2012 and 2022. This mainly affects silicon-metal production at the Holla site in Norway, where modifications were made to filtration systems during the reporting year in order to reduce dust. Owing to this modification work, dust emissions rose temporarily during the official, four-week period of non-standard operations. If specific emissions are calculated solely for normal operations in 2016, it is apparent that the measures already taken have brought about an improvement of some 40 percent relative to the base year of 2012.

Our indirect CO₂ emissions from procured energy (as per Greenhouse Gas Protocol Scope 2) rose to 1,855 kilotons (kt) in the reporting period (2015: 1,544 kt). The reasons for the increase were the commissioning of the Charleston site, and the temporary shutdown of the Burghausen power plant for maintenance work. We used energy-efficiency measures to reduce weighted specific energy consumption and related specific CO₂ emissions – while maintaining a comparable product portfolio.

Measuring the Group's corporate CO₂ footprint is an important tool for improving climate protection. That is why we have been measuring our Scope 3 emissions since 2012 – in addition to our indirect greenhouse gas emissions from procured energy (in accordance with Greenhouse Gas Protocol Scope 2), which we have been tracking since

2011. Scope 3 emissions comprise all those generated along the supply chain, e.g. by suppliers or through waste disposal and the transport of products. In 2016, we once again provided this emissions data to the Carbon Disclosure Project (CDP), which WACKER joined in 2007. Founded in London in 2000, CDP is a not-for-profit organization working to achieve greater transparency in greenhouse gas emissions. Wacker Chemie AG's performance profile was rated B (on a scale from A to D) in CDP's annual sustainability ratings.

Product Stewardship

WACKER takes environmental, health and safety aspects into consideration at every stage of the product lifecycle. In research and development projects, we examine the sustainability aspects of our new products and processes, starting with the raw materials used. We try to minimize raw-material consumption while selecting materials that offer maximum ecological benefit. Our products are generally supplied to business customers for further processing – not directly to end customers. Our lifecycle assessments (LCAs) look at the environmental impact caused by a specific product family throughout its lifecycle – a “cradle-to-gate” assessment extending from manufacturing to the factory gate. They allow us to gauge the sustainability of our products and production processes, and to improve them accordingly. Our evaluations factor in the material, water and energy consumption of a product, as well as its ecotoxicity, over the entire lifecycle. With the help of the

WACKER EcoWheel®, we identify key sustainability topics and, together with our customers, set priorities for research projects.

2.54 Product Lifecycles



- 1 Raw materials and resources
- 2 Production at WACKER
- 3 Factory gate/shipment
- 4 Production at the customer
- 5 End-product manufacturing
- 6 Phase of use by end consumer
- 7 Recycling/disposal

2.55 Environmental Indicators from 2012 to 2016

	2016	2015	2014	2013	2012
Air					
CO ₂ emissions ¹					
Direct (kt)	1,287	1,234	1,251	1,253	1,311
Indirect (kt)	1,856	1,544	1,420	1,241	1,133
NO _x nitrogen oxides (t)	2,035	1,910	1,990	2,010	2,225
Non-methane volatile organic compounds (NMVOCs) (t)	920	910	870	830	800
Total dust ² (t)	517	389	494	658	591
Water					
Water consumption (thousand m ³)	231,858	237,060	241,973	220,908	242,072
Chemical oxygen demand (COD) (t)	1,310	1,150	1,230	1,320	1,460
Halogenated organic hydrocarbons (AOX) (t)	3	2	2	2	3
Waste					
Disposed of (t)	43,590	46,490	51,570	39,210	41,340
Recycled (t)	123,550	121,420	121,540	124,040	114,330
Hazardous (t)	81,110	75,520	78,330	78,910	70,910
Non-hazardous (t)	86,030	92,390	94,780	84,340	84,760

¹ CO₂ emissions are measured as per the Greenhouse Gas Protocol (GHG Protocol: “A Corporate Accounting and Reporting Standard”), published by the World Resources Institute and World Business Council for Sustainable Development. Scope 1: direct CO₂ emissions. Scope 2: indirect emissions from the consumption of purchased energy (converted into CO₂ equivalents for purchased electricity). For the purposes of sustainability reporting, the Group’s direct CO₂ emissions also included intra-plant traffic emissions at our sites, emissions generated during biological wastewater treatment, and the emissions of the emergency power units used during the shutdown of the Alz canal at the Burghausen site.

² One of our environmental targets concerns total dust emissions. We are reporting on these emissions in the 2016 Annual Report for the first time and retroactively to 2012, the initial year of our dust-related environmental objective.

Energy Management

The chemical industry is one of the most energy-intensive sectors. In Germany alone, it uses around 20 percent of all the electricity consumed by industry. Wacker Chemie AG consumes 4,103 GWh of electricity in Germany, representing approximately 0.8 percent of the country's electricity consumption. WACKER is continually improving the energy efficiency of its processes. This enables us to remain globally competitive while at the same time contributing to climate protection.

Many chemical reactions generate heat that can be put to use in other production processes. We have been using integrated heat-recovery systems in Burghausen and Nünchritz for years and are continually improving them. In this way, we can reduce the amount of primary energy (natural gas) consumed by our power plants.

To enhance energy efficiency and reduce specific energy consumption (amount of energy per unit of net production output), the Executive Board has defined energy targets for WACKER Germany. Our original goal was to reduce weighted specific energy consumption by one-third between 2007 and 2022, but we had already achieved that by 2014. We have now set a goal of reducing specific energy consumption to half of the 2007 level by the year 2022.

Generating Energy Efficiently

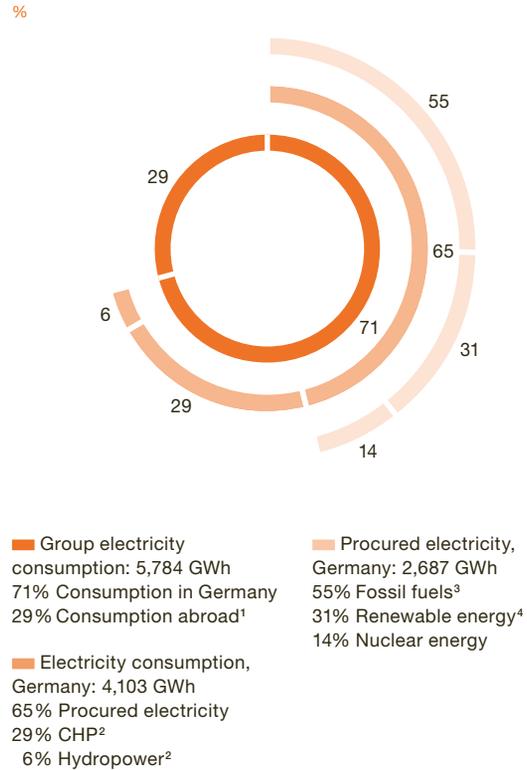
One way in which Burghausen generates electricity is by using hydroelectric power. Our Norwegian site, Holla, also generates its electricity mainly from water power.

Our primary source of energy, though, is climate-friendly natural gas. At Burghausen, our largest site, we produce steam and electricity using a cogeneration system. The highly efficient combined heat and power (CHP) plant operates at more than 80-percent fuel efficiency, which is significantly higher than that of conventional power plants generating electricity and heat separately.

WACKER's German production sites accounted for 71 percent (2015: 78 percent) of its total electricity needs. We have taken energy-efficiency measures to reduce specific energy consumption even further in 2016. The Group's power plants – the hydroelectric and CHP plants in Burghausen and the cogeneration plant in Nünchritz – produced around 1,416 GWh of electricity in 2016 (2015: 1,451 GWh). This means that WACKER uses environmentally friendly processes to cover roughly 25 percent of its total electricity needs itself. Groupwide, carbon dioxide emissions from captive power plants subject to emissions trading rules and from silicon-

metal production in Holla (Norway) totaled about 1.0 million metric tons in the reporting period (2015: 1.1 million metric tons).

2.56 Electricity Supply



¹ Outside Germany, we purchase electricity from third parties based on the local standard energy mix

² Burghausen

³ Coal, lignite, oil, gas; modified calculation method: since 2014, data has been in line with Germany's energy mix; source: BDEW (German Association of Energy and Water Industries); status as of Nov. 2015, for the year 2014

⁴ Hydro, wind, solar power; modified calculation method: since 2014, data in line with Germany's energy mix; source: BDEW (German Association of Energy and Water Industries)

WACKER is subject to the regulations of the EU emissions trading system because of its CHP plants at the Burghausen and Nünchritz sites. We have covered shortfalls since 2014 by buying emission allowances for facilities subject to emissions trading.

2.57 Energy Consumption

GWh	2016	2015	2014	2013	2012
Electricity consumption	5,784	5,147	4,926	4,521	4,519
Heat consumption	3,947	3,520	3,571	3,709	3,734
Primary energy use (total)	6,464	6,062	6,081	6,176	7,030
Of which					
Natural gas	5,420	5,029	4,975	5,051	5,927
Solid fuels ¹	769	768	839	872	862
Heat supplied by third parties ²	258	245	242	236	223
Fuel oil	17	20	20	17	18

¹ Coal, charcoal and wood; used as reducing agents at the silicon-metal plant in Holla, Norway

² Steam and district heating

Procurement and Logistics

WACKER's procurement volume decreased in 2016, primarily due to substantially lower investment spending and more favorable raw-material prices. Volumes are broken down into raw materials and energy, and into services, materials and equipment. WACKER spent €3.33 billion (2015: €3.66 billion) on raw materials, other materials and services. This figure includes investment-project-related procurements of €428 million (2015: €834 million). Our procurement rate – raw materials, services and other materials as a percentage of sales – was 62 percent (2015: 69 percent). In 2016, we procured around 1,300 different raw materials as well as numerous technical goods and services for plant engineering and for maintenance. Our suppliers number about 11,500 (10,500 at Technical Procurement & Logistics and 1,000 at Raw Materials & Energy).

Energy and Raw-Material Procurement Volumes Slightly Below Prior-Year Level

At €1.64 billion, the amount spent by the Group to procure energy and raw materials was down 5.2 percent (2015: €1.73 billion). While the volumes procured rose by a mid-single-digit percentage over 2015, average procurement prices for raw materials and energy decreased by more than 10 percent year over year. The drop in the oil price also had the effect of reducing the prices we paid for our raw materials ethylene, acetic acid and vinyl acetate monomer in 2016. The increase in exports of silicon from

Brazil to North America and Europe allowed us to source the material at lower prices. Energy prices, especially the price of natural gas, had also declined in the previous year.

In 2016, the European Commission approved the reductions of surcharges and taxes on electricity prices granted to energy-intensive companies in Germany. This has helped lessen regulatory uncertainties for WACKER as well.

2.58 Procurement Volumes (incl. Procurement for Capital Expenditures)

€ million	2016	2015	2014	2013	2012
Procurement volumes	3,331	3,655	3,187	3,076	3,493

Technical Procurement & Logistics

The Technical Procurement & Logistics department's invoice volume was some 12 percent below the prior-year level due to lower investment spending. Delivery times were at the prior-year level. At Technical Procurement & Logistics, 10 percent of our suppliers cover 90 percent of our procurement volume.

In 2016, we signed major multi-year master agreements in particular segments such as logistics and technical services. The initiative to reduce dependence on individual suppliers continues to show measurable results and is being expanded. Last year, our Project Procurement unit handled 15 projects at various stages of planning. The largest of these were the completion of the polysilicon expansion project in Tennessee and the new dispersions reactor in Kentucky (both USA).

Systematic review of supplier risks is an important tool used by WACKER for properly evaluating our supplier relationships. Reviews are conducted using analyses from rating agencies, our own supplier assessments and, increasingly, direct contact with our partners. Technical Procurement evaluated about 350 suppliers for 2016.

In Germany, which remains our largest procurement market, we work with some 6,500 suppliers. The average length of business relationships between Technical Procurement & Logistics and its suppliers is ten years. About 300 companies attended the 2016 Supplier and Logistics Day in Burghausen.

Shipping Volumes Up

Shipping volumes rose year over year. The Group's largest logistics hub, Burghausen, increased its shipping volume by about 3 percent to around 825,000 metric tons (2015: 800,000 metric tons). The number of truckloads and overseas containers rose slightly, to 43,000 and 14,400, respectively.

WACKER is a member of the Together for Sustainability procurement initiative. The goal of this initiative is to establish a standardized, global program for responsible procurement of goods and services in the chemical industry and to raise the ecological and social standards of suppliers.

Production

Year-over-Year Increase in Production Output

In 2016, production output increased compared with the previous year. WACKER POLYSILICON sold higher volumes than ever before. Our chemical divisions also reported increased volumes, and high plant utilization of over 80 percent. There were no major facility shutdowns. Production costs were up 8.6 percent. At € 472 million, maintenance costs were above the prior-year level.

2.59 Plant Utilization in 2016

%	Plant Utilization Rate
WACKER SILICONES	98
WACKER POLYMERS	85
WACKER POLYSILICON	100
SILTRONIC	95

Investments in new production facilities amounted to €427.6 million in the reporting year (2015: €834.0 million). Most of this amount was spent on completing the new polysilicon production site in Tennessee, USA.

Corporate Engineering is responsible for implementing all investment projects at WACKER.

2.60 Key Start-Ups

Location	Projects	Year
Charleston	Polysilicon production plant	2016
Eddyville	Expansion of cyclodextrin capacity	2016
Burghausen	HTV silicone compounds	2016
Freiberg	Silicon rods in crystal-pulling facilities	2016

Priorities in Productivity

High productivity throughout the supply chain is a key to WACKER's success. The Wacker Operating System (WOS) program helps us to boost productivity along the entire supply chain. Our goal is to continue reducing specific operating costs every year. In 2016, we implemented more than 700 projects in operational business and our corporate departments. Some 500 of these concerned operations, with the corporate departments accounting for about 200. WOS focuses on improving raw-material yields and specific energy consumption. We are working on a new approach to reduce specific production costs for 20 product groups in the chemical divisions.

During the year under review, our WOS ACADEMY (founded in 2009) held seven training courses at which almost 100 employees were trained in the application of new productivity methods, such as Six Sigma. In addition to these courses, we carried out projects aimed at reducing specific costs.

Sales and Marketing

Sales of WACKER Products Rise

Overall sales of our products were higher in 2016, mainly due to higher volumes.

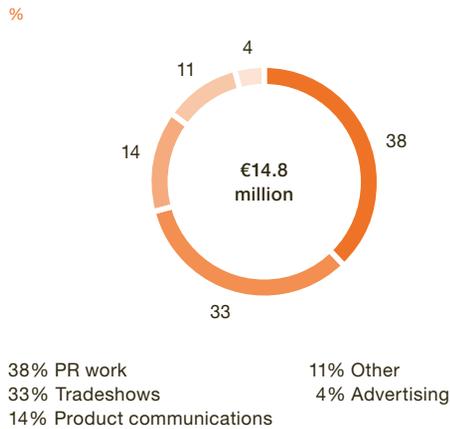
Our business is characterized by high repeat-purchase rates. 100 percent of Siltronic's 2016 product sales were transacted with customers we had supplied in 2015. At WACKER POLYMERS, the repeat-purchase rate was 97 percent (by sales), and the rate at WACKER SILICONES was somewhat over 90 percent. The repeat-purchase rate at WACKER POLYSILICON is not meaningful, since there are customers who have completely withdrawn from the solar business.

WACKER customers can be categorized in three groups: global key accounts, customers, and distributors. Global key accounts are customers of special strategic significance for WACKER and those generating high sales levels. WACKER currently has 40 global key accounts, with which we generated around 25 percent of our 2016 revenue in the chemical divisions (WACKER SILICONES, WACKER POLYMERS and WACKER BIOSOLUTIONS). Over 55 percent of our chemical-related revenue was from our approximately 8,000 other active customer relationships and around 20 percent from distributors.

Sales and Distribution Network Expanded

Our chemical divisions' distribution business grew moderately in 2016. Our distributors have increased in number to around 350 as we have expanded our network in Asia. The number of cross-regional distributor groups (5) remained constant. Our 50 most important distributors generated around 75 percent of distribution sales. A key element in strengthening WACKER's branding and effectively promoting sales of our products is marketing communications. In 2016, we spent €14.8 million (2015: €14.8 million) on marketing communications.

2.61 Breakdown of Marketing Costs



Attendance at 71 Tradeshows Worldwide

WACKER's tradeshow presence remained at a high level in 2016. We had our own booth at a total of 71 tradeshows (2015: 86). The most important tradeshow in 2016 was "K" in Düsseldorf, the world's largest plastics tradeshow, where we introduced new products and applications from WACKER SILICONES. We regularly analyze the qualitative and quantitative success of our tradeshow communications, with 26 shows reviewed in 2016 (2015: 30).

2.62 Tradeshows



Management Report of Wacker Chemie AG

(Additional Information as per the
German Commercial Code)

The management report of Wacker Chemie AG and the Group management report for fiscal 2016 are combined in accordance with the German Commercial Code (HGB) Section 315 (3) in connection with Section 298 (3). The annual financial statements of Wacker Chemie AG, prepared in accordance with the German Commercial Code (HGB), and the combined management report are published simultaneously in the “Elektronischer Bundesanzeiger” (the electronic version of Germany’s Federal Gazette).

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

Wacker Chemie AG is the parent company of the WACKER Group and is headquartered in Munich, Germany. The parent company operates through four business divisions – WACKER SILICONES, WACKER POLYMERS, WACKER BIOSOLUTIONS and WACKER POLYSILICON – which generate a substantial portion of the Group’s sales. As of the reporting date, Wacker Chemie AG held a direct and indirect stake of 57.8 percent in Siltronic AG. Wacker Chemie AG’s directly and indirectly held subsidiaries and investments located in Germany and abroad have a strong influence on its business. Wacker Chemie AG has a total of 59 subsidiaries, joint ventures and associated companies, and also provides corporate functions to the Group. Wacker Chemie AG’s Executive Board exercises key leadership functions for the Group as a whole, which include determining the Group’s strategy, allocating resources (such as funds for investment), and bearing responsibility for managing executive personnel and corporate finances. It also oversees communication with important target groups, especially capital markets and shareholders.

Key performance indicators used in the management decision-making process are applied in all of the Group’s business divisions. Corporate goals for the divisions are defined and reported on a groupwide basis. Even though Wacker Chemie AG is an independent entity, no separate key performance indicators are defined or reported for it. For more information, please refer to the respective details

provided on the WACKER Group as a whole. The general business conditions of Wacker Chemie AG principally correspond to those of the Group and are stated in the Business Report.

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

Earnings Performance of Wacker Chemie AG as per the German Commercial Code

In 2016, Wacker Chemie AG’s earnings performance was influenced by a decline in the operating result. While operating performance edged up year over year, the operating result decreased, mainly due to higher material costs.

2.63 Statement of Income

€ million	2016	2015
Sales	3,651.2	3,587.2
Changes in inventories	-18.1	14.0
Other capitalized self-constructed assets	22.4	22.6
Operating performance	3,655.5	3,623.8
Other operating income	230.4	307.4
Cost of materials	-1,788.4	-1,503.5
Personnel expenses	-872.4	-825.4
Depreciation and amortization	-296.5	-312.1
Other operating expenses	-748.6	-739.1
Operating result	180.0	551.1
Result from investments in joint ventures and associates	27.1	71.5
Net interest income	2.5	-104.7
Other financial result	-1.2	-2.3
Financial result	28.4	-35.5
Income before taxes	208.4	515.6
Income taxes	-87.0	-179.8
Net income	121.4	335.8
Profit carried forward from the previous year	1,221.8	960.5
Dividends paid	-99.4	-74.5
Retained profit	1,243.8	1,221.8
EBITDA*	476.5	863.2

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

Wacker Chemie AG's sales rose by 2 percent to €3.65 billion (2015: €3.59 billion). WACKER SILICONES increased its sales by 4 percent to €1.50 billion (2015: €1.44 billion). Sales slowed somewhat at WACKER POLYMERS, declining 1 percent to €731.4 million (2015: €739.5 million). WACKER BIOSOLUTIONS lifted its sales to €138.7 million (2015: €136.5 million), a rise of 2 percent. Due to volume growth, WACKER POLYSILICON increased sales by 3 percent to €1.10 billion (2015: €1.07 billion) amid lower polysilicon prices. In total, Wacker Chemie AG's operating performance rose by €31.7 million to €3.65 billion.

The cost of materials rose to €1.79 billion in 2016 (2015: €1.50 billion) and contains high procurement costs for polysilicon purchased from Wacker Polysilicon North America L.L.C., a subsidiary, under a manufacturing contract. The facilities at the new polysilicon production site in Tennessee were successfully commissioned early in the year and ramped up to planned production volumes by year-end. Wacker Chemie AG's procurement price includes the start-up costs incurred at the beginning of the year and the idle-capacity expenses relating to the production ramp-up. Price trends for raw materials were a positive factor, as the average purchasing price for all key raw materials fell year over year. The largest price declines were for silicon metal and vinyl acetate monomer. In addition, outlays for energy were down. Overall, the material-to-sales ratio rose to 48.9 percent (2015: 41.5 percent).

Personnel expenses increased by 6 percent to €872.4 million (2015: €825.4 million), developing almost in line with sales. The reasons for this rise were collective bargaining agreements and non-recurring expenses to secure the future financing of the Wacker Pensionskasse VVaG pension fund. Wacker Chemie AG had 9,539 employees as of December 31, 2016 (Dec. 31, 2015: 9,519). At 23.9 percent, the employee-expense ratio remained at about the same level year over year (2015: 22.7 percent).

Depreciation and amortization decreased by 5 percent to €296.5 million (2015: €312.1 million).

The other operating result, consisting of other operating income less other operating expenses, declined by €86.5 million to €-518.2 million (2015: €-431.7 million). This decrease was largely due to a reduction in income from advance payments retained and damages received in connection with terminated polysilicon contracts, which totaled €20.3 million in fiscal 2016 (2015: €137.6 million). Other operating expenses included – in addition to exchange-rate effects – selling expenses, maintenance, other contractor work, rents, servicing costs, R&D costs and costs assumed on behalf of subsidiaries. The foreign currency result improved, and amounted to €-8.6 million (2015: €-21.1 million).

Income from the reversal of provisions led to an increase of €11.6 million in the other operating result (2015: €5.2 million).

The operating result came in at €180.0 million (2015: €551.1 million). The WACKER SILICONES and WACKER POLYMERS chemical divisions enhanced their contribution to earnings. WACKER BIOSOLUTIONS' positive result in 2016 was almost unchanged over the prior year. WACKER POLYSILICON was impacted for the first time by material costs for the procurement of polysilicon from the subsidiary Wacker Polysilicon North America L.L.C. under a manufacturing contract. In addition, income of €20.3 million from advanced payments retained and damages received in connection with terminated contracts was lower than in the previous year (2015: €137.6 million).

At €27.1 million, the result from investments in joint ventures and associates was below the prior-year level (2015: €71.5 million) due to lower income from subsidiaries under profit-and-loss transfer agreements. Aside from income from such agreements, the figure includes dividend payments totaling €38.0 million, after €81.7 million in the prior year. In 2015, the profit transferred from Dritte Venture GmbH had contained income from the sale of shares in connection with the Siltronic AG IPO.

The net interest result improved by €107.2 million to €2.5 million (2015: €-104.7 million). This was mainly due to first-time use of the 10-year average interest rate in line with the German central bank's interest regulation. As a result, the discount rate used for pension obligations rose slightly year over year. This is why interest expenses from provisions for pensions were only €13.7 million in 2016 (2015: €91.0 million). Interest expenses for financial liabilities were slightly lower year over year, as was interest income from securities and fixed-term deposits. On the other hand, interest income from the financing of subsidiaries increased following adjustments to contract terms and conditions. These factors caused income before taxes to decrease to €208.4 million (2015: €515.6 million) and net income to decline from €335.8 million to €121.4 million.

Income tax expenses amounted to €87.0 million (2015: €179.8 million) and comprised current taxes paid by Wacker Chemie AG as well as taxes paid for those domestic subsidiaries with which it has profit-and-loss transfer agreements.

Net income came to €121.4 million. Retained profit for 2016 – calculated as the profit carried forward from the prior year less €99.4 million in dividends paid – totaled €1.24 billion (2015: €1.22 billion).

Net Assets and Financial Position of Wacker Chemie AG as per the German Commercial Code

Wacker Chemie AG's total assets came to €5.15 billion (Dec. 31, 2015: €5.14 billion). The individual balance-sheet items did not develop uniformly.

In 2016, fixed assets increased to €3.86 billion (Dec. 31, 2015: €3.29 billion), with property, plant and equipment, on the one hand, and financial assets, on the other, following different paths. Property, plant and equipment decreased year over year, as depreciation in the amount of €291.9 million (Dec. 31, 2015: €307.8 million) exceeded investment spending of €141.7 million (Dec. 31, 2015: €135.2 million). Financial assets grew from €2.00 billion to €2.72 billion. This item contains a €600 million loan to Wacker Chemical Corporation, a subsidiary, to replace the previous short-term financing for the new production site in Charleston, Tennessee. In addition, Wacker Chemie AG's stake in a closed-end securities fund was increased in 2016. The fund assets came to €106.4 million as of the reporting date (Dec. 31, 2015: €6.4 million). The ratio of fixed assets to total assets was 75 percent, compared with 64 percent in the prior year.

The level of inventories remained almost constant year over year at €424.8 million (Dec. 31, 2015: €428.3 million). On the other hand, trade receivables rose from €357.7 million to €414.0 million.

Other receivables and other assets fell by 60 percent to €361.7 million as of the closing date (Dec. 31, 2015: €920.6 million). They included significantly lower receivables from affiliated companies amounting to €296.6 million (Dec. 31, 2015: €868.1 million), chiefly due to the long-term financing for the production site in Charleston, Tennessee.

2.64 Statement of Financial Position

€ million	2016	2015
Assets		
Intangible assets	9.8	9.5
Property, plant and equipment	1,135.6	1,288.7
Financial assets	2,715.6	1,995.4
Fixed assets	3,861.0	3,293.6
Inventories	424.8	428.3
Trade receivables	414.0	357.7
Other receivables and other assets	361.7	920.6
Receivables and other assets	775.7	1,278.3
Securities and fixed-term deposits	–	20.0
Cash on hand and demand deposits	88.7	118.1
	88.7	138.1
Current assets	1,289.2	1,844.7
Accruals and deferrals	4.6	3.8
Total assets	5,154.8	5,142.1
Equity and Liabilities		
Subscribed capital	260.8	260.8
Less nominal value of treasury shares	–12.4	–12.4
Issued capital	248.4	248.4
Capital reserves	157.4	157.4
Other retained earnings	1,000.0	1,000.0
Retained profit	1,243.8	1,221.8
Equity	2,649.6	2,627.6
Provisions for pensions and similar obligations	705.8	693.6
Other provisions	413.5	328.8
Provisions	1,119.3	1,022.4
Financial liabilities	647.0	855.3
Trade payables	184.2	148.0
Other liabilities	516.5	450.0
Liabilities	1,347.7	1,453.3
Accruals and deferrals	38.2	38.8
Total equity and liabilities	5,154.8	5,142.1

The fixed-term deposits amounting to €20 million and with maturities of more than three months that had been made in the preceding year matured in 2016. Wacker Chemie AG's cash on hand and demand deposits came to €88.7 million as of December 31, 2016 (Dec. 31, 2015: €118.1 million).

Equity amounted to €2.65 billion as of the reporting date (Dec. 31, 2015: €2.63 billion), corresponding to an equity ratio of 51.4 percent (Dec. 31, 2015: 51.1 percent). At Wacker Chemie AG's annual shareholders' meeting, a resolution was passed to distribute a dividend of €99.4 million from the profit carried forward from 2015. The remaining retained profit of €1,122.4 million was carried forward. Retained profit as of December 31, 2016 totaled €1,243.8 million and primarily comprised the current net income of €121.4 million for 2016 and the non-distributed profit carried forward from the preceding year.

Provisions for pensions and similar obligations rose by a slight €12.2 million to €705.8 million (Dec. 31, 2015: €693.6 million). 2016 was the first year in which discounting was based on the average market interest rate over the past ten fiscal years. Other provisions increased by €84.7 million to €413.5 million in 2016 (Dec. 31, 2015: €328.8 million) and primarily comprised provisions for taxes, personnel and environmental protection. The main reasons for this increase were to secure future financing of the Pensionskasse der Wacker Chemie VVaG pension fund and to establish a provision relating to the contract manufacturing of polysilicon. Tax provisions, in particular, also rose. Overall, provisions accounted for 22 percent of total equity and liabilities, following 20 percent in the prior year.

As of the reporting date, financial liabilities amounted to €647.0 million (Dec. 31, 2015: €855.3 million), down 24 percent. This decrease was chiefly due to the repayment of bank loans. As of the reporting date, bank loans raised amounted to €545.2 million (Dec. 31, 2015: €756.1 million). Liabilities due to affiliated companies rose by €2.6 million to €98.3 million as of the reporting date (Dec. 31, 2015: €95.7 million). Overall, the share of financial liabilities in total equity and liabilities declined to 13 percent (Dec. 31, 2015: 17 percent).

Trade payables increased by €36.2 million year over year to €184.2 million (Dec. 31, 2015: €148.0 million). As of the reporting date, other liabilities amounted to €516.5 million (Dec. 31, 2015: €450.0 million). This rise was primarily due to as-yet unpaid obligations relating to a polysilicon manufacturing contract with the subsidiary Wacker Polysilicon North America, L.L.C. The decline in advance payments received under polysilicon contracts had the opposite effect.

Accruals and deferrals amounted to €38.2 million as of year-end 2016 (Dec. 31, 2015: €38.8 million) and mainly concerned a payment by Siltronic AG to Wacker Chemie AG in return for the transfer of employees to the latter.

Cash flow from operating activities improved to €520.7 million (2015: €501.3 million), chiefly due to higher liabilities in connection with contract manufacturing. Lower net income for the year had the opposite effect. In addition, higher non-cash expenses incurred to increase provisions had a positive impact in the reporting year. As expected, advance payments received for polysilicon deliveries declined by €-161.1 million in line with the deliveries made and the advance payments retained in connection with terminated contracts.

At €-223.8 million, Wacker Chemie AG's cash outflow from investing activities was somewhat higher (2015: €-182.1 million). Cash not immediately needed was used to increase the closed-end fund, which led to a cash outflow of €100.0 million. In contrast, the cash inflow from the sale of securities equaled €20 million. Funds also went toward ongoing investments in property, plant and equipment. At €137.0 million, these were somewhat lower year over year (2015: €144.6 million).

Net cash flow – defined as the sum of cash flow from operating activities excluding the change in advance payments received and cash flow from long-term investing activities (before securities) – rose substantially again in the year under review, coming in at €537.9 million (2015: €352.9 million).

Cash flow from financing activities totaled €-326.3 million (2015: €-304.9 million). In 2016, the available funds were used to reduce liabilities to banks by €200.0 million (2015: €150.0 million). The amount of intra-Group financing rose only slightly. The dividend for fiscal 2015 led to a cash outflow of €-99.4 million.

Liquidity – defined as the sum of securities in current assets, shares in closed-end investment funds, and cash on hand and demand deposits – increased slightly, from €144.5 million to €195.1 million as of December 31, 2016. Net financial debt – which is the balance of liquidity as defined above and liabilities to financial institutions – fell substantially due to investment in the closed-end fund and the continued repayment of liabilities to banks. Here, the improved net cash flow had a particularly positive impact. At year-end 2016, net financial debt amounted to €350.1 million (2015: €611.6 million).

Risks and Opportunities

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

⇒ For further details, see pages 165 to 166 of this Annual Report. The description of the internal control system for Wacker Chemie AG, as mandated by Section 289 (5) of the German Commercial Code (HGB), can be found in the section on the Internal Control System (ICS) and the Internal Control System for Accounting starting on page 93.

Outlook

WACKER's main planning assumptions relate to raw-material costs, energy costs, personnel expenses and exchange rates. For 2017, we anticipate euro exchange rates of US\$1.10 and ¥120. Wacker Chemie AG's expectations for business performance are essentially the same as those for WACKER, which are explained in full in the Group's Outlook section.

⇒ Please refer to pages 106 to 114 of this Annual Report.

We are assuming that sales will rise slightly versus the prior year and EBITDA will be at the prior-year level. We expect Wacker Chemie AG to post a positive result for the period that will be below the level of 2016.

Publication

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

↗ www.wacker.com

Risk Management Report

Description and Statement Relating to Risk and Compliance Management

Integrated Approach to Risk and Compliance Management

Risk and compliance management is an integral part of corporate management at WACKER. As a globally active company, WACKER is exposed to numerous risks directly attributable to our operational activities. Starting from an acceptable level of overall risk, the Executive Board decides which risks we should take to utilize opportunities available to the company. The goal of risk management at WACKER is to identify risks as early as possible, evaluate them adequately, and take appropriate steps to reduce them. We define risks as internal and external events that may have a negative effect on the attainment of our targets and forecasts. Compared with the previous year, we made no fundamental changes to the existing risk management system in 2016. The scope of consolidation for risk reporting purposes comprises all WACKER majority shareholdings.

As a specialty-chemical and semiconductor company, we have a particular responsibility to ensure plant safety and to protect health and the environment. All our production sites have coordinators who manage plant and workplace safety, alongside health and environmental protection. Our risk management complies with legal requirements and is a component in all our decisions and business processes. The Executive and Supervisory Boards are regularly informed about the current risk status in the Group and at each business division.

WACKER follows the "Three Lines of Defense" model to effectively manage corporate risks and ensure compliance with legal provisions and the ethical principles of corporate management.

The first line of defense is centered on operational management, which involves coordinating, monitoring and managing the risks that arise.

It also includes the establishment of functioning internal control systems within the individual operational units.

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

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

Risk Management

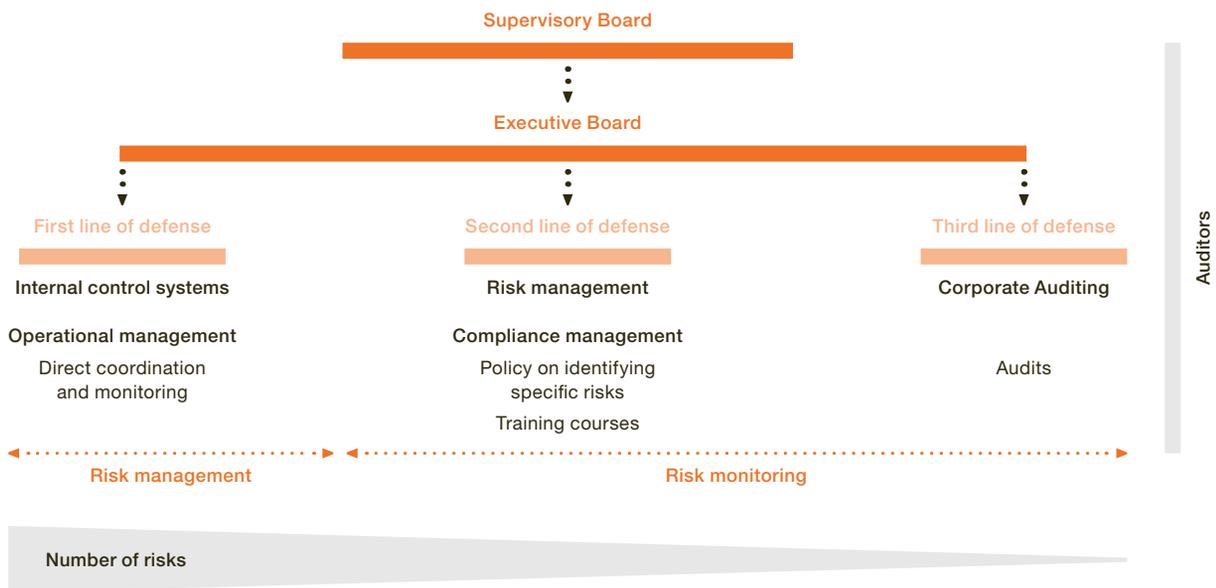
WACKER focuses on identifying, evaluating, managing and monitoring risks as part of a transparent risk management and control system for all company processes. The system is based on a defined risk strategy and an efficient reporting procedure. It involves the Executive Board regularly reviewing and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

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

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

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

2.65 “Three Lines of Defense” Model



Risk Management Structures and Tools

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

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

Risk Identification

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

Assessment, Quantification and Management of Risks

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

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

Financial risks are managed by Corporate Finance and Insurance, which is responsible for all measures relating to exchange-rate and interest-rate hedging transactions and ensuring adequate Group liquidity. The operational framework is set out in detailed specifications and regulations covering, for example, separation of trading and settlement functions. Corporate Accounting & Tax monitors receivables management vis-à-vis customers.

2.66 Risk Management System



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

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

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

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

Our internal accounting control system is designed to ensure that our accountants process every business transaction promptly, uniformly and correctly and that reliable data on the Group's earnings, net assets and financial position are available at all times. Our approach here complies with statutory provisions, accounting standards and internal accounting rules. A key accounting regulation is the accounting manual in effect groupwide and available on the WACKER intranet. It specifies binding rules for groupwide accounting and assessment. The Group regulation on accounting contains uniform stipulations for the organizational responsibility of accounting-related topics.

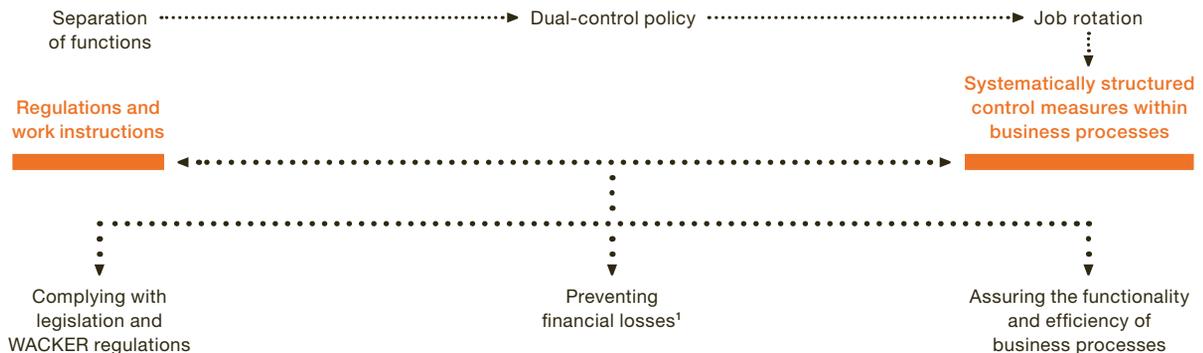
Additionally, organizational workflows are defined in our accounting and organizational regulations, and in book-entry instructions. A groupwide calendar of deadlines guarantees the complete and timely processing of financial statements. Corporate Accounting monitors compliance with reporting obligations and deadlines. By separating financial functions between accounting, statement analysis and strategy, we ensure that potential errors are identified prior to finalization of the statements and that accounting standards are complied with.

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

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

The Supervisory Board is also integrated into the internal control system through the Audit Committee. In particular, the Audit Committee monitors the accounting process, the

2.67 Basis of Our Internal Control System (ICS)



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

effectiveness of the internal-control and risk-management systems, and auditing procedures. Moreover, it reviews the documents for Wacker Chemie AG's separate financial statements and the WACKER Group's annual and quarterly financial statements and the combined management report for these statements, and discusses them with the Executive Board and the auditors.

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

Compliance Management

WACKER's ethical principles of corporate management go above and beyond the legal requirements. The compliance management department is responsible for ensuring that these principles and all related legal provisions are observed throughout the company. Training courses on compliance raise employees' awareness of the relevant risks and convey binding rules of behavior for daily work routines. These aspects are covered by WACKER's compliance regulation. Employees are instructed to inform their supervisors, the compliance officers, the employee council or their designated HR contacts if they notice any violations.

The Group's compliance officers are responsible for implementing these rules and regulations, and are on hand to advise employees on all matters relating to compliance. The WACKER Group has 23 compliance officers around the world: in Germany, the USA, China, Taiwan, Japan, India, South Korea, Brazil, Mexico, Singapore, Russia, Norway and the United Arab Emirates. Compliance issues arising in countries not listed here are handled in Germany by the Chief Compliance Officer.

Prevention is a key aspect of the work of compliance officers. They train, inform and advise employees and management on, for example, anti-corruption strategies and measures. In 2016, all the compliance officers met in Munich to discuss how to harmonize WACKER's global approach to combating legal infringements. The prevention of cybercrime was a further point of focus in the reporting period,

as it had been in 2015. For example, a dedicated campaign was launched to raise employee awareness of the risks of cybercrime. In 2016, no major infringements of compliance were identified that were subject to the previously mentioned reporting threshold, where the effect on earnings would exceed €5 million.

Internal Auditing

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

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

In 2016, auditing focused on adherence to environmental legislation in the USA, as well as on sales commissions and discounting, including how they are treated in accounting. Whenever cross-functional business-process audits were conducted at subsidiaries, the checks included aspects of plant safety, such as whether safety training or technical inspections were held. During the reporting period, no major complaints about the proper functioning of the control systems came to light as regards the previously mentioned reporting threshold, where the effect on earnings would exceed €5 million.

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

External Controls

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

Central Risk Areas

Defining the Probability and Impact of Risk Occurrence

We have defined categories for describing the probability that risks we identify will occur. They provide a framework for understanding our assessment of individual areas of risk. The categories define the range of probability as follows:

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

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

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

The following table shows our estimation of the probability of risks and of how risk occurrence might impact the Group's earnings, net assets and financial position. The statements refer to the forecast period, thus to fiscal 2017.

2.68 Probability and Possible Impact of Our Risks in 2017

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

Overall Economic Risks

Scenario: Economic slowdown.

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

Measures: We counter this risk by continuously monitoring economic trends in our key sales markets. Should the economy start slowing, we take early precautions to adjust production capacities, resources and inventories flexibly to customer demand. In such a case, we concentrate capacity utilization on production locations with the best cost position, for example, and temporarily shut down some production facilities. To counter an economic slowdown, we also use the instrument of short-time work and do not extend temporary employment contracts.

Evaluation and Risk Assessment: Analysts expect global economic growth to continue in 2017. Risks to momentum stem from ongoing geopolitical crises and from increased political uncertainty in Europe and the USA. An unexpected slowdown in China could hamper global growth, as could possible turbulence on international financial markets.

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

In our polysilicon business, future developments are determined by the regulatory framework for solar-power use and for international trade in photovoltaic systems and solar silicon. Additionally, the situation is influenced by economic trends.

In Siltronic's semiconductor-wafer business, volume and price trends depend essentially on two factors. First: on the trend in consumer and industrial demand for electronic equipment – for example, computers, smartphones and tablet PCs. Second: on the balance between global production capacities and semiconductor-manufacturer demand. Both factors are closely interlinked.

We presently see no specific signs that economic trends will diverge substantially from the experts' forecasts. Given the risks mentioned, however, we cannot completely rule out the possibility that the global economy in 2017 could fall short of current projections. Should the world economy prove weaker than currently forecast, this would have a medium impact on WACKER's earnings.

Sales-Market Risks

Scenario 1: Chemical-segment overcapacity.

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

Measures: WACKER minimizes this risk in various ways. For example, we align production with demand and perform quantity controls to ensure appropriate plant-utilization rates. Our approach also includes structured price management, process optimization and intense development of growth markets. Importantly, a key ongoing goal is to increase the share of cyclically resilient product groups in our portfolio and to rank among the global leaders in all our

business fields. By cooperating closely with customers, we aim to quickly open the way to novel applications, thus fostering long-term customer loyalty.

Evaluation and Risk Assessment: We expect overcapacity-related risks for our products to remain the same in 2017. At WACKER POLYMERS, we see overcapacity for dispersions and dispersible polymer powders in Asia. Nevertheless, we expect plant utilization to be strong despite this overcapacity. WACKER SILICONES faces overcapacity for siloxane production in China and for certain segments (such as liquid silicone rubber) – which could reduce plant utilization. Price pressure on some of our chemical divisions' products will persist in 2017.

It is unlikely that individual areas of our chemical business will experience overcapacity and, consequently, price pressure. We have already taken account of this possibility in our planning and forecasts. Any potential impacts on Group earnings beyond that would be of medium scale.

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

Impact on WACKER: There will be volume risks if excessive and hurried cuts to government solar incentives negatively impact the photovoltaic market. The expiration of long-term contracts increases the risk to capacity-utilization rates. Overcapacity could lead to intense price competition, exerting pressure on margins. Both factors could result in declining sales and earnings.

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

Evaluation and Risk Assessment: In all probability, the consolidation process in the solar industry will continue in 2017. As long as this trend persists and global production capacities exceed market demand, polysilicon prices are likely to remain at their current low levels. Our planning and forecasts anticipate the continuation of this situation. Should solar-silicon demand clearly exceed supply, this would presumably benefit earnings at WACKER POLYSILICON. Conversely, a slump in demand for WACKER's solar silicon

would probably have a high impact on earnings in this business. We consider there to be a possible risk of falling prices.

Scenario 3: Cyclical fluctuations and intense competition on the semiconductor market.

Impact on WACKER: Volumes and prices decline.

Measures: Siltronic is reducing these risks by increasing flexibility in production operations and implementing systematic cost management. Siltronic aligns its own capacity with market trends and continuously improves the efficiency of production and business processes to optimize its cost basis.

Evaluation and Risk Assessment: Siltronic currently expects volumes in 2017 to be higher than last year. This scenario forms the basis for our planning and forecasts. We consider it possible that volumes and prices will diverge substantially from our expectations. If volumes came in considerably below our current estimates, this would have a medium impact on Siltronic's earnings.

Procurement-Market Risks

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

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

Measures: On an annual basis – and if necessary, ad hoc – we prepare systematic procurement plans for strategic raw materials and energy, which also include an evaluation of the procurement risk. Whenever possible, we take corresponding measures to counter any procurement risks deemed significant. Examples of such measures include long-term supply contracts with partners, structured procurement from multiple suppliers under contracts with various maturities, expansion of our supplier base, and higher safety stocks. In select cases, we have also achieved partial backward integration and produce strategic raw materials ourselves. Our silicon-metal production site in Holla (Norway), for example, has substantially reduced our dependency on external suppliers.

Evaluation and Risk Assessment: WACKER has positioned itself in energy and raw-material procurement in such a way that we can effectively manage the risks inherent in both economic upturns and downturns. If the world economy weakens markedly, our contracts for key raw materials allow us to adjust our purchase volumes flexibly and to benefit – wherever possible – from price decreases through escalator clauses. If the world economy grows, we have volume guarantees. As a result, we do not see any major risks affecting the supply of our raw materials. Prices could, of course, markedly increase in such situations. But experience has shown that we would then have the possibility of at least partially compensating for these additional costs with higher selling prices for our own products. Prices for crude oil and coal are currently rising. If this trend should continue long term, our raw-material and energy costs could increase as a result.

WACKER uses a number of highly specialized raw materials for which there are only a few suppliers. If these suppliers were to cease deliveries, this could limit our production. We minimize this risk by taking appropriate measures (e.g. backup suppliers, safety stocks, change of products).

Under current legal provisions in Germany, energy-intensive companies or corporate units are required to pay only part of the EEG (Renewable Energy Act) levy. WACKER also profits from this exemption in certain sectors of the Group. Any restriction on the rules for exemption would considerably reduce the competitiveness of these individual corporate units. In general, the electricity price trend (wholesale prices, grid fees, capacity market) will continue to depend strongly on how German and European policy shapes the future development of the energy transition.

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

Market-Trend Risks

Scenario: An incorrect projection of market trends, and lack of customer acceptance for newly developed products.

Impact on WACKER: Misjudgment of future market trends could impact our market strength and earnings position. New product developments that fail to meet market needs could negatively impact our sales and earnings.

Measures: WACKER works closely with its customers and, therefore, has reliable information for developing new products and applications. At the same time, we monitor the market and our competitors very closely, hold customer and supplier interviews, and regularly attend tradeshow that are important to WACKER. In individual cases, we commission market research. We minimize risks arising from our development work by carrying out certain projects together with customers. In R&D, WACKER cooperates with universities and scientific institutions with the aim of reflecting the latest trends in its technological and product-development activities.

Evaluation and Risk Assessment: WACKER has many years of market experience and can update its detailed planning as soon as market developments change. We consider the risk of misjudging market trends, or not reacting to them appropriately, to be low. If this should, nevertheless, occur in individual application fields, the impact on our earnings trend would probably be low.

Investment Risks

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

Impact on WACKER: Bad investments lead to idle-capacity expenses and/or impairments of assets and investments, which can have major effects on earnings. Higher investment costs mean higher cash outflows and, in the future, higher depreciation expenses in our operating result. Postponed start-ups expose us to the risk of being unable to fulfill supply contracts and, thus, of posting lower sales and earnings.

Measures: WACKER has numerous measures in place for countering investment risks. We check the completeness and plausibility of plans for new projects with an investment volume exceeding €3.0 million. The Group's corporate departments are involved in this check. Economic feasibility

is assessed using comparative studies that look at other plant projects, including those of competitors. Investments are approved in stages only. Intensive project-budget management helps prevent or minimize delays.

Evaluation and Risk Assessment: At our new site in Charleston, Tennessee (USA), we completed commissioning of production facilities on schedule during the reporting period. This marks the end of our capital-intensive investments in large-scale plants for upstream products. This year, and during the next three years, we will meet rising customer demand mainly through cost-effective expansions to existing plants and will strengthen our capacities for downstream products. Capital expenditures will be below depreciation in 2017. We currently consider the risk of investment spending exceeding our expectations to be low. Even if the risk did materialize, we would expect the impact on our earnings, net assets and financial position to be low.

Production and Environmental Risks

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

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

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

Evaluation and Risk Assessment: Risks stemming from the production, storage, filling and transport of raw materials, products and waste can never be completely ruled out. Yet even though it is generally possible for such risks to materialize, we currently consider a serious loss event to be unlikely. Should such an event occur, though, it could have a medium impact on WACKER's earnings.

Financial Risks

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

⇒ For further details, see pages 165 to 166 of the Notes section.

2.69 Controlling Financial Risks

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

Credit Risks

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

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

Measures: We use a variety of instruments to reduce the risk of any loss on receivables. Depending on the nature of the product or service provided and the amount involved, we may demand collateral, including retention of title. Other preventive measures range from references and credit

checks to the evaluation of historical data from our business relationship to date (particularly payment behavior). We limit default risks by means of credit insurance, advance payments and bank guarantees. We prevent counterparty risk vis-à-vis banks and contractual partners by carefully selecting these partners. We conduct cash investments and derivative dealings with banks that usually have a minimum rating of A- from Standard & Poor's or a comparable rating agency. Investment activities are additionally subject to maximum investment and term limits. In exceptional cases, investments or derivative dealings may be conducted with banks of lower creditworthiness within specified limits and terms.

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

Currency-Exchange and Interest-Rate Risks

Scenario: Fluctuations in exchange rates and interest rates.

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

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

Interest-rate risks arise due to a change in market rates. Since it affects future interest payments for variable-rate loans and investments, such a change has a direct influence on the Group's liquidity and financial assets. When exposure is identified, interest-rate hedging is performed. The use of derivative financial instruments is governed by

internal regulations that separate trading and settlement functions, and is subject to strict controls within the entire processing procedure. We continually monitor the effectiveness of any measures taken.

Evaluation and Risk Assessment: We hedge part of our us dollar, yen and Singapore dollar business. The possible burden or income from exchange-rate fluctuations is partially cushioned by hedging measures. From today's perspective, we consider it possible that exchange-rate and interest-rate changes in 2017 will substantially differ from our planning assumptions. We believe that this would have a medium impact on Group earnings.

Liquidity Risks

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

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

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

Evaluation and Risk Assessment: WACKER's liquidity increased in 2016 compared with the previous year due to much lower investment spending. Liquidity totaled €465.7 million at the reporting date. At the same time, there were unused lines of credit with terms of over one year totaling some €800 million. We consider the occurrence of financing and liquidity risks to be unlikely. At the moment, we see no risks relating to financial-covenant infringements. If financial or liquidity bottlenecks did occur, their impact on Group earnings would be low. If unused lines of credit were tapped, net financial debt would rise.

Pensions

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

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

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

Evaluation and Risk Assessment: Pension-fund beneficiaries are living longer, and capital-market interest rates have steadily declined in recent years. The rate of return will probably be insufficient to fulfill pension obligations in the long term. In 2016, our contribution rate remained unchanged. WACKER expects that it will have to make special payments to the Wacker Chemie VVaG pension fund in 2017. In this case, we would expect this to have a low impact on the WACKER Group's cash flow. We consider it possible that we will have to make further payments to the pension fund and fund assets, and that pension expenses and payments will rise in the future. This would have a medium impact on WACKER's earnings, net assets and financial position.

⇒ See further details starting on page 148 of the Notes section.

Legal Risks

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

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

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

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

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

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

Regulatory Risks

Energy Transition in Germany

Scenario: The transition in Germany to 80 percent renewable energy in the electricity sector by 2050 (known as the "Energiewende" or energy transition) creates a regulatory environment that will probably be marked by constant legislative amendments in Berlin and Brussels (the German

Renewable Energy Act, special compensation rules for energy-intensive companies, the grid charge, self-generated electricity, EU investigation into state aid procedures, state aid rules, the German Federal Government's white paper, legislation on combined heat and power generation, and capacity mechanisms).

Impact on WACKER: Additional costs due to rising government levies on the cost of electricity procurement.

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

Evaluation and Risk Assessment: In 2016, the Bundestag approved an amendment of the German Renewable Energy Act and, at the start of 2017, this amendment came into force. Moreover, the German government and the EU Commission have reached agreement on the rules regarding self-generated electricity, combined heat and power plants, and sheddable loads. On the whole, these decisions do not cause any substantial increase in WACKER's burden beyond the previous level. We consider it possible in principle that other legal provisions relating to energy policy, for example grid charges, might be amended in 2017. Such amendments, though, would likely have a low impact on WACKER's earnings this year. We expect the regulatory environment surrounding the energy transition to remain in flux for the next few years.

Polysilicon Trade Restrictions

Scenario: Anti-dumping proceedings have been completed by the Chinese Ministry of Commerce against polysilicon imports from the USA. The anti-dumping proceedings of the EU against Chinese solar companies have been reviewed and extended. Until April 2017, sales of WACKER polysilicon in China comply with the terms of an amicable agreement reached with MOFCOM. The arrangements between WACKER and the Chinese government expire after that date, and China imposes stricter measures.

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

Measures: Our aim in numerous discussions with policy-makers in the USA and China is to avoid punitive tariffs (us tariffs on Chinese solar modules and cells, and Chinese tariffs on polysilicon from the USA) and hence the imposition of such tariffs on WACKER's US-made polysilicon. According to Chinese anti-dumping laws, we can also apply to have the tariffs individually reviewed and their level set. This is because WACKER did not, in fact, import any polysilicon from the USA to China during the investigation period of the anti-dumping proceedings. We will apply for a "New Shipper Review." We are also trying to convince the Chinese government to withdraw, as of April 2017, measures directed against European polysilicon imports.

Evaluation and Risk Assessment: The tariffs on polysilicon imports from the USA to China will remain in effect until January 2019. From our point of view, it is not foreseeable whether these tariffs will be withdrawn or continued after January 2019. If, after concluding its ongoing investigations in March 2017, the European Union extends its trade restrictions on Chinese solar modules and the existing minimum-price agreement, we expect the Chinese authorities, on completion of their own investigations in April 2017, to extend their restrictions on polysilicon from Europe. In this case, we assume that our previous minimum-price agreement for polysilicon made in Europe and exported to China will continue unchanged. However, we cannot entirely rule out the risk for our German-made polysilicon of an adverse amendment to our minimum-price agreement with China if trade relations between the European Union and China were to worsen. Should this happen, we consider it possible that WACKER might be affected by trade barriers and punitive tariffs. In this instance, the impact on earnings in 2017 would probably be high.

New Regulations for Production Processes and Products

Scenario: The production and use of chemical substances will be more strictly regulated due to new legal regulations. New legal provisions necessitate changes in WACKER's production processes.

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

Measures: WACKER continually monitors the regulatory environment surrounding its products and production processes so that it can react promptly to impending changes. This is why we have begun to technologically enhance individual silicone production plants in preparation for possible regulatory changes.

Evaluation and Risk Assessment: It is always possible that new legal regulations will make it necessary to modify our product portfolio or production processes. We consider it likely that new legal provisions will require additional investment in our production facilities or changes to our product portfolio. Should such changes occur, the impact on WACKER's earnings would be low, at most.

IT Risks

Scenario: Attacks, system errors and unauthorized access to IT systems and networks, threatening data security.

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

Measures: We continually monitor our use of information technology and do everything we can to ensure that IT-supported business processes function reliably. Our IT-security and risk-management specialists are responsible for handling hazards in a cost-efficient way. Their work is based on standards such as ISO 27001. Using risk analyses, we define the requirements for all systems, including production-related ones, in terms of the availability, integrity and confidentiality of data. These requirements serve as a basis for taking measures. We check at regular intervals whether they have been implemented and complied with. We reach service level agreements (SLAs) with our business divisions, corporate departments and regional organizations, and continually monitor compliance with those agreements. For our central ERP systems (Enterprise Resource Planning), we set – and achieved – an availability goal of 99.5 percent for 2016. ERP is based on designing our systems for maximum availability, with an associated backup and recovery procedure. We have taken appropriate precautions to cover emergency situations (business continuity management).

We minimize project-related IT risks with the help of a uniform project and quality-management method. It ensures that changes are integrated into our system landscape in a controlled manner. Safety demands are identified and taken into consideration right from the planning stage. Before new IT solutions are rolled out, we ensure that development and security requirements have been observed. Systematic enterprise-architecture management reduces complexity and risks.

As part of the risk management process, we log and evaluate any operations-related risks that arise and initiate countermeasures. We also optimize IT service management processes on an ongoing basis. We use state-of-the-art hardware and software solutions to counter network downtime, data loss or manipulation, and unauthorized access to our network and systems. We use efficient software security programs to protect ourselves against malware. We have set up an international security team, which addresses problems involving data and system confidentiality, integrity and availability by means of organizational and technical measures and awareness and training programs. Information events and training on IT security ensure that our employees have the necessary skills to heighten information security at the company. In addition, we regularly conduct comprehensive safety reviews of the solutions and business partners used at domestic and international sites to prevent the risk of attacks on our information systems.

Evaluation and Risk Assessment: We can never completely rule out system errors and attacks on our IT systems and networks. The scope and variety of attack scenarios are on the rise worldwide. A long-term failure of IT systems or a major loss of data can considerably impair WACKER's operations. Thanks to our precautionary measures, we consider the occurrence of such events to be unlikely. However, if one of our IT systems experienced downtime, a service disruption or a hacker attack affecting a significant number of users or lasting a longer period of time, there would be a medium impact on Group earnings.

Personnel-Related Risks

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

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

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

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

Evaluation and Risk Assessment: Demographic change will increase the risk of not being able to find sufficiently qualified personnel for technical and managerial positions in the medium to long term. For 2017, we consider the risks to our personnel needs to be low. Should these risks occur, the impact on Group earnings would probably be low.

External Risks

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

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

Measures: WACKER is a global operation with production facilities and technical centers in Europe, the Americas and Asia, and some 50 sales offices worldwide. Possible pandemics, natural disasters and acts of war in individual countries or regions where we are active represent a potential risk to our business and production operations, product sales and fixed assets and, therefore, to our earnings, net assets and financial position. Our managerial entities and our sites have worked out and publicized

plans and measures to minimize the effects of a pandemic on the health of our employees and on our business processes. A standardized and coordinated approach is ensured by a pandemic preparedness plan. The financial impact of damage to our production plants due to natural disasters is partly covered by insurance. Since WACKER has production sites on various continents, we can ensure manufacturing and delivery capability to some degree even if individual plants should fail.

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

Opportunities Report

Opportunity Management System

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

2.70 Opportunity Management System



Strategic opportunities of vital importance – such as strategy adjustments, potential acquisitions, collaborations and partnerships – are handled at the Executive Board level. Such opportunities are incorporated into WACKER's annual strategy-development and planning process, with current issues being discussed at regularly scheduled Executive Board meetings. For these issues, we normally use various scenarios to develop risk-opportunity profiles before making decisions.

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

Overall Economic Opportunities

Despite the challenges facing the global economy, WACKER sees good opportunities for continuing to grow at a faster pace than world chemical production, especially in emerging markets and sales regions. Our focus here is on Brazil, China, India and the Middle East. As previously, we expect the highest growth rates to be in China, India and South-east Asia. To seize such opportunities, we are steadily expanding our presence in these markets. Our technical competence centers and the WACKER ACADEMY are pivotal in achieving WACKER's high standard of service and customer proximity.

2.71 Overview of Business Opportunities

<p>Overall economic opportunities Growth in Asia and other emerging markets</p>
<p>Sector-specific opportunities Extensive product portfolio for future global trends Urbanization, resource and energy efficiency, mobility, rising affluence and digitalization</p>
<p>Strategic opportunities Cost-effective expansion of capacities for downstream products Higher cash flows due to lower capital expenditures</p>
<p>Performance-related opportunities Higher plant productivity Extension of existing, and establishment of new, technical competence centers in the regions Adapting products to regional requirements</p>

Sector-Specific Opportunities

Our extensive product portfolio in particular offers sector-specific opportunities by placing us in an excellent position to leverage global megatrends. They include advancing urbanization, the trend toward conserving natural resources and energy, the increasing global demand for mobility, and the growing need for products that enhance the quality of life. These trends remain as important as ever to our business.

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

We see good growth prospects for WACKER SILICONES in the electrical and electronics markets, especially in the field of automotive electronics. Growth is being driven by digitalization, connectivity and electromobility. For example, electronic automotive assistance systems – which are vital for autonomous driving – are playing an ever more important role. According to Semicast Research, the global market for driver-assistance systems in vehicles will grow by almost 13 percent annually until 2022. Silicone gels and silicone encapsulants reliably protect the necessary sensors and electronic components.

WACKER POLYMERS, too, has potential for growth amid the rising affluence in emerging economies, the increase in urbanization, and the trend toward conserving natural resources and reducing carbon dioxide emissions. The move away from conventional building materials and construction methods to higher-quality systems will continue. A key aspect here is the use of dispersible polymer powders for modifying cement and gypsum mortars. Through the addition of these polymer powders, mortar mixtures are easier to process, can be applied more thinly and their properties can be substantially improved, too. But, so far, some 80 percent of dry-mix mortars used in the building sector are not modified. In many regions, construction experts have only just started to appreciate the benefits of polymer-modified dry-mix mortars. In particular, we are working on specialty polymer binders for gypsum-based materials for the rapidly growing drywall market. WACKER POLYMERS also sees further potential in its material-substitution business.

WACKER BIOSOLUTIONS primarily expects growth opportunities in its bioengineered products, which include pharmaceutical proteins, cyclodextrins and cysteine. With fermenter capacities ranging from 300 to 1,500 liters for the contract manufacturing of pharmaceutical proteins, we believe that we are well-equipped to cover our customers' entire supply-chain needs, from clinical testing through to supplying the market. In the field of cyclodextrins and cysteine, we are developing new applications (e.g. for low-fat salad dressings), thereby creating additional demand for our products.

2.72 Sales Volumes: Opportunities and Risks

Risks	Opportunities
Weaker economic growth in China and the emerging markets	Sales growth driven by products for cosmetics and personal care, health, electronics and construction
Ongoing geopolitical crises and increased political uncertainty in Europe and the USA	Strong growth in photovoltaics

Energy remains a key megatrend, with the photovoltaic industry playing a major part here. The competitiveness of the solar industry versus other energy sources continues to spur demand for solar installations. All around the globe, the use of renewable energy is increasing. We see growth potential mainly in China, India and the USA. As a hyper-pure-polysilicon producer, and a cost and quality leader, WACKER POLYSILICON will benefit from this megatrend.

Strategic Opportunities

The expansion of our upstream-product capacities in recent years offers WACKER opportunities for further growth at its business divisions. Our focus until 2020 will now be on meeting rising customer demand, mainly through cost-effective expansions to existing plants, and on strengthening our capacities for downstream products in global growth regions. At our Jincheon site in South Korea, for example, we are currently building new silicone production facilities to supply the construction, electronics and automotive industries. In the USA, we are setting up a new research center for silicones in Ann Arbor, Michigan, which will strengthen our development expertise in North America. The new pilot reactor for VAE dispersions at the Nanjing polymer site in China enables us to expand our offering for product developments, application technology and customer services. As planned, we completed commissioning of the production facilities at our polysilicon site in Charleston, Tennessee in 2016. As a result, we can

participate in the continuing growth of the photovoltaic market. We expect our much lower capital-expenditure level to markedly lift net cash flow in this and the coming years.

Performance-Related Opportunities

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

Executive Board Evaluation of Overall Risk

The Executive Board bases its estimate of the overall risk situation on the risk management system in place. The system compiles all risks identified by our divisions, corporate departments and regional entities, and is regularly reviewed by the Executive Board and handled by the Audit Committee. Essentially, it was the risk affecting pensions that rose during 2016. Due to currently rising prices for crude oil and coal, procurement-market risks are higher compared with the previous year. The timely commissioning of the production facilities at the Charleston site meant investment risks decreased during the reporting year. In our view, the overall risk is roughly the same as a year earlier.

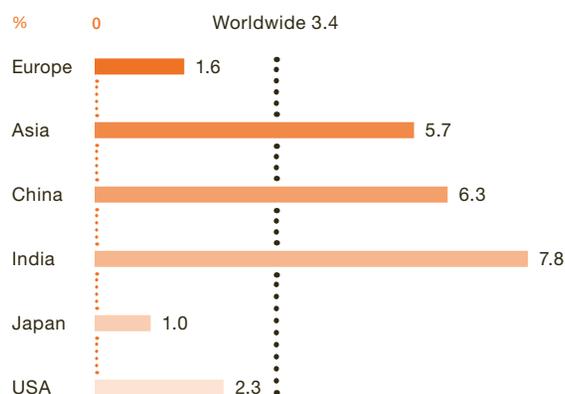
As of this report's publication date, the Executive Board does not see any individual or aggregate risk that could endanger WACKER's future in any material way. Market risks do still exist in the photovoltaic industry, which is dominated by overcapacity, low prices and intra-sector consolidation. Thanks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

Outlook

Underlying Economic Conditions

Economists agree that the world economy is on track for moderate growth. But the projections involve major uncertainties, since the risks are still high that global growth could be weaker than expected in 2017. The upturn in advanced economies remains subdued, with growth dampened by restrained capital spending and sluggish domestic demand. Low inflation in many countries is also hampering growth, and the continued expansionary monetary policy of major central banks is providing only limited impetus.

2.73 GDP Trends in 2017



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

According to the International Monetary Fund, global growth will pick up somewhat in 2017 relative to last year. The IMF expects world GDP to expand by 3.4 percent (2016: 3.1 percent). In its view, emerging markets will make the biggest contribution to growth in 2017, with a gain of 4.6 percent. Advanced economies will increase their economic output by 1.8 percent. In China, the risk of an abrupt decline in growth has eased in the near term, since stimulus measures are slowly gaining traction. Experts agree that the expansion in China and emerging Asian countries will continue to lose momentum in the next few years, although overall growth rates will remain high. In the eurozone, growth seems to be continuing at a moderate pace, despite uncertainty about the shape of the British exit from the European Union. In the USA, GDP is also expected to increase in 2017.

Given the latest economic projections, our scenario is for the global economy to advance noticeably in 2017, and we anticipate a similar growth trend in 2018.

Sector-Specific Conditions

We expect economic trends in the sectors relevant to our business to be largely positive in 2017.

Chemical Industry Expected to Grow Slightly in 2017

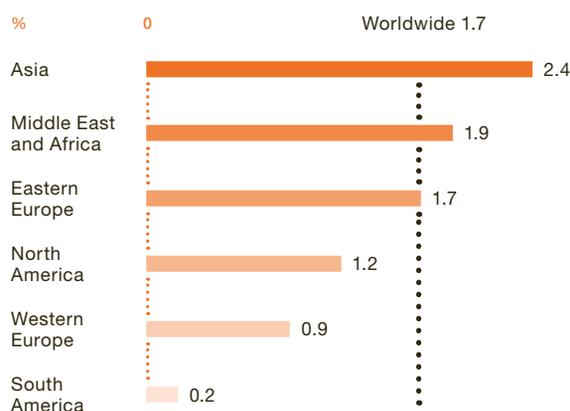
After a mixed year in 2016, the German Chemical Industry Association (vci) predicts that chemical-sector momentum will remain weak in 2017. According to the vci, global chemical production will rise only 0.5 percent, while total sales will grow 1 percent. Growth in Germany's chemical sector will continue to be export-driven. Based on vci projections, however, the difficult economic environment will hamper upward momentum.

WACKER's chemical divisions anticipate growth opportunities primarily in the BRIC countries and other emerging markets. Increasing emerging-economy affluence will enable us to further boost our sales in China and India, for example, and in Southeast Asia. WACKER's portfolio has many value-added products that address the needs of new customer groups.

Global Construction Industry to Remain on Growth Trajectory

According to research institute B+L Marktdaten GmbH, the construction industry will continue expanding over the next few years. On average, construction volume should climb by about 1.7 percent annually through 2019, with Asia being the main growth driver. B+L anticipates that the construction industry in Europe and North America will continue growing, albeit at a slower pace than in Asia. In South America, on the other hand, the construction market is stagnating.

2.74 Construction-Industry Growth Rates by Region, 2017 to 2019



Source: B+L Marktdaten GmbH

2.75 WACKER's Key Customer Sectors

Sectors	Trends in 2016	Trends in 2017
Chemicals	Weak growth	Weak growth
Construction	Growth	Growth
Energy and electrical	Growth	Growth
Photovoltaics	Growth, continuing market overcapacity and ongoing consolidation	Slight growth, continuing market overcapacity and ongoing consolidation
Semiconductors	Slight growth	Growth

In the coming years, renovation, energy-efficiency and sustainability projects will continue to offer WACKER good growth opportunities. At WACKER POLYMERS, we expect our construction-sector sales to climb in every region during 2017. The main growth drivers, according to our projections, will be low-emission interior paints and dry-mix mortars. At WACKER SILICONES, the percentage of high-value, specialty products in our construction-industry portfolio should continue rising. Growth prospects are good for hybrid polymers (for formulating high-performance adhesives and sealants) and for silicone sealants sold under our own brand.

Electrical and Electronics Industries Anticipate Moderate Growth in 2017

The electrical and electronics industries expect global market volumes to expand by 3 to 4 percent in 2017. According to the zvei (German Electrical and Electronic Manufacturers' Association), this growth will be fueled primarily by Asia, with slight gains anticipated in Europe and the USA. In the German electrical and electronics sectors, the zvei forecast is for growth of 2 percent in 2017. WACKER expects good growth opportunities from silicone gels and silicone encapsulants for electronic components and from customized silicones for the automotive industry, e.g. for driver-assistance systems, sensors and optical displays.

Photovoltaic Market Growth to Continue in 2017 Amid Challenging Conditions

Conditions will remain challenging in the photovoltaic industry in 2017. Market uncertainty stems mainly from the low profitability levels of many solar companies, from production overcapacity and from low prices. Both solar module costs and global prices for solar modules fell in the course of 2016, in some cases by as much as 30 percent, making photovoltaics even more competitive compared with other energy sources in all regions of the world. In December 2015, 190 countries attending the Paris Climate Conference agreed to measures aimed at keeping global warming well below 2°C, ideally at only 1.5°C. The majority of the countries taking part in the conference have since signed the agreement. Photovoltaics (PV) have a crucial role to play in achieving the agreed climate targets as they can reduce specific carbon emissions by a substantial margin compared with fossil fuels. As a result of these political parameters and the increased competitiveness of photovoltaics, new markets for PV technology will open up and this segment of the global renewables market will continue to grow. In 2017, China will remain the largest and

most important market worldwide. According to market researchers at IHS, other countries likely to add large amounts of capacity include the USA, India and Japan. Regions with high growth potential include Central and South America, Southeast Asia, the Middle East and Africa. WACKER's own market research indicates that the photovoltaic market will see further growth in 2017. Newly installed PV capacity is likely to reach between 75 and 85 gigawatts (GW).

2.76 Photovoltaic-Market Trend in 2017

	Installation of New PV Capacity (MW)		
	2017		2016
	Lower Range	Upper Range	
Germany	1,500	1,700	1,500
France	1,000	1,200	800
Italy	400	500	400
Rest of Europe	4,000	4,500	4,000
USA	12,000	14,000	14,600
Japan	7,500	8,000	8,300
China	24,000	27,000	30,000
India	8,500	9,500	4,200
Other regions	16,100	18,600	12,200
Total	75,000	85,000	76,000

Sources: PV market in 2017: IHS, RTS Corporation, WACKER's own market research; PV market in 2016: Germany's Federal Network Agency, Commissariat Général au Développement Durable, IHS, Solar Energy Industries Association (SEIA), RTS Corporation, WACKER's own market research

Demand for Semiconductor Wafers Likely to Rise in 2017

Market researchers at IHS Markit Technology expect silicon-wafer demand by surface area sold to increase by 5.1 percent in 2017. The main factor fueling this trend is semiconductor-market expansion. IHS Markit Technology anticipates that the silicon-based semiconductor market will post sales growth of 4.8 percent in 2017.

Group Strategy for the Next Two Years

Three levers will continue to determine WACKER's business strategy in the coming years: expansion into emerging markets and regions; innovations; and the substitution of competitors' products with WACKER products. Our focal regions for further growth remain unchanged: Brazil, China,

India, Southeast Asia and the Middle East. Of these, China offers the greatest potential. We continue to expect good growth opportunities for our products in India. In addition, we see chemical-business growth potential for our established markets in Europe and the Americas. Further details about strategy can be found in the Goals and Strategies section of this report.

WACKER's international presence will increase in the coming years, supported by regional expansion projects in our various markets. We will transfer even more operational responsibility to the regions. Our aim is to tailor our products even better to local requirements. To this end, we will broaden the international scope of our R&D activities. We are also systematically extending our network of technical competence centers and WACKER ACADEMY sites.

The WACKER Group's Prospects

Our expectations are based on the assumption that the global economy will grow in 2017. The strongest impetus will come from Asia and the USA, while Europe will see subdued growth.

Our capital expenditures in 2017 will focus on plants for manufacturing intermediates and downstream products. WACKER's priority is to grow its business organically. In our opinion, the applications and markets that we are addressing will continue to offer good growth potential. Capital expenditures in 2017 will remain well below the level of depreciation. They will also come in below depreciation in 2018.

WACKER SILICONES is constructing a new pyrogenic-silica plant at our Charleston site in the USA, and a multifunctional facility for silicones at Jandira, Brazil. WACKER POLYMERS is investing in a reactor for VAE dispersions at Burghausen, Germany. In Spain, WACKER BIOSOLUTIONS has acquired a large-scale fermentation plant for producing fermentation-generated cysteine. At Siltronic, investments are focused on fulfilling the latest design-rule specifications in 300 mm technology.

Future Products and Services

WACKER POLYMERS will continue to intensify its activities in polymeric binders for sophisticated coating and construction applications. In particular, global demand is rising for functional additives that are used in water-repellent construction materials and impregnating agents. We have

developed specialty dispersions for hydrophobic coatings that provide kitchens, bathrooms and foundations with reliable protection against moisture. Researchers at MarketsandMarkets estimate that the global market for waterproofing admixtures for construction applications will grow by some 8 percent on average to reach around US\$3.8 billion by 2020.

Global demand is also increasing for environmentally compatible, water-based paints and coatings. According to Mordor Intelligence, the global coatings industry will expand by an average of 5 percent a year to reach a projected value of around US\$179 billion by 2021. We intend to enhance our market position in this area with our specialty dispersions for functional exterior applications.

WACKER SILICONES will intensify its activities in additive manufacturing with silicones, a field we entered in 2014. WACKER's proprietary 3D printing process, which adds silicone droplets layer by layer to make printed parts, delivers great precision and design freedom. Under our ACEO® brand, we offer extensive consultation and support services in the field of 3D printing with silicones. ACEO® developers are cooperating closely with universities and research institutes so that we can reinforce our expertise and achieve our goal of becoming the market leader for this technology. Experts anticipate annual growth rates of over 30 percent for the 3D market. Other business areas that are highly promising include our precision silicone films. They pave the way for such developments as membranes and wearable sensors for textiles, which can be used, for example, to depict the wearer's movements virtually, for medical and therapeutic purposes.

According to experts, the wound-dressing market is projected to grow by 6 percent a year through 2021. In response to this demand, WACKER has developed specialty silicone gels. For large or chronic wounds, the medical sector is increasingly turning to silicone-coated wound dressings. In cosmetics and personal care, we are developing new silicone additives. Activities in Asian markets are focusing on silicone elastomer gels for formulating skincare products and make-up. In China and India, we are expanding our portfolio of silicone fluids and emulsions for shampoos and conditioners. Asia and the Middle East are the main growth drivers for cosmetics and personal-care products. Asia has already become the world's largest market, with the value of goods sold exceeding €100 billion.

In the construction sector, we are focusing, for example, on new anti-graffiti coatings and on adapting our products to local requirements so as to further enhance our presence in regional markets. Silane-modified hybrid polymers are becoming increasingly important as a technological platform for formulating construction sealants and adhesives, highly durable industrial adhesives, coatings, and water-proofing membranes. We also anticipate growth momentum from our silicone additives for producing wood-plastic composites. According to MarketsandMarkets, global demand for such hybrid plastics will expand by 12 percent annually through 2021. Growth will come mainly from the construction and automotive industries.

Wacker Biotech has developed a reliable, state-of-the-art process that will enable medac, a pharmaceutical-industry customer, to produce its Spectrila® biopharmaceutical in a safe, cost-efficient manner to supply the market. The medication is used for treating acute lymphocytic leukemia (ALL), the most common form of leukemia in children. In combination with other drugs, Spectrila® can achieve a cure rate of 90 percent in children. Studies by Research and Markets indicate that the biologics market will grow by an average of 7 percent a year to reach about US\$250 billion by 2020.

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The market for functional foods and dietary supplements also offers opportunities. Market research institute Mordor Intelligence projects that growth rates for foods with health benefits will average 7.5 percent a year. WACKER BIOSOLUTIONS intends to benefit from this growth, for example with its nature-identical hydroxytyrosol for cardiovascular health, its fermentation-generated cysteine for vegetarian-grade meat flavors and its cyclodextrins for egg-free baked goods.

Research & Development

The Group's research and development work remains focused on key strategic projects. WACKER intends to spend 11 percent of its R&D budget on these projects in 2017 (2016: 15 percent). Our R&D work will prioritize the highly promising fields of energy, consumer care, biotechnology, construction applications and semiconductors, with particular emphasis on energy storage and renewable energy generation.

Production

Over the next two years, WACKER will bring additional production capacity on stream. The groupwide Wacker Operating System (wos) program is focused on enhancing the productivity of manufacturing facilities and of every

production-related service department. The emphasis is on key projects that have a high economic benefit and a strong impact on costs.

2.77 Facility Start-Ups in 2017

Location	Projects	Year
Burghausen	Dispersions reactor	2017
Burghausen	Logistics expansion for vinyl acetate monomer (VAM)	2017
Adrian, Michigan, USA	Discontinuous emulsion plant	2017
Brazil	Multifunctional facility for silicones	2017

In 2017, maintenance costs will amount to about €475 million.

Procurement and Logistics

Energy and raw-material procurement remains a significant factor influencing WACKER's profitability. Our energy and raw-material costs account for over one-third of the cost of goods sold. WACKER anticipates that the average prices of our key raw materials will be higher in 2017 than last year. In the first half of 2016, prices on the energy spot markets and other raw-material markets bottomed out. Since then, prices have been rising in these markets, which in turn has significantly affected the prices of many of our raw materials. During the remainder of 2017, crude-oil price trends could also influence the pricing of key WACKER raw materials, such as ethylene and methanol. Due to Europe's high dependence on imported raw materials, anti-dumping tariffs may also have a negative impact on WACKER's raw-material costs.

We assume that electricity prices will remain stable year over year, while prices for natural gas will be higher. Overall energy costs will be higher in 2017 than last year.

Our raw-material and energy supplies are largely secured for 2017. The markets in which we source our raw materials are sufficiently liquid, making bottlenecks unlikely. At Technical Procurement & Logistics, we are establishing a globally standardized supplier-management methodology. The aim here is to focus on the key partners in our supplier portfolio so that we can work together with them to increase their performance capabilities for WACKER.

On the logistics side, we are exploring the potential for digitalizing the logistics chain, running pilot applications at our central warehouses and cooperating closely with our logistics partners.

Sales and Marketing

WACKER POLYMERS will open a new technical competence center in Indonesia in 2017. An additional sales office will be opened in Hanoi, Vietnam, while our sales office in the Philippines will be enlarged. In the Middle East, we are systematically expanding our sales activities in cooperation with our distributors. The most important tradeshow in 2017 is the European Coatings Show, which takes place in Nuremberg this April.

Employees

We expect employee numbers to edge up in 2017. Prudent personnel planning will remain a priority.

Sustainability

We will continue improving WACKER's energy efficiency. By setting quantifiable environmental targets, we intend to lower the environmental impact of our production activities.

The regional focus of WACKER's sustainability management activities will be on Asia in 2017, where we will examine environmental, health and safety aspects at individual sites. In 2018, the regional focus will be on the Americas.

As regards occupational safety, our groupwide target is to lower WACKER's accident rate (the number of workplace accidents per million hours worked) to 1.7 or lower by 2020.

We are preparing another 110 substance dossiers for the third stage of REACH, which runs until mid-2018.

In 2017, WACKER will publish its Sustainability Report for 2015–2016.

2.78 WACKER's Environmental Targets through 2022

Region	Key Environmental Indicator	Base Year	Targets for 2022 (%)
WACKER Germany	Weighted specific energy consumption (amount of energy per unit of net production output)	2007	-50
WACKER Germany	Specific carbon dioxide emissions (per metric ton of net production)	2012	-15
Group	Specific dust emissions (per metric ton of product)	2012	-50
Group	Specific emissions of relevant VOCs (volatile organic compounds; per metric ton of product)	2012	-25

Outlook for 2017

WACKER's main planning assumptions relate to raw-material and energy costs, personnel expenses and exchange rates. For 2017, we anticipate euro exchange rates of US\$1.10 and ¥120.

Performance Indicators and Value-Based Management

WACKER's key financial performance indicators are unchanged compared with last year.

Volume Growth to Support Group Sales in 2017

WACKER anticipates volume growth at every division in 2017. Our planning assumes rising prices for silicon wafers. Average prices for polysilicon will be below last year's level. Group sales are expected to climb by a mid-single-digit percentage amid continued low prices in our polysilicon business.

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

From today's perspective, WACKER's chemical divisions will generate sales growth. We expect polysilicon sales to be on a par with last year. Siltronic will grow its sales substantially.

Compared with 2017, sales should continue growing in 2018 – provided that the world economy remains on its growth path, as economic research institutes predict, and there are no unforeseen slumps in WACKER's key regions and industries.

Outlook for Key Performance Indicators at the Group Level

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

EBITDA margin and EBITDA: the EBITDA margin is projected to be slightly below last year's figure. On balance, prices will be lower in our business fields and raw-material prices will be higher, both of which will weigh on the EBITDA margin. EBITDA – on a comparable basis, i.e. adjusted to exclude solar-sector special income from damages received and from terminated contractual and delivery relationships with customers – will be on a par with last

year. If current market conditions continue during the year, there will be additional opportunities for the EBITDA trend. With an effective tax rate of 30 percent, Group net income should come in at last year's level.

ROCE: ROCE will be on a par with last year (2016: 6.1 percent).

Net cash flow: we expect net cash flow in 2017 to be clearly positive and comparable with last year.

Outlook for Supplementary Performance Indicators at the Group Level

Capital expenditures: at about €450 million in 2017, capital expenditures will edge up compared with last year, but remain well below depreciation. Depreciation will be around €720 million in 2017, slightly below last year's level. Capital-expenditure projects include the construction of a new plant for pyrogenic silica at our Charleston site in the USA. The anticipated cash flow from operating activities is likely to fully cover investment spending.

Net financial debt: net financial debt will decrease further, to considerably below last year's level (2016: €992.5 million).

2.79 Outlook for 2017

	Reported for 2016	Outlook for 2017
Key Financial Performance Indicators		
EBITDA margin (%)	20.4	Slightly below last year's level
EBITDA (€ million)	1,101.4 ¹	At last year's level, on a comparable basis without special income
ROCE (%)	6.1	At last year's level
Net cash flow (€ million)	400.6	At last year's level
Supplementary Financial Performance Indicators		
Sales (€ million)	5,404.2	Mid-single-digit percentage increase
Capital expenditures (€ million)	427.6	Around 450
Net financial debt (€ million)	992.5	Substantially lower than last year
Depreciation (€ million)	735.2	Around 720

¹ EBITDA exclusive of special income amounted to €1,081.1 million in 2016.

Divisional Sales and EBITDA Trends

At WACKER SILICONES, we expect to achieve a mid-single-digit percentage increase in sales in 2017 relative to last year. Sales growth will be fueled by every WACKER SILICONES business sector. We expect sales to increase in all regions. We want to continue increasing the share of specialty products in overall sales and keep capacity utilization high. With some raw-material prices rising, EBITDA should be slightly higher year over year.

At WACKER POLYMERS, our forecast is for a mid-single-digit percentage increase in sales compared with last year, with both dispersions and dispersible polymer powders contributing to this growth. We expect last year's strong growth trend, especially in the Americas, to continue. EBITDA is anticipated to be substantially lower year over year due to much higher raw-material prices, with the EBITDA margin exceeding the 16 percent targeted for WACKER's chemical divisions.

At WACKER BIOSOLUTIONS, our projection is for a low-single-digit percentage increase in sales in 2017, with pharmaceuticals and agrochemicals providing the main impetus for growth. Integration costs for the new site in Spain will impact EBITDA in 2017, which will be substantially lower than last year.

We expect polysilicon volumes to continue growing in 2017 and estimate that the photovoltaics market will keep expanding as well. Despite volume growth, we do not expect sales to exceed last year's level, given that average prices are likely to be lower than they were last year. EBITDA – adjusted to exclude special income from advance payments retained and damages received from customers – is expected to be somewhat higher than last year.

At Siltronic, we are projecting a high-single-digit percentage increase in sales, mainly spurred by volume gains and higher sales prices. We expect capacity utilization to be high for 200 mm and 300 mm wafer business. We also forecast a substantial year-over-year increase in EBITDA due to rising volumes and prices, to measures taken to optimize costs and to a year-over-year decline in currency-hedging costs.

Future Dividends

WACKER wants its shareholders to gain more from its profitability. The goal is to distribute around half of the company's net income to shareholders. Previously, WACKER aimed for a distribution ratio of at least 25 percent of net income. In the future, about 50 percent of net income should go to shareholders, provided the business situation permits and the corporate bodies responsible agree.

Financing

The main aspects of our financing policy remain valid. We are confident that we have a strong financial profile with a sensible capital structure and healthy maturities for our debt. As of December 31, 2016, WACKER had at its disposal unused lines of credit with residual maturities of over one year totaling some €800 million.

Executive Board Statement on Overall Business Expectations

The economic and political risks for 2017 have not changed in any material way compared with last year. As yet, we cannot conclusively assess what economic policy the United States is likely to pursue under the Trump administration. Overall, however, there has been a discernible increase in trade protectionism worldwide, which could hamper global growth. WACKER nevertheless expects the world economy to continue growing in 2017.

We anticipate that the prices of the raw materials we use for production will increase in 2017. Group sales are expected to climb by a mid-single-digit percentage amid continued low prices in our polysilicon business. Our chemical divisions are likely to increase their sales. We expect sales at WACKER POLYSILICON to be on a par with last year. Siltronic will grow its sales substantially. EBITDA on a comparable basis is anticipated to be the same as last year, while the EBITDA margin will decline slightly year over year.

At around €450 million, capital expenditures will be on a par with last year. Depreciation will be slightly below last year's level, at €720 million. We expect net cash flow to be clearly positive and of a similar magnitude to last year. Net financial debt will decline substantially and Group net income is expected to be roughly unchanged over last year.

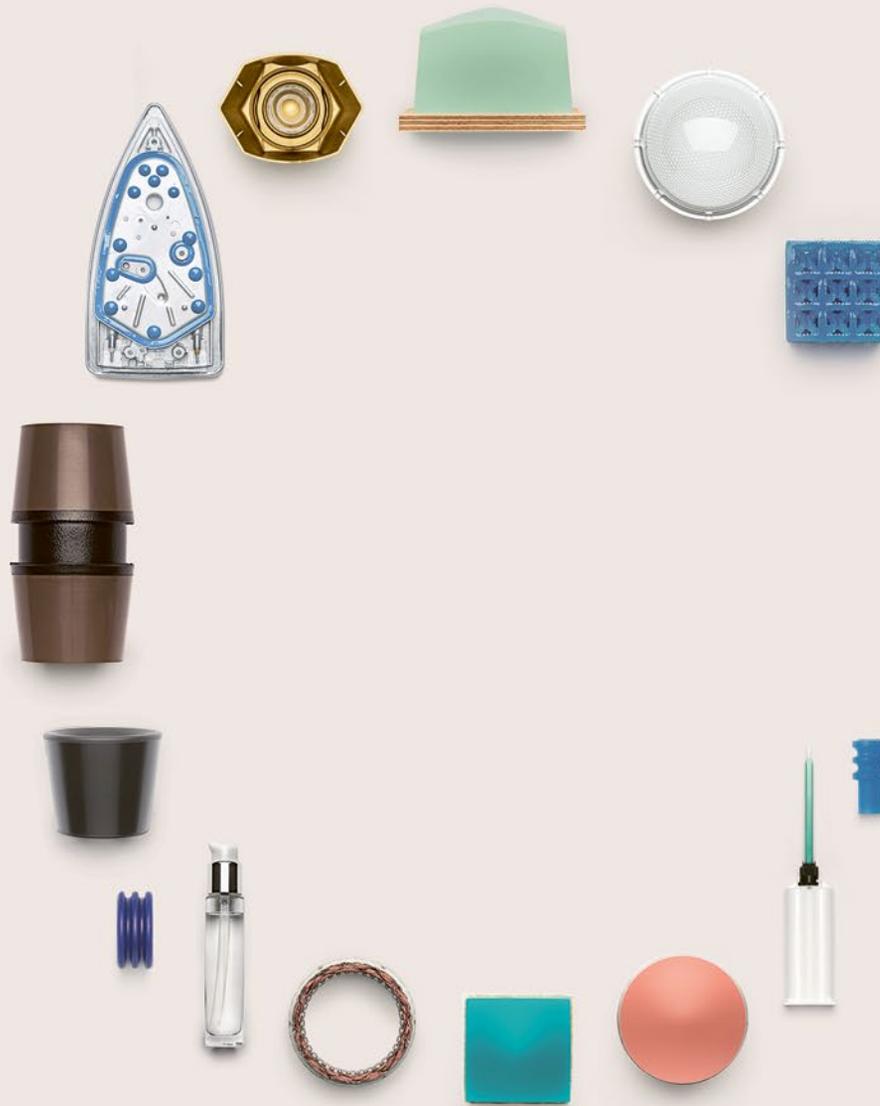
WACKER has outstanding products, which are in demand from customers from all over the world. Our technological and innovative strength and our presence in key markets offer us a firm foundation for reinforcing and expanding our market positions.

We see good opportunities in 2017 to achieve further sales gains and to reach the same level of adjusted EBITDA as last year despite rising raw-material prices. Our strategy puts us in an excellent position to continue on this growth trajectory beyond 2017.

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

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Consolidated Financial Statements



Silicones are found in countless consumer products – ranging from lamps and irons to cars.

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3.1 Statement of Income

January 1 to December 31

€ million	Notes	2016	2015
Sales	01	5,404.2	5,296.2
Cost of goods sold		-4,413.5	-4,167.1
Gross profit from sales		990.7	1,129.1
Selling expenses		-321.6	-314.2
Research and development expenses		-183.4	-175.3
General administrative expenses		-147.3	-134.0
Other operating income	01	194.3	377.4
Other operating expenses	01	-167.6	-412.7
Operating result		365.1	470.3
Result from investments in joint ventures and associates	02	0.2	3.3
Other investment income	02	0.9	-0.2
EBIT (earnings before interest and taxes)		366.2	473.4
Interest income	02	6.0	7.3
Interest expenses	02	-42.4	-31.8
Other financial result	02	-65.0	-42.2
Financial result		-101.4	-66.7
Income before income taxes		264.8	406.7
Income taxes	03	-75.5	-164.9
Net income for the year		189.3	241.8
Of which			
Attributable to Wacker Chemie AG shareholders		179.2	246.7
Attributable to non-controlling interests	10	10.1	-4.9
Earnings per common share (€) (basic/diluted)	17	3.61	4.97

3.2 Statement of Comprehensive Income

January 1 to December 31

€ million	2016			2015		
	Before taxes	Deferred taxes		Before taxes	Deferred taxes	
Net income for the year			189.3			241.8
Items not reclassified to the statement of income						
Remeasurement of defined benefit plans	-460.0	103.8	-356.2	214.1	-47.7	166.4
Sum of items not reclassified to the statement of income	-460.0	103.8	-356.2	214.1	-47.7	166.4
Items reclassified to the statement of income						
Difference from foreign currency translation adjustment	43.1	-	43.1	141.6	-	141.6
Of which recognized in profit and loss	2.2	-	2.2	-	-	-
Changes in fair values of securities available for sale	0.3	-	0.3	-0.8	0.1	-0.7
Of which recognized in profit and loss	-	-	-	0.3	-	0.3
Changes in fair values of derivative financial instruments (cash flow hedge)	7.6	0.3	7.9	15.8	-2.3	13.5
Of which recognized in profit and loss	-21.1	0.3	-20.8	69.4	-6.1	63.3
Effects of net investments in foreign operations	1.1	-	1.1	-	-	-
Of which recognized in profit and loss	-	-	-	-	-	-
Sum of items reclassified to the statement of income	52.1	0.3	52.4	156.6	-2.2	154.4
Income and expenses recognized in equity	-407.9	104.1	-303.8	370.7	-49.9	320.8
Of which						
Attributable to Wacker Chemie AG shareholders	-372.7	104.1	-268.6	326.4	-49.9	276.5
Attributable to non-controlling interests	-35.2	-	-35.2	44.3	-	44.3
Total income and expenses reported in the fiscal year			-114.5			562.6
Of which						
Attributable to Wacker Chemie AG shareholders			-89.4			523.2
Attributable to non-controlling interests			-25.1			39.4

3.3 Statement of Financial Position

As of December 31

€ million	Notes	Dec. 31, 2016	Dec. 31, 2015
Assets			
Intangible assets	04	50.4	32.1
Property, plant and equipment	04	4,594.9	4,799.1
Investment property	05	1.5	1.5
Investments in joint ventures and associates accounted for using the equity method	06	11.2	21.2
Securities	09	56.0	3.7
Other financial assets	08	111.5	111.4
Other receivables and other assets	08	3.7	4.3
Income tax receivables	08	–	0.1
Deferred tax assets	03	449.9	321.4
Noncurrent assets		5,279.1	5,294.8
Inventories	07	846.3	785.2
Trade receivables	08	775.7	679.4
Other financial assets	08	65.1	49.9
Other receivables and other assets	08	67.2	58.4
Income tax receivables	08	18.5	19.0
Securities and fixed-term deposits held to maturity	09	126.2	67.2
Cash and cash equivalents	09	283.5	310.5
Current assets		2,182.5	1,969.6
Total assets		7,461.6	7,264.4
Equity and Liabilities			
Subscribed capital of Wacker Chemie AG		260.8	260.8
Capital reserves of Wacker Chemie AG		157.4	157.4
Treasury shares		–45.1	–45.1
Retained earnings		2,488.7	2,408.9
Other equity items		–482.4	–213.8
Equity attributable to Wacker Chemie AG shareholders		2,379.4	2,568.2
Non-controlling interests		213.8	226.9
Equity	10	2,593.2	2,795.1
Provisions for pensions	11	2,107.8	1,611.7
Other provisions	12	247.4	217.0
Income tax provisions	12	73.7	52.8
Financial liabilities	13	791.1	1,136.7
Other financial liabilities	14	2.3	2.6
Other liabilities	14	164.2	287.5
Deferred tax liabilities	03	6.2	3.4
Noncurrent liabilities		3,392.7	3,311.7
Other provisions	12	95.0	88.2
Income tax provisions	12	26.8	27.0
Financial liabilities	13	667.1	318.7
Trade payables	14	369.7	378.3
Other financial liabilities	14	61.8	47.5
Income tax liabilities	14	0.8	0.3
Other liabilities	14	254.5	297.6
Current liabilities		1,475.7	1,157.6
Liabilities		4,868.4	4,469.3
Total equity and liabilities		7,461.6	7,264.4

3.4 Statement of Cash Flows

January 1 to December 31

€ million	Notes	2016	2015
Net income for the year		189.3	241.8
Depreciation and impairments/write-ups of fixed assets		735.2	575.4
Result from disposal of fixed assets		-4.0	-0.2
Other non-cash expenses and income		-20.8	-39.1
Result from equity accounting		-0.2	-3.3
Net interest result		36.4	24.5
Interest paid		-40.7	-30.4
Interest received		6.5	15.1
Income tax expense		75.5	164.9
Taxes paid		-79.5	-218.7
Dividends received		4.1	4.3
Changes in inventories		-53.3	-40.3
Changes in trade receivables		-85.5	16.9
Changes in non-financial assets		-6.5	8.1
Changes in financial assets		-13.9	49.7
Changes in provisions		70.5	84.7
Changes in non-financial liabilities		11.9	10.3
Changes in financial liabilities		94.7	-8.2
Changes in advance payments received		-183.1	-238.3
Cash flow from operating activities (gross cash flow)	19	736.6	617.2
Investments in intangible assets, property, plant and equipment, and investment property		-514.4	-820.7
Proceeds from the disposal of intangible assets, and property, plant and equipment		6.3	5.1
Cash receipts and payments for acquisitions		-8.8	-
Cash flow from long-term investing activities before securities		-516.9	-815.6
Cash receipts from the disposal of securities and fixed-term deposits		171.9	342.3
Payments for the acquisition of securities and fixed-term deposits		-284.9	-218.1
Cash flow from investing activities	19	-629.9	-691.4
Dividends paid		-99.4	-74.5
Dividends paid to non-controlling interests		-1.3	-1.4
Cash receipts from the change in ownership interests in Siltronic AG		-	361.9
Bank loans raised		255.9	99.8
Bank loans repaid		-285.8	-319.5
Other financial liabilities repaid		-5.2	-8.4
Cash flow from financing activities	19	-135.8	57.9
Changes due to exchange-rate fluctuations		2.1	0.9
Changes in cash and cash equivalents	09	-27.0	-15.4
At the beginning of the year		310.5	325.9
At the end of the year		283.5	310.5

3.5 Statement of Changes in Equity

January 1 to December 31

€ million	Subscribed capital	Capital reserves	Treasury shares	Retained earnings	Other equity items	Total	Non-controlling interests	Total
Jan. 1, 2015	260.8	157.4	-45.1	2,152.9	-603.6	1,922.4	24.1	1,946.5
Net income for the year	-	-	-	246.7	-	246.7	-4.9	241.8
Dividends paid	-	-	-	-74.5	-	-74.5	-1.4	-75.9
Change in ownership interests in Siltronic AG	-	-	-	83.8	113.3	197.1	164.8	361.9
Income and expenses recognized in equity	-	-	-	-	276.5	276.5	44.3	320.8
Dec. 31, 2015	260.8	157.4	-45.1	2,408.9	-213.8	2,568.2	226.9	2,795.1
Jan. 1, 2016	260.8	157.4	-45.1	2,408.9	-213.8	2,568.2	226.9	2,795.1
Net income for the year	-	-	-	179.2	-	179.2	10.1	189.3
Dividends paid	-	-	-	-99.4	-	-99.4	-1.3	-100.7
Income and expenses recognized in equity	-	-	-	-	-268.6	-268.6	-35.2	-303.8
Scope of consolidation/ other	-	-	-	-	-	-	13.3	13.3
Dec. 31, 2016	260.8	157.4	-45.1	2,488.7	-482.4	2,379.4	213.8	2,593.2

3.6 Reconciliation of Other Equity Items

January 1 to December 31

€ million	Changes in fair values of securities available for sale	Difference from foreign currency translation adjustment	Changes in fair values of derivative financial instruments (cash flow hedge)	Remeasurement of defined benefit plans	Effects of net investments in foreign operations	Total
Attributable to Wacker Chemie AG shareholders						
Jan. 1, 2015	0.5	70.5	-28.5	-646.1	-	-603.6
Changes recognized in equity	-0.7	-	-48.6	131.9	-	82.6
Reclassification to the statement of income	-	-	52.0	-	-	52.0
Change in ownership interests in Siltronic AG	0.3	9.3	15.6	88.1	-	113.3
Changes in exchange rates	-	141.9	-	-	-	141.9
Dec. 31, 2015	0.1	221.7	-9.5	-426.1	-	-213.8
Jan. 1, 2016	0.1	221.7	-9.5	-426.1	-	-213.8
Changes recognized in equity	-	-	-8.1	-318.0	0.6	-325.5
Reclassification to the statement of income	-	2.2	12.4	-	-	14.6
Changes in exchange rates	-	42.3	-	-	-	42.3
Dec. 31, 2016	0.1	266.2	-5.2	-744.1	0.6	-482.4
Attributable to minority shareholders						
Jan. 1, 2015	-	-1.2	-	-	-	-1.2
Changes recognized in equity	0.3	-	-1.2	34.5	-	33.6
Reclassification to the statement of income	-0.3	-	11.3	-	-	11.0
Change in ownership interests in Siltronic AG	-0.3	-9.3	-15.6	-88.1	-	-113.3
Changes in exchange rates	-	-0.3	-	-	-	-0.3
Dec. 31, 2015	-0.3	-10.8	-5.5	-53.6	-	-70.2
Jan. 1, 2016	-0.3	-10.8	-5.5	-53.6	-	-70.2
Changes recognized in equity	0.3	-	-4.8	-38.2	0.5	-42.2
Reclassification to the statement of income	-	-	8.4	-	-	8.4
Changes in exchange rates	-	-1.4	-	-	-	-1.4
Dec. 31, 2016	-	-12.2	-1.9	-91.8	0.5	-105.4

3.7 Segment Information by Division

January 1 to December 31

€ million	Silicones	Polymers	Biosolutions	Polysilicon	Siltronic	Other	Consolidation	Group
2016								
External sales	2,001.0	1,176.4	206.4	1,008.7	928.3	83.4	–	5,404.2
Internal sales	0.1	18.4	–	86.8	5.1	79.2	–189.6	–
Total sales	2,001.1	1,194.8	206.4	1,095.5	933.4	162.6	–189.6	5,404.2
EBIT	280.8	223.7	25.7	–117.1	28.7	–76.0	0.4	366.2
Depreciation and impairments, and write-ups	80.4	37.3	11.3	403.0	117.2	86.2	–0.2	735.2
EBITDA	361.2	261.0	37.0	285.9	145.9	10.2	0.2	1,101.4
EBIT includes:								
Impairment of fixed assets	–	–	–	–2.5	–0.9	–	–	–3.4
Result from investments in joint ventures and associates	0.2	–	–	–	–	–	–	0.2
Asset additions ¹	88.6	37.5	9.1	130.0	89.5	72.9	–	427.6
Change in the scope of consolidation	26.1	–	11.2	–	–	–	–	37.3
Total asset additions	114.7	37.5	20.3	130.0	89.5	72.9	–	464.9
Assets (Dec. 31)	1,379.8	580.2	151.9	3,018.1	1,034.4	1,326.9	–29.7	7,461.6
Liabilities (Dec. 31)	851.8	291.2	70.9	1,168.1	631.4	1,879.5	–24.5	4,868.4
Net assets (Dec. 31)	528.0	289.0	81.0	1,850.0	403.0	–552.6	–5.2	2,593.2
Investments in joint ventures and associates included in net assets (Dec. 31)	11.2	–	–	–	–	–	–	11.2
Research and development expenses	37.9	17.5	6.2	16.9	66.5	41.4	–3.0	183.4
Employees (Dec. 31)	4,566	1,484	510	2,490	3,757	4,398	–	17,205
Employees (average)	4,468	1,480	508	2,448	3,811	4,403	–	17,118
2015								
External sales	1,942.8	1,162.5	197.1	978.9	923.8	91.1	–	5,296.2
Internal sales	0.5	23.0	–	84.7	7.5	106.4	–222.1	–
Total sales	1,943.3	1,185.5	197.1	1,063.6	931.3	197.5	–222.1	5,296.2
EBIT	194.5	184.4	21.0	162.6	4.5	–94.5	0.9	473.4
Depreciation and impairments, and write-ups	81.7	37.8	11.2	239.8	119.5	85.6	–0.2	575.4
EBITDA	276.2	222.2	32.2	402.4	124.0	–8.9	0.7	1,048.8
EBIT includes:								
Income from investments in joint ventures and associates	3.3	–	–	–	–	–	–	3.3
Asset additions ¹	82.0	47.4	6.2	581.8	75.1	41.5	–	834.0
Asset additions	82.0	47.4	6.2	581.8	75.1	41.5	–	834.0
Assets (Dec. 31)	1,309.3	589.9	149.3	3,132.0	1,016.1	1,096.3	–28.5	7,264.4
Liabilities (Dec. 31)	749.0	281.1	67.0	1,392.0	543.5	1,451.5	–14.8	4,469.3
Net assets (Dec. 31)	560.3	308.8	82.3	1,740.0	472.6	–355.2	–13.7	2,795.1
Investments in joint ventures and associates included in net assets (Dec. 31)	21.2	–	–	–	–	–	–	21.2
Research and development expenses	35.8	14.8	6.1	15.3	64.3	42.8	–3.8	175.3
Employees (Dec. 31)	4,353	1,461	491	2,373	3,894	4,400	–	16,972
Employees (average)	4,348	1,442	491	2,278	4,004	4,374	–	16,937

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

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

3.8 Segment Information by Region

January 1 to December 31

€ million	Germany	Rest of Europe	The Americas	Asia	Other regions	Consolidation	Group
2016							
External sales by customer location	710.8	1,183.2	950.9	2,340.5	218.8	–	5,404.2
External sales by Group company location	4,241.1	121.4	1,319.0	1,317.5	10.4	–1,605.2	5,404.2
Additions to property, plant and equipment ¹	245.5	9.8	138.6	33.6	0.1	–	427.6
Change in the scope of consolidation	–	11.2	–	26.1	–	–	37.3
Total asset additions	245.5	21.0	138.6	59.7	0.1	–	464.9
Assets (Dec. 31)	6,118.7	1,676.8	3,169.6	1,185.8	6.6	–4,695.9	7,461.6
Liabilities (Dec. 31)	3,888.3	194.9	1,689.5	822.8	2.9	–1,730.0	4,868.4
Net assets (Dec. 31)	2,230.4	1,481.9	1,480.1	363.0	3.7	–2,965.9	2,593.2
Noncurrent assets ²	1,573.5	62.3	2,484.4	557.5	3.0	–19.1	4,661.6
Research and development expenses	168.4	–	11.7	18.3	–	–15.0	183.4
Employees (Dec. 31)	12,138	387	2,013	2,608	59	–	17,205
2015							
External sales by customer location	684.9	1,202.7	945.1	2,253.1	210.4	–	5,296.2
External sales by Group company location	4,332.6	134.0	892.8	1,164.5	9.2	–1,236.9	5,296.2
Asset additions ¹	193.5	11.1	587.8	41.5	0.1	–	834.0
Asset additions	193.5	11.1	587.8	41.5	0.1	–	834.0
Assets (Dec. 31)	6,119.2	1,650.5	2,826.1	1,108.2	5.9	–4,445.5	7,264.4
Liabilities (Dec. 31)	3,550.2	182.5	1,436.2	825.6	2.0	–1,527.2	4,469.3
Net assets (Dec. 31)	2,569.0	1,468.0	1,389.9	282.6	3.9	–2,918.3	2,795.1
Noncurrent assets ²	1,712.5	43.6	2,483.3	610.4	3.1	5.4	4,858.3
Research and development expenses	150.9	–	12.4	14.2	–	–2.2	175.3
Employees (Dec. 31)	12,251	390	1,830	2,448	53	–	16,972

¹ Intangible assets; property, plant and equipment; investment property² Noncurrent assets as per IFRS 8 (excluding financial instruments, deferred tax assets and benefits after termination of the employment relationship)

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

Notes of the WACKER Group

Accounting Principles and Methods

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

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

↗ www.wacker.com/annual-report

Wacker Chemie AG and its subsidiaries are included in the consolidated financial statements of Dr. Alexander Wacker Familiengesellschaft mbH, Munich. The consolidated financial statements of Dr. Alexander Wacker Familiengesellschaft, Munich are disclosed to the publisher of the online German Federal Bulletin.

The Executive Board and Supervisory Board of Wacker Chemie AG submitted the declaration concerning the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) and made it accessible to the shareholders on WACKER's website.

↗ www.wacker.com/corporate-governance

The Executive Board and Supervisory Board of Siltronic AG submitted the declaration concerning the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) and made it accessible to the shareholders on Siltronic's website.

↗ www.siltronic.com/int/en/investor_relations/corporate_governance/corporate_governance_1.jsp

Wacker Chemie AG's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and the supplementary rules in

Section 315 a (1) of the German Commercial Code (HGB). The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are applicable to the current fiscal year have also been applied.

The fiscal year corresponds to the calendar year. Assets and liabilities are reported in the statement of financial position in line with their maturities. The Group classifies assets and liabilities as current if it expects to realize or settle them within 12 months of the reporting date. The statement of income is prepared using the cost-of-sales method. To improve the clarity of presentation, various items in the statement of income and the statement of financial position have been combined. These items are shown and explained separately in the Notes.

The Group's functional currency is the euro. All amounts are shown in millions of euros (€ million) unless otherwise stated. There may be slight deviations in the additions as all amounts have been rounded up to the nearest whole number after the decimal point.

Material events occurring after the balance sheet date are described in detail in the Supplementary Report. The Executive Board of Wacker Chemie AG authorized the consolidated financial statements on February 27, 2017. They will be submitted to and approved by the Supervisory Board at its meeting on March 7, 2017.

New Accounting Standards

The new or revised accounting standards applied for the first time in these consolidated financial statements concern:

- Annual improvements to IFRSs (2010–2012 cycle and 2012–2014 cycle)
- Amendments to IAS 1 (Disclosure Initiative)
- Amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations)

These did not, however, have a substantial impact on WACKER's earnings, net assets or financial position, nor any substantial impact on the presentation of its financial statements. Other standards and interpretations to be applied for the first time are not applicable due to the absence of relevant circumstances.

Accounting Standards/Interpretations Not Applied Prematurely

The International Accounting Standards Board (IASB) has published the following standards, interpretations, and changes to existing standards the application of which is not yet mandatory and which WACKER is not applying earlier than required. Only those standards that are relevant to WACKER are mentioned. WACKER continually evaluates every new standard to determine its impact on the consolidated financial statements.

Accounting Standards Published by the IASB, But Not Yet Applied

Standard / Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 14	Regulatory Deferral Accounts	Jan. 30, 2014	Jan. 1, 2016	Not to be adopted into EU law	None
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	Jan. 19, 2016	Jan. 1, 2017	Expected in Q2 2017	The amendments provide clarification concerning the recognition of deferred tax assets for measurement differences in relation to debt instruments classified as available for sale. Further, the amendments illustrate how to estimate future taxable profit, which serves as evidence of the value of deferred tax assets for loss carryforwards. This change does not have any impact on WACKER's earnings, net assets or financial position.
Amendments to IAS 7	Statement of Cash Flows – Disclosure Initiative	Jan. 29, 2016	Jan. 1, 2017	Expected in Q2 2017	The Notes should include a reconciliation – between the opening and closing balances for liabilities arising from financing activities – that discloses cash and non-cash changes. The disclosures in the Notes will be expanded to include this reconciliation.
IFRS 9	Financial Instruments	July 24, 2014	Jan. 1, 2018	Nov. 22, 2016	The revised version of IFRS 9 introduces a single approach to the classification and measurement of financial assets. This approach is driven by cash flow characteristics and the business model in line with which the assets are managed. Further, the standard provides a new impairment model that is based on expected credit losses. IFRS 9 also introduces new rules for hedge accounting with enhanced focus on an entity's risk management activities, especially with regard to managing non-financial risks. WACKER is currently examining the impact of applying IFRS 9 to its consolidated financial statements. We expect any impact on earnings, net assets and financial position to be insignificant in scope. Our disclosure obligations will increase.
IFRS 15	Revenue from Contracts with Customers	May 28, 2014	Jan. 1, 2018	Sept. 22, 2016	IFRS 15 sets out that an entity shall recognize revenue whenever the customer obtains control of, and can draw an economic benefit from, the promised goods and services. The transfer of significant risks and rewards of ownership is no longer of primary importance, as was still the case under the old IAS 18 "Revenue" rules. Revenue must be recognized in an amount that reflects the consideration to which an entity expects to be entitled. The new model provides a five-step framework for recognizing revenue, which first identifies the contract with a customer and the performance obligations it entails, and then determines and allocates the transaction price. The revenue must be recognized for each individual performance obligation when the customer obtains control of the good or service. WACKER is currently looking into the impact of the new standard. Its effects cannot be determined at present. The new standard will result in broader disclosure details in WACKER's financial statements.
Amendments to IFRS 15	Clarification of IFRS 15	April 12, 2016	Jan. 1, 2018	Q2 2017	None
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	June 20, 2016	Jan. 1, 2018	2nd half of 2017	None
Amendment to IFRS 4	Application of IFRS 9 in conjunction with IFRS 4	Sept. 12, 2016	Jan. 1, 2018	2017	None

Standard/ Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 16 – Leases	Lease accounting	Jan. 13, 2016	Jan. 1, 2019	2nd half of 2017	The new standard requires all lease arrangements held by the lessee to be recognized as finance transactions. A lease arrangement gives the lessee control over the use of an asset for a period of time in exchange for a consideration. Under the new definition, a leasing arrangement embedded in a supply contract for goods (IFRIC 4) should no longer be treated as a finance lease. In the future, a right-of-use is to be capitalized and the corresponding obligation posted as a liability. Straight-line depreciation of the right-of-use asset and application of the effective interest method to the liability result in depreciation and interest expense. In the Notes, WACKER currently reports operating lease obligations totaling €185 million. As yet, we have not evaluated the impact of the new standard. Under the new standard, disclosures will be more extensive in the Notes to WACKER's financial statements.
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	Sept. 11, 2014	Postponed	Post- poned – awaiting IASB exposure draft	None
Amendments to IAS 40	Transfers of Investment Property	Dec. 8, 2016	Jan. 1, 2018	2nd half of 2017	None
Annual improve- ments	Annual improve- ments to IFRS Standards (2014–2016)	Dec. 8, 2016	Jan. 1, 2017/ Jan. 1, 2018	2nd half of 2017	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Dec. 8, 2016	Jan. 1, 2018	2nd half of 2017	The interpretation determines the exchange rate to be used on initial recognition of a foreign currency transaction in an entity's functional currency when the entity pays or receives consideration in advance for the related asset, expense or income (or parts thereof). WACKER makes investment-related advance payments to a minor extent only. The advance payments received for polysilicon deliveries were all denominated in euros. Other advance payments are made on only a minor scale. As yet, we have not evaluated the clarification's impact. We expect only a marginal change in earnings, net assets and financial position.

Scope of Consolidation

The consolidated financial statements include the financial statements of Wacker Chemie AG and all companies over which Wacker Chemie AG has direct or indirect control as defined in IFRS 10, or can exercise common control as defined in IFRS 11. Depending on their structure, companies over which Wacker Chemie AG can exercise common control are included in the consolidated financial statements either proportionately (line-by-line) or accounted for using the equity method. In the absence of other limiting contractual agreements, holding a majority of the voting rights usually leads to control. Common control generally

exists when voting rights are equally balanced, except if other (contractual) rights result in control by one shareholder. Currently, no companies are included in the consolidated financial statements on a proportionate basis.

Associated companies in which Wacker Chemie AG can exercise significant influence as defined in IAS 28 are likewise accounted for using the equity method. Significant influence is presumed if Wacker Chemie AG directly or indirectly holds 20 percent of the voting rights in the investment, unless it can be clearly demonstrated that this is not the case.

Structured entities are also consolidated in the manner described in IFRS 10 if the economic substance of the relationship indicates the existence of control. WACKER includes one structured entity in its consolidated financial statements. This is a special trust to which Wacker Chemie AG has contributed funds. This trust fund was established exclusively for WACKER, and all shares in the fund are held by WACKER. Contractual provisions of this fund qualify it as a structured entity as defined in IFRS 10.

Companies in which Wacker Chemie AG has a shareholding of less than 20 percent or does not exercise significant influence are shown as other investments under noncurrent financial assets.

As it had no substantial impact on the Group's earnings, net assets or financial position, the w.e.l.t. Reisebüro GmbH subsidiary was not consolidated. In 2015, both its sales and its total assets were below €0.5 million.

A detailed list of the companies included in the consolidated financial statements and of Wacker Chemie AG's entire shareholdings is shown in the Breakdown of Shareholdings in accordance with Sections 285 and 313 of the German Commercial Code.

⇒ See Note 21 to the Consolidated Financial Statements

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Composition of the Group

Number	2016	2015
Fully consolidated subsidiaries (incl. parent company)	57	53
Germany	17	14
International	40	39
Companies consolidated using the equity method	2	3
Germany	–	–
International	2	3
Non-consolidated affiliated companies	1	1
Germany	1	1
International	–	–
Total	60	57
Germany	18	15
International	42	42
Structured entities	1	1
Germany	1	1
International	–	–

A total of 60 companies were included in the consolidated financial statements as of December 31, 2016 (Dec. 31, 2015: 57 companies). Compared with December 31, 2015, the scope of consolidation changed as follows:

Change in the Scope of Consolidation

%

Disposals / mergers of fully consolidated subsidiaries

Siltronic Asia Pte. Ltd., Singapore (merged into Siltronic Singapore Pte. Ltd., Singapore, as of Jan. 1, 2016)	100
Wacker Chemicals Trading (Shanghai) Co. Ltd., China (liquidation as of May 31, 2016)	100

Additions of fully consolidated subsidiaries

Wacker-Chemie Zehnte Venture GmbH, Germany (Feb. 1, 2016)	100
Wacker-Chemie Elfte Venture GmbH, Germany (Feb. 1, 2016)	100
Wacker-Chemie Zwölfte Venture GmbH, Germany (Feb. 1, 2016)	100
PT. Wacker Chemicals Indonesia, Indonesia (Oct. 1, 2016)	100
Wacker Biosolutions León, S.L.U., León, Spain (Dec. 15, 2016)	100

Reclassification of companies consolidated using the equity method as fully consolidated companies

Wacker Asahikasei Silicone Co. Ltd., Japan (Oct. 1, 2016)	50
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WACKER Biosolutions León s.l.u., León, Spain acquired large-scale fermentation lines from Antibioticos de León by means of an asset deal in December 2016. The purchase price for the facilities amounted to a low double-digit million euro figure, which was capitalized in property, plant and equipment.

On October 1, 2016, WACKER took control of Wacker Asahikasei Silicone Co. Ltd., Tokyo, Japan by contractually agreeing a purchase option to acquire an additional stake in the company. Due to the vested purchase option, exercisable at any time, WACKER has the right to increase its share from 50 percent to 51 percent. Previously accounted for using the equity method, WACKER now recognizes this joint venture as a subsidiary in accordance with IFRS 10. The effect of the change in the scope of consolidation on the Group's earnings, net assets and financial position is presented in the Acquisitions and Majority Takeovers in Fiscal 2016 section of the Notes.

⇒ See p. 130 of the Notes

Legal, contractual or regulatory restrictions and protective rights concerning non-controlling interests can limit the Group in its ability to retain access to assets, transfer these to or from other companies unhindered within the Group, and to settle Group debts. The distribution of dividends can be limited by the prioritization of retirement of shareholder loans. At the reporting date, there were no significant restrictions due to protective rights to the benefit of non-controlling interests. For more information, please refer to the Notes (Equity/Non-Controlling Interests/Capital Structure Management).

⇒ See Note 10

In certain countries, regulatory requirements or local corporate-law stipulations can limit the Group's ability to transfer assets to or from other companies within the Group. Cash and cash equivalents are subject to local foreign-exchange restrictions in some Asian and South American countries. Capital may be exported from such countries only with prior approval from government authorities and by means of capital measures (dividends, capital reductions). There are no other significant limitations on assets utility within the Group.

Consolidation Methods

The consolidated financial statements are based on the separate financial statements of Wacker Chemie AG and its consolidated subsidiaries, joint arrangements and structured entities. The balance sheet date for all of these companies is December 31.

All key reporting data of these companies was audited by independent auditors prior to inclusion in the consolidated financial statements.

Business combinations are recognized by applying the purchase method as defined in IFRS 3. The acquisition cost is shown as the sum of fair values at the date of purchase of the assets transferred, of the liabilities incurred or assumed, and of any equity instruments issued in exchange for control of the acquiree. In addition, it contains the fair values of assets and liabilities arising from contingent consideration arrangements. Assets, liabilities and contingent liabilities identified as part of the acquisition during initial consolidation are measured at fair value as of the acquisition date.

For each acquisition, the individual option exists of measuring any shares not acquired either at fair value or at the proportionate share of the fair value of the acquiree's net assets. These non-controlling interests are recognized in the statement of financial position under the line item of the same name.

Costs associated with the business combination are recognized as expenses, insofar as these do not concern costs of issuing debt instruments or equity securities.

Goodwill is the acquisition-date value resulting from the surplus of acquisition costs, from any existing non-controlling interests and from the fair value of any previously held equity interests in excess of the acquiree's net assets measured at fair value. Negative differences are recognized in profit or loss immediately after undertaking an additional review of the purchase price allocation.

Investments accounted for using the equity method are initially measured at cost when the acquisition is made. If the cost exceeds the pro rata share of equity, the difference (goodwill) is included in the carrying amount of the investment. The carrying amount has to be tested for possible impairment losses as of the balance sheet date. If the cost is lower than the share of equity at the time of acquisition, this difference is included in the carrying amount and recorded in the statement of income as income from investments in joint ventures and associates. The carrying amounts for these companies are increased or decreased annually to reflect their pro rata earnings, dividend payouts or other changes in equity. If there is any indication that the value of the investment has been permanently reduced, an impairment is recognized in profit or loss. Long-term interests that, in substance, form part of the investor's net investment in the entity are included in the statement of changes in equity.

Interim results, sales, expenses, income, receivables and liabilities between the consolidated companies, as well as pro rata profits and losses resulting from transactions with associated companies, are eliminated. For those consolidation entries affecting income, the income tax effect is taken into account and deferred taxes are included.

Estimates and Assumptions Used in Acquisitions and Consolidation

The determination of the fair values of the acquired assets and liabilities requires certain estimates and assumptions, especially concerning the acquired intangible assets and property, plant and equipment, as well as the liabilities assumed and the useful lives of the acquired intangible assets, property, plant and equipment.

Measurement is based to a large extent on anticipated cash flows. If actual cash flows vary from those used in calculating fair values, this may affect future net income.

For significant business combinations, the purchase price allocation is carried out with assistance from independent third-party valuation specialists. The valuations are based on information available at the acquisition date.

Various judgments can be made whenever it is necessary to evaluate whether control, common control or significant influence exists for entities in which WACKER holds less than 100 percent of the voting rights. Primarily in cases where WACKER holds 50 percent of the voting rights, it must be assessed whether there are additional contractual rights or, in particular, factual circumstances that could result in WACKER having the right to make decisions regarding the potential subsidiary, or whether common control exists.

Changes to the contractual agreements or factual circumstances are monitored and assessed in terms of their possible impact on the evaluation of whether control or common control exists.

Acquisitions and Majority Takeovers in Fiscal 2016

On October 1, 2016, WACKER and Asahikasei Corporation signed an agreement for the purchase of a call option for an additional 1 percent of the shares in the subsidiary Wacker Asahikasei Silicone Co. Ltd., Japan (AWS) at a value of one Japanese yen. Up until that point in time, both shareholders had held 50 percent in the company and operated it as a joint venture. Due to this call-option agreement and the resulting potential voting rights, WACKER is deemed under IFRS 10 to have assumed control over this company, which had previously been accounted for using the equity method. The company was fully included in WACKER's consolidated financial statements as of October 1, 2016. AWS produces various silicone products for Asian markets, in particular for Japan. The call option secures WACKER the possibility of acquiring control of the company in order to exert greater influence on its future growth.

The carrying amount of the stake previously accounted for using the equity method totaled €6.6 million as of October 1, 2016. A business valuation carried out by an external expert using an actuarial model resulted in a positive value adjustment of this stake in the amount of €9.9 million. The valuation was based on the company's cash flow planning. Remeasurement as part of the deemed disposal of the previously held equity interests and currency-translation effects previously recognized within other comprehensive income resulted in other operating income of €10.0 million.

The purchase price allocation was concluded on December 31, 2016. At the acquisition date, the fair value of the acquired assets totaled €48.7 million, with €23.2 million in noncurrent assets and €25.5 million in current assets. The fair value of the acquired liabilities amounted to €22.2 million, with €11.1 million in noncurrent liabilities and €11.1 million in current liabilities. The transaction resulted in a small amount of goodwill of €3.2 million.

Full consolidation had no substantial impact on the Group's sales and earnings. In Q4 2016, AWS posted sales of €12.9 million, EBITDA of €0.9 million and net income for the year of €0.7 million. The acquired receivables had a fair value of €7.8 million and solely comprised trade receivables. The fair value corresponded to the gross value of the receivables. Asahikasei's non-controlling interest amounted to €13.2 million as of October 1, 2016.

Foreign Currency Translation

In the Group companies' separate financial statements, all of the receivables and liabilities in foreign currencies are translated at the rate prevailing on the balance sheet date, regardless of whether or not they have been hedged. Forward contracts that, from an economic point of view, are used for hedging are reported at fair value. The resulting translation differences are recognized in profit or loss or, if cash flow hedges are in place, recognized directly in equity under other equity items.

The financial statements of consolidated companies that are prepared in foreign currencies are translated on the basis of the functional currency principle using the modified reporting date rate method, in which balances are translated from the functional currency to the reporting currency using the average rates of exchange prevailing on the balance sheet date, while income statement amounts are translated using the average exchange rates of the period. As the Group's subsidiaries conduct their business from an autonomous financial, economic and organiza-

tional point of view, their functional currencies are basically identical to the respective local currency. Any net gains or losses arising from the translation of equity are recognized directly in equity under other equity items. Translation differences resulting from divergent exchange rates in the statement of income are likewise included there. If Group companies are removed from the scope of consolidation,

any translation difference is reclassified from equity to profit or loss.

The exchange rates between the most important currencies reported in these financial statements and the euro were as follows:

	ISO code	Exchange rate as of		Average exchange rate	
		Dec. 31, 2016	Dec. 31, 2015	2016	2015
US dollar	USD	1.05	1.09	1.11	1.11
Japanese yen	JPY	123.15	131.41	120.08	134.27
Singapore dollar	SGD	1.52	1.54	1.53	1.52
Chinese renminbi	CNY	7.31	7.09	7.35	6.97

Estimates and Assumptions Used in Preparing Consolidated Financial Statements

The preparation of the consolidated financial statements in compliance with IFRS necessitates assumptions and estimates affecting the amounts and the reporting of the recognized assets and debts, income and expenses, and contingent liabilities. These assumptions and estimates comply with the conditions and appraisals prevailing on the balance sheet date. In this regard, they also impact the amount of income and expenses reported on for the fiscal years in question. The assumptions on which the estimates are based relate primarily to the uniform determination of useful lives throughout the Group, the ascertainment of fair values of financial instruments, the recognition and measurement of provisions, the realizability of future tax benefits, and determination of discounted cash flows made in connection with impairment tests and purchase price allocations.

In individual cases, the actual values may differ from the assumptions and estimates that were made. Changes in value are recognized as soon as they become apparent and affect the net results for the period when the change occurred and, if applicable, in future reporting periods.

Intangible Assets and Property, Plant and Equipment/ Investments in Associates Accounted for Using the Equity Method

The expected useful life of intangible assets and of property, plant and equipment, together with their amortization/ depreciation schedules, are based on past experience, plans and estimates. This includes estimates of the

period and allocation of future cash inflows derived from the investments made, as well as future technical advancements and ongoing replacement and development cycles.

Impairment tests are performed for assets if specific indicators point toward a possible impairment loss or reversal of an impairment loss. In the case of a possible impairment, an estimate must be made of the recoverable amount of the affected asset that corresponds to the higher of either the fair value less costs to sell or the value in use. When determining the recoverable amount during the impairment test, it is necessary to make estimates based on share prices, on prices of comparable transactions, or on the net present value method or other valuation methods or combinations thereof. That, in turn, calls for estimates and assessments by management. To ascertain the value in use, the discounted future cash flows of the affected asset must be determined. The estimate of the discounted future cash flows contains significant assumptions such as, in particular, those regarding future selling prices and sales volumes, costs, and discount rates. Although WACKER is assuming that the estimates of the relevant expected useful lives and of discounted future cash flows, as well as the assumptions regarding the general economic conditions and the development of the economic sectors are reasonable, a change in the assumptions or circumstances might necessitate a change in the analysis. This could result in significant deviations from the figures posted, which may lead to additional impairments or reversals of impairment losses.

⇒ See Note 04

Financial Instruments

Financial instruments are recognized at fair value, while other assets and liabilities are disclosed at fair value in the notes to the financial statements. Calculation of the fair value of financial instruments may require making extensive estimates. The level of estimates is determined by the extent to which non-observable input parameters are taken into account. When calculating fair value, WACKER strives to include as many observable input parameters as possible and to keep the use of non-observable factors to a minimum. If the fair value cannot be reliably determined, the carrying amount is taken as an approximate value to determine fair value.

In accordance with IFRS 13, financial instruments that are measured or recognized at fair value in the consolidated financial statements must be measured and classified according to the fair value hierarchy. This hierarchy consists of three levels, to which the input parameters are assigned in accordance with the extent to which they are observable during the corresponding measurement process.

⇒ See Note 18

Provisions

Significant risks inherent in environmental protection provisions and in provisions for damages and onerous contracts are possible changes in future cost/benefit estimates, changes in the likelihood of their utilization, and enhanced statutory rules concerning the elimination and prevention of environmental damage. Changes in the discount rate also lead to changes when determining noncurrent provisions. The current environment of low interest rates leads to increases in the carrying amount of noncurrent provisions.

⇒ See Note 12

Pensions and similar obligations are accounted for in accordance with actuarial valuations, which are based on statistical and other factors in order to anticipate future events. The factors include the discount rate, expected salary and pension increases, the mortality rate and rate increases for preventive healthcare. 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. In particular, the current environment of low interest rates had an impact on the carrying amount of pension provisions.

⇒ See Note 11

The pension-obligation amount is determined by discounting the WACKER-specific, expected future cash flows. The discount rate is derived from the yield curve of high-grade, fixed-interest corporate bonds with maturities matching the pension obligations, as calculated at the balance sheet date. The bonds are all denominated in the same currency as their underlying pension obligations and have a rating of at least AA from one of the three major rating agencies. In Germany, the basis is a bond portfolio determined as of the closing date using Bloomberg and with a maturity that nearly matches the maturity of the pension obligation.

Provisions for uncertain tax positions are established whenever the probability of their occurrence exceeds 50 percent. WACKER reassesses contributions to provisions for uncertain tax positions annually, based on past experience.

Deferred Taxes

At the end of each reporting period, the Group assesses whether the probability of future tax benefits being realized is sufficient to recognize deferred tax assets. Among other things, this requires that management evaluate the tax benefits resulting from currently available tax strategies and future taxable income, as well as taking additional positive and negative factors into account. In the case of companies that have posted tax losses in the past, deferred tax assets are capitalized only in exceptional cases if substantial indications of their realization exist.

Accounting and Valuation Methods

The financial statements of Wacker Chemie AG and its German and international subsidiaries are prepared in accordance with uniform accounting and valuation principles.

The accounting methods correspond to those used for the last consolidated financial statements as of the end of the previous fiscal year. They have been supplemented by new accounting standards to be applied for the first time in the reporting year. The Group's consolidated financial statements are based on acquisition and production costs (historical costs), with the exception of the items reflected at fair value, such as available-for-sale financial assets, derivatives, and plan assets within the scope of pension obligations.

Sales

Sales encompass the fair value of the consideration or receivable for the goods and services that were sold within the scope of ordinary activities. These are reported net of VAT and other taxes incurred in connection with sales and without discounts and price reductions. Sales revenues are recognized when the goods and services owed have been delivered and the main opportunities and risks of ownership have passed to the purchaser. Usually, this takes place when the goods are transferred to the customer or as stipulated in the agreed transport conditions. Sales from services are recognized once services are rendered. Sales are not reported if there are risks attached to the receipt of the consideration. Provisions are recognized for risks from returns of finished goods and merchandise, warranties and other complaints using the principle of individual evaluation. Information on the development of sales by division and region is provided in the section on segment reporting. WACKER does not conduct any business that requires recognizing sales as long-term production contracts.

Functional Costs

Cost of goods sold shows the costs of the products, merchandise and services sold. In addition to directly attributable costs, such as material costs, personnel expenses and energy costs, it includes indirect costs including depreciation and inventory writedowns. This item also includes the cost of outward freight. Selling expenses include costs incurred by the sales organization and the cost of advertising, market research, and application support on customers' premises. This item also includes commission expenses. General administrative expenses include the pro rata payroll and material costs of corporate control functions, human resources, accounting and information technology, unless they have been charged as an internal service to other cost centers and thus, in certain circumstances, to other functional areas.

Research and Development Expenses

Research and development expenses include costs incurred in the development of products and processes. Research costs in the narrow sense are recognized as expenses when they are incurred, and are not capitalized. Development costs are capitalized only if all the prescribed recognition criteria have been met, the research phase can be separated clearly from the development phase, and the costs incurred can be allocated to the individual project phases without any overlaps. Additionally, there must be sufficient certainty that future cash inflows will take place.

Income Taxes

This item includes current income taxes as well as deferred taxes. Current income taxes are calculated based on the respective national tax results and regulations applicable in the reporting year. These taxes also contain adjustment amounts for any incurred tax payments or tax refunds from outstanding tax returns and from tax audits from prior years. Discretion must be exercised when determining income tax provisions. WACKER determines appropriate provisions for expected risks from tax audits (uncertain tax positions).

Deferred tax assets and liabilities are recognized for temporary differences between tax bases and carrying amounts, and for consolidation measures recognized in the statement of income. The deferred tax assets include tax relief entitlements resulting from the anticipated use of existing loss carryforwards in future years, the realization of which is 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. The deferred tax assets and liabilities are netted out only to the extent possible under the same tax authority. Deferred tax assets and liabilities are recognized in the statement of income. In cases where profits or losses are recognized directly in equity, the deferred tax asset or liability is likewise posted under other equity items.

Intangible Assets

Pursuant to IAS 38, acquired and internally generated intangible assets are capitalized if it is probable that a future economic benefit can be associated with the use of the asset and the costs of the asset can be determined reliably. They are measured at cost and, if their useful lives can be determined, amortized on a straight-line basis. The useful life is taken to be between three and 15 years unless otherwise indicated, e.g. by the life of a patent. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. Amortization of intangible assets is allocated to the functional areas that use the assets. Intangible assets with indefinite useful lives undergo an annual impairment test. At present, no intangible assets with indefinite useful lives have been capitalized.

Goodwill is not amortized. Existing goodwill undergoes an annual impairment test. If the impairment test indicates a recoverable amount that is lower than the carrying amount, the goodwill is reduced to its recoverable amount and an impairment loss is recognized. Furthermore, the intrinsic value is examined when events or circumstances indicate possible impairment. Impairments of goodwill are presented under other operating expenses.

Property, Plant and Equipment

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over its expected economic life. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. In addition to the purchase price, acquisition costs include incidental acquisition costs as well as any costs incurred in the demolition, dismantling, and/or removal of the asset in question from its site and in the restoration of that site. Any reductions in the price of acquisition reduce the acquisition costs. The cost of internally generated assets includes all costs directly attributable to the production process as well as an appropriate portion of the production-related overheads. Financing costs that were incurred in connection with particular, qualifying assets and which can be attributed directly or indirectly to them are capitalized as part of acquisition or production costs until the assets are used for the first time.

Day-to-day maintenance and repair costs are expensed as incurred. Costs for replacing parts or carrying out major overhauls of property, plant and equipment are capitalized if future economic benefits are likely accrue to the Group and if the costs can be measured reliably.

Grants from third parties reduce acquisition and production costs. Unless otherwise indicated, these grants (investment subsidies) are provided by government bodies. Income grants for which there are no future expenses are recognized as income. Until the funds have been received, grants are recognized as separate assets.

If property, plant and equipment is permanently shut down, sold or given up, the acquisition or production costs are derecognized, along with the corresponding accumulated depreciation. Any resulting gain or loss from the difference between the sale proceeds and the residual carrying amount is recognized under other operating income or expenses.

Property, plant and equipment also includes assets relating to leasing transactions. Items of property, plant and equipment financed by means of finance leases are recognized at fair value at their time of addition, unless the present values of the minimum lease payments are lower. The assets are depreciated on a straight-line basis over the expected useful life or the contractual term, if shorter. The obligations resulting from future lease payments are recognized under financial liabilities. The lease installments to be paid are split up into a redemption component and an interest component, in accordance with the effective interest method.

Depreciation of property, plant and equipment is generally based on the following useful lives:

In years	Useful life
Production buildings	10 to 40
Other buildings and similar rights	10 to 30
Technical equipment and machinery	6 to 12
Motor vehicles	4 to 10
Factory and office equipment	3 to 12

The impairment is tested when relevant events or changes in circumstances indicate that it might no longer be possible to realize the net carrying amount of intangible assets, and property, plant and equipment. At the end of every reporting period, WACKER checks whether there are triggering events for recognizing (or reversing) impairments. An impairment loss is then recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of either the fair value less costs to sell or the value in use. The value in use results from the present value of the estimated future cash flows from the use of the asset. In order to assess this value, pre-tax interest rates are used that have been adjusted to reflect the segment-specific risk. In order to determine the cash flow, assets are combined at the lowest level for which cash inflows can be identified separately (cash-generating units). If the reasons for recognizing impairments no longer exist, impairment losses are reversed as required. The revised amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. Impairments are reported under other operating expenses and reversals of impairment losses under other operating income.

Investment Property

Like property, plant and equipment, investment property is measured in accordance with the cost model. It consists of land and buildings that are held to earn rental income or for capital appreciation. The fair value of this property is regularly measured through external property valuations.

Leases

Leasing transactions are classified either as finance leases or as operating leases. Assets used under an operating lease are not capitalized. Lease payments to be made are recognized in profit or loss in the period in which they fall due. A finance lease is a leasing arrangement in which essentially all of the risks and rewards inherent in the ownership of the property are transferred to the lessee. Assets used under a finance lease are recognized at the present value of the minimum lease payments. Leasing contracts can be embedded within other contracts. If there is a separation obligation for an embedded leasing arrangement in accordance with IFRS rules, the contractual components are separated, and recognized and measured according to the respective rules.

Investments, Associated Companies and Joint Ventures

Shares in non-consolidated affiliated companies and investments are measured at cost, unless divergent market values are available. Changes in market values are posted to the statement of income upon realization through disposal or if the market value falls below the acquisition cost. Loans are measured at amortized cost, except for non-interest-bearing and low-interest loans, which are recognized at their present value.

Investments in joint ventures and associates are accounted for using the equity method, with the carrying amount generally reflecting the Group's pro rata share of equity. Pro rata net results are posted to the consolidated income statement, and the carrying amount is increased or decreased accordingly. Any changes in equity recognized directly in the investee's equity are also recognized directly in equity in the consolidated financial statements. Dividends paid by joint ventures and associates reduce their equity and, therefore, reduce the carrying amount without affecting profit. If a joint venture or associate faces losses that have exhausted its equity, no further losses are taken into account unless there are noncurrent unsecured receivables against the company, or the Group has entered into additional obligations or made payments for the company. The carrying amount is not increased until the loss carry-forward has been compensated for and the equity is positive again.

Additionally, an impairment test is carried out in the presence of corresponding indications and, where necessary, an impairment is recognized. The recoverable amount is determined in accordance with IAS 36 regulations. Impairment losses are reported in the result from investments in joint ventures and associates.

Financial Instruments

Financial assets and liabilities are recognized in the consolidated financial statements when WACKER becomes a contracting party to the financial instrument. They are derecognized when the contractual rights or liabilities are fulfilled or rescinded or when they expire.

In the case of regular way purchases or sales, however, the settlement date – i.e. the date on which the asset is delivered to or by WACKER – is relevant for initial recognition and derecognition. In general, financial assets and financial liabilities are not netted. A net amount is presented in the statement of financial position if, and only if, the entity currently has a right to net the recognized amounts and intends to settle on a net basis. Where financial instruments are combined, borrowed capital and equity components are separated and shown separately by the issuer.

Financial instruments are measured at fair value on initial recognition. The transaction costs directly attributable to the acquisition must be taken into account for all financial assets and liabilities not subsequently measured at fair value through profit or loss. The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets and liabilities. If these are not directly available, they must be calculated using standard valuation models on the basis of current market parameters.

Financial assets at WACKER comprise, in particular, cash and cash equivalents, trade receivables, loans granted and other receivables, held-to-maturity financial investments, and primary and derivative financial assets held for trading. Financial liabilities must generally be settled using cash or another financial asset. Financial liabilities include, in particular, the Group's own bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes (German *Schuldscheine*) and derivative financial liabilities.

WACKER makes no use of its option to measure financial assets and liabilities at fair value through profit or loss on initial recognition (fair value option).

The manner in which financial assets and liabilities are subsequently measured depends on how a financial instrument is classified into the following categories pursuant to IAS 39: financial instruments can be “held for trading” or “held to maturity” and assigned to the “available for sale” or “loans and receivables” category.

Financial instruments held for trading are measured at fair value through profit or loss. This category also includes all derivative financial instruments that do not qualify for hedge accounting.

If it is both intended and, in economic terms, to be expected with sufficient certainty that a financial instrument will be held to maturity, the instrument in question is measured at amortized cost using the effective interest method. Held-to-maturity financial investments include current and noncurrent securities, and components of items reported under other financial assets.

Loans and receivables are non-derivative financial assets that are not quoted in an active market. They are measured at amortized cost using the effective interest method. This category comprises trade receivables, the receivables and loans included in other financial assets, fixed-term deposits and cash and cash equivalents.

All other primary financial assets, if they are not loans and receivables, must be classified as available for sale and are reported at fair value if it can be determined reliably. Basically, these assets comprise equity instruments, and also debt instruments not being held to maturity. Unrealized gains and losses are recorded taking account of deferred taxes and are recognized in other equity items with no effect on income. If equity instruments have no price quoted on an active market and if their fair value cannot be determined reliably, they are measured at cost.

If the fair value of available-for-sale financial assets falls below the acquisition costs or there are objective signs that an asset's value has been impaired, the cumulative loss recognized directly in equity is reversed and shown in the statement of income. The company bases its assessment of possible impairments on all available information, such as market conditions and prices, investment-specific

factors, and the duration and extent of the drop in value below acquisition costs. Impairments affecting a debt instrument are reversed in subsequent periods, provided that the reasons for the impairment no longer apply. When the financial instruments are disposed of, the cumulative gains and losses recognized in equity are included in the statement of income.

Primary financial liabilities are subsequently measured at amortized cost using the effective interest method.

Derivative Financial Instruments

Derivative financial instruments are used for hedging purposes with the sole aim of reducing the Group's exposure to foreign-currency exchange rates, interest rates, and commodity price risks arising from operating activities and the resultant financing requirements. Derivative financial instruments are recognized as of the trade date. They are always recognized at fair value, irrespective of the purpose or intention for which they were concluded. Positive fair values are recognized as receivables and negative fair values as liabilities. Differences resulting from fair value measurement are recognized in profit or loss.

Where derivative financial instruments are used to hedge risks stemming from future payment flows and items in the statement of financial position, WACKER applies hedge accounting in accordance with the requirements of IAS 39. Changes in the market values of financial instruments used to hedge risks stemming from payment flows (cash flow hedges) are recognized in other equity items, taking deferred taxes into account, until the hedged item has been realized. The profit contribution of the hedging transaction is recognized in the statement of income under other operating income and expenses when the hedged item is realized. If such a derivative is sold or the hedging relationship is discontinued, the change in its value continues to be reported under other equity items until the underlying transaction occurs. Ineffective parts of the hedging transaction are immediately recognized in profit or loss. Fair value hedges of recognized assets or liabilities and/or unrecognized fixed contractual obligations entail the recognition in profit or loss of market value changes for both the hedged item and the financial derivative (as the hedging instrument). At the moment, WACKER does not hedge any net investments in foreign operations.

Contracts concluded 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.

Currency hedges, e.g. for planned sales, are recognized under other operating income and expenses, while interest rate hedges are recognized in net interest income. Foreign exchange derivatives concluded to hedge financial liabilities assumed in foreign currencies are posted under other financial result. Changes in the fair value of raw-material hedges are recognized under cost of goods sold.

Inventories

Inventories are measured at cost using the average cost method. Lower net realizable values or prices as of the reporting date are taken into account by writing down inventories to the fair value less costs to sell. The cost of goods sold includes directly attributable costs, appropriate portions of indirect material and labor costs, and straight-line depreciation. Due to the relatively short-term nature of the production processes, financing costs are not included. For production-related reasons specific to the chemical industry, unfinished and finished goods are reported together. Raw materials and supplies also include spare parts for the day-to-day maintenance of production facilities. The latter are likewise measured according to their periods of storage and potential usability.

Emissions certificates allotted free of charge are measured at a nominal value of zero. Emissions allowances acquired against payment are carried at cost. If the fair value is lower as of the reporting date, the carrying amount is reduced accordingly. Utilization is determined via the running average value of certificates, whether they were allotted free of charge or acquired against payment, and recognized pro rata as expenses under cost of goods sold on the basis of the quarterly emissions.

Financial Assets and Income Tax Receivables

Trade receivables and other financial and non-financial assets, including income taxes paid (but excluding financial derivatives), are recognized at amortized cost. Risks are taken into account by means of appropriate valuation allowances in separate valuation-allowance accounts. Valuation allowances for uninsured receivables – or for the deductible in the case of insured receivables – are made whenever collection of such receivables is assessed to be no longer probable according to information available.

If payment of a receivable is no longer expected under the factual and legal circumstances, the gross receivable is derecognized and any valuation allowances made are reversed. Expenses from valuation allowances and derecognition are reported under other operating expenses. Changes in income tax receivables are posted under income taxes in the statement of income. Non-current receivables that are non-interest-bearing or low-interest-bearing are discounted. WACKER is not a contractor for long-term production orders.

Cash and cash equivalents comprise cash in hand, demand deposits, and financial assets that can be converted into cash at any time and are subject to only slight fluctuations in value and have a residual term of up to three months. They are measured at amortized cost, which is equivalent to their nominal values.

Provisions for Pensions and Similar Obligations

Defined-benefit pension commitments are measured in accordance with the projected unit credit method. This method takes account not only of pensions and entitlements to future pensions known as of the balance sheet date, but also of estimated increases in salaries and pensions. Moreover, the measurement is based on actuarial valuations and takes account of biometric and financial calculation principles. The fair value of the plan assets is subtracted from the present value of the pension obligations (defined benefit obligation, DBO), resulting in either a net liability or net assets of the defined benefit plans. The prior year's underlying DBO assumptions are used to determine the current service cost. The net interest cost in the fiscal year is determined by applying the discount rate set at the beginning of the year to the net liability calculated at the same time. The net interest from the net pension liability is the difference between the calculated interest income from plan assets and the interest expense from the defined benefit obligation.

Remeasurements comprise actuarial gains and losses stemming from the difference between the estimate at the start of the period and actual developments during the period – or a newer estimate on the balance sheet date – in relation to probable mortality rates, retirement and salary trends and discount rates. They are recognized immediately in other comprehensive income. Similarly, differences between the interest income from plan assets calculated at the start of the period and the actual income from plan assets determined at the end of the period are recognized in other comprehensive income.

If the present value of a defined benefit obligation changes due to a plan modification or curtailment, WACKER recognizes the resultant effect as past service cost. This is immediately recognized through profit or loss when it occurs. The profits and losses resulting from settlement are also recognized immediately in the statement of income when settlement takes place. Administrative expenses that are not related to the management of plan assets are also recognized through profit or loss when incurred.

The expense from current and past service cost is allocated to the costs of the functional areas concerned. The net interest is posted under other financial result.

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Provisions for phased early retirement and anniversaries are measured and set aside in accordance with actuarial appraisals. Owing to their structure, provisions for phased early retirement also constitute other noncurrent employee benefits in accordance with IAS 19 since they are linked to the rendering of future service. WACKER uses only a block model when structuring phased-early-retirement agreements. The corresponding provisions are recognized pro rata over the service period of the claim during the work phase.

Provisions

Provisions are recognized in the statement of financial position for present legal or constructive obligations toward third parties if an outflow of resources to settle these obligations is probable and its amount can be estimated reliably. The amounts recognized are based on the estimated amounts that will be required to cover the Group's future payment obligations, identifiable risks and contingencies. Noncurrent provisions are measured at

the discounted present value as of the reporting date. The discount rate applied is the market interest rate for risk-free investments with terms corresponding to the residual term of the obligation to be settled. Expected refunds, provided that they are sufficiently secure or legally enforceable, are not offset against provisions. Instead, they are capitalized as separate assets if their realization is virtually certain.

Provisions for restructuring costs are recognized if a detailed formal plan for restructuring has been drawn up and conveyed to the affected parties. Provisions for contingent losses arising from onerous contracts are recognized if the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the contractual obligations. Provisions for environmental protection are recognized if the future cash outflows for complying with environmental legislation or for cleanup measures are likely, the costs can be estimated with sufficient accuracy and no future acquired benefit can be expected from the measures.

If an amended estimate results in a reduction in the scope of the obligations, a proportion of the provision is reversed and the earnings are allocated to the functional area originally charged with the expense when the provision was set aside.

Financial Liabilities and Other Financial Liabilities

On initial recognition, primary financial liabilities are measured at fair value less any transaction costs incurred. They are subsequently measured at amortized cost using the effective interest method. Derivative financial instruments are recognized at fair value. Liabilities from finance lease agreements are shown as financial liabilities at the present value of the future lease installments.

Contingent Liabilities

Contingent liabilities are potential obligations toward third parties or existing obligations for which an outflow of resources is unlikely or the amount of the obligation cannot be estimated with sufficient certainty. Contingent liabilities are not recognized in the statement of financial position.

Changes in Accounting and Valuation Methods

There were no changes in accounting and valuation methods in 2016.

01 Sales/Cost of Goods Sold/Other Operating Income/Other Operating Expenses

€ million	2016	2015
Sales		
Proceeds from deliveries of products and merchandise	5,347.6	5,239.1
Proceeds from other services	56.6	57.1
Total	5,404.2	5,296.2
Cost of goods sold		
Cost of goods sold	-4,413.5	-4,167.1
Cost of goods sold includes the following reversals (+)/recognitions (-) of valuation allowances of inventories	-21.5	1.6
Other operating income		
Income from currency transactions	99.8	196.2
Income from reversal of provisions	9.0	3.5
Insurance compensation	6.0	2.7
Income from reversal of valuation allowances for receivables	1.1	1.7
Income from disposal of property, plant and equipment and financial assets	6.6	3.3
Income from the appreciation of noncurrent assets	-	0.5
Income from incentives/grants	1.8	2.6
Income from changes in the scope of consolidation	10.0	-
Income from the termination of long-term supply contracts and damages received	20.3	137.6
Other operating income	39.7	29.3
Total	194.3	377.4
Other operating expenses		
Losses from currency transactions	-117.3	-265.3
Losses from valuation allowances for receivables	-0.3	-0.5
Losses from disposal of assets	-2.6	-3.1
Losses from impairment of fixed assets	-3.4	-0.1
Other operating expenses	-44.0	-143.7
Total	-167.6	-412.7

The increase in valuation allowances of inventories results from writing down the high production costs incurred during the start-up phase of the polysilicon facilities in Charleston, Tennessee.

Income from the termination of long-term supply contracts and from the retention of advance payments relates in both 2016 and 2015 to advance payments retained and damages received from terminated or restructured contracts with polysilicon customers.

Other operating expenses of the prior year mainly comprise uncapitalized costs relating to the construction of polysilicon facilities in Charleston.

02 Income from Investments in Joint Ventures and Associates/Other Investment Income/Net Interest Income/Other Financial Results

€ million	2016	2015
Result from investments in joint ventures and associates		
Result from investments in joint ventures and associates	0.2	3.3
Of which share of income from joint ventures	3.2	4.2
Of which share of income from associated companies	-3.0	-0.9
Other investment result		
Other investment expenses/investment income	0.9	-0.2
Total	0.9	-0.2
Net interest result		
Interest income	6.0	7.3
Of which from available-for-sale financial instruments	0.4	0.4
Of which from financial instruments, loans and receivables	5.6	6.7
Interest expenses	-42.4	-31.8
Of which from financial liabilities (excluding finance leases)	-39.0	-29.8
Total	-36.4	-24.5
Other financial result		
Interest effect of interest-bearing provisions/liabilities	-50.0	-47.9
Other financial expenses/income	-15.0	5.7
Total	-65.0	-42.2

The income from investments in joint ventures and associates relates mainly to companies in China. This income includes not only the attributable net results for the year, but also the effects of the elimination of attributable intergroup profits and losses, and of other Group adjustments.

Borrowing costs of €1.2 million were capitalized in the reporting period, after €18.6 million a year earlier, resulting in a corresponding improvement in the net interest result. The average borrowing interest rate applied by the Group in the reporting year was 2.6 percent, compared with 3.0 percent the year before.

The interest effect of interest-bearing provisions includes net interest expenses from the accumulation of interest on pension obligations and calculated returns from plan assets totaling €44.0 million, versus €41.5 million in the prior year, and interest expenses and interest income from the accumulation and discounting of provisions of €6.0 million, versus €6.5 million in the previous year.

Other financial income and expenses primarily result from exchange-rate and interest-rate effects in connection with financial transactions and their hedging.

03 Income Taxes

This item comprises income taxes paid or owed in the individual countries and deferred taxes. In Germany, alongside a corporate tax of 15.0 percent (15.0 percent a year earlier), there is a solidarity surcharge of 5.5 percent, after 5.5 percent a year earlier. Trade income tax of 12.2 percent (12.2 percent in the prior year) must also be paid. It varies depending on the municipality in which a company is located.

Deferred taxes of German companies are therefore measured based on a total tax rate (including solidarity surcharge) of 28.0 percent (28.0 percent a year earlier). The current taxes of foreign subsidiaries are determined according to domestic tax laws and rates valid in the country in which the respective company is based. As in the prior year, the respective income tax rates for foreign companies applicable in each country ranged from 10.0 percent to 39.0 percent.

Accrued income taxes on undistributed profits of subsidiaries were recognized only if distribution is planned. The amount of €425.0 million is available for distribution, compared with €323.5 million in the prior year.

Income taxes include current tax expenses from earlier years of €0.1 million, after €0.3 million in the prior year, and deferred tax income from earlier years of €17.1 million, after €0.0 million in the prior year.

€ million	2016	2015
Current taxes, Germany	-89.5	-181.2
Current taxes, international	-11.7	-21.0
Current taxes	-101.2	-202.2
Deferred taxes, Germany	24.4	29.9
Deferred taxes, international	1.3	7.4
Deferred taxes	25.7	37.3
Income taxes	-75.5	-164.9
Derivation of the effective tax rate		
Income before taxes	264.8	406.7
Income tax rate for Wacker Chemie AG (%)	28.0	28.0
Expected tax expenses	-74.2	-113.9
Tax rate divergences	1.9	10.6
Tax effect of non-tax-deductible expenses	-31.8	-18.1
Tax effect of tax-free income	5.8	5.2
Taxes relating to other periods (current earnings)	17.1	-0.3
Effects of loss carryforwards and temporary differences	6.4	-46.5
Group profit from investments in joint ventures and associates	-	0.8
Other differences	-0.7	-2.7
Total income tax	-75.5	-164.9
Effective tax rate (%)	28.5	40.5

Due to the utilization of previously unrecognized temporary differences and previously unrecognized tax losses from earlier periods, the actual income tax expense was reduced by €11.7 million, after €2.1 million in the prior year.

Allocation of Deferred Taxes

€ million	2016		2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	11.1	4.2	12.6	–
Property, plant and equipment	58.2	38.6	38.2	36.8
Financial investments	0.8	–	–	3.5
Financial and non-financial assets	16.3	4.0	14.7	0.5
Provisions for pensions	350.2	0.4	243.4	–
Other provisions	24.9	1.9	33.0	–
Financial and non-financial liabilities	25.9	–	12.3	–
Loss carryforwards	5.4	–	4.6	–
Setting off for companies with group taxation	–5.5	–5.5	–5.5	–5.5
Total	487.3	43.6	353.3	35.3
Setoffs	–37.4	–37.4	–31.9	–31.9
Amount recorded in Statement of Financial Position	449.9	6.2	321.4	3.4

The changes in deferred tax assets and liabilities of €25.7 million were recognized as income in profit or loss (versus €37.3 million a year earlier), while €104.1 million (€–49.9 million a year earlier) was recognized directly in equity. This mainly consists of deferred tax assets from variations in actuarial gains and losses resulting from pension provisions. Changes in the scope of consolidation resulted in deferred tax liabilities of €4.1 million that were recognized in equity. The existing tax loss carryforwards can be utilized as follows:

€ million	2016	2015
Within 1 year	87.2	78.0
Within 2 years	49.2	90.6
Within 3 years	16.8	50.8
Within 4 years	1.1	17.3
Within 5 years or later	172.0	142.2
Total	326.3	378.9
Of which loss carryforwards not expected to be realizable	–304.7	–360.4
Of which loss carryforwards expected to be realizable	21.6	18.5

The loss carryforwards generated totaled €326.3 million, after €378.9 million in the previous year. Of this amount, €304.7 million (€360.4 million in the prior year) are expected to be non-realizable, which is why no deferred tax assets were recognized. If they had been recognized, however, they would have amounted to €85.3 million (€100.9 million in the prior year). Of the loss carryforwards that are not realizable for tax purposes, the amount of €169.7 million (€139.3 million in the prior year) is unlimited as to time and amount. As of December 31, 2016, no deferred tax assets were recognized for tax-deductible temporary differences of €668.9 million (€712.1 million the year before). The change mainly concerns parts of the actuarial losses from the measurement of pension obligations recognized in other equity items in equity and temporary differences in property, plant and equipment.

04 Intangible Assets and Property, Plant and Equipment

€ million	Intangible assets	Land, buildings and similar rights	Technical equipment and machinery*	Other equipment, factory and office equipment	Assets under construction	Property, plant and equipment	*Of which assets from finance leases
2016							
Balance as of Jan. 1, 2016	179.9	2,059.0	8,886.6	677.4	1,322.6	12,945.6	98.1
Additions	3.5	20.3	116.3	25.2	262.3	424.1	2.2
Disposals	-11.9	-0.4	-44.5	-21.4	-	-66.3	-
Transfers	15.1	138.5	1,230.5	3.0	-1,387.1	-15.1	-
Changes in the scope of consolidation	18.0	8.3	21.6	6.1	-	36.0	0.2
Other changes	-	-	-	-	-	-	-
Exchange-rate differences	0.7	40.0	126.0	1.2	-23.8	143.4	0.7
Gross carrying amount as of Dec. 31, 2016	205.3	2,265.7	10,336.5	691.5	174.0	13,467.7	101.2
Cumulative depreciation and impairments	-154.9	-1,166.2	-7,122.1	-584.3	-0.2	-8,872.8	-67.3
Of which from changes in the scope of consolidation	-	-3.6	-8.0	-5.1	-	-16.7	-
Carrying amount as of Dec. 31, 2016	50.4	1,099.5	3,214.4	107.2	173.8	4,594.9	33.9
Depreciation and impairments/write-ups in fiscal year	-14.6	-78.5	-603.3	-38.8	-	-720.6	-7.1
2015							
Balance as of Jan. 1, 2015	166.4	1,691.3	7,828.5	642.7	1,670.0	11,832.5	79.1
Additions	3.4	6.6	106.7	20.7	696.6	830.6	21.8
Disposals	-0.4	-6.9	-57.4	-15.6	-0.9	-80.8	-2.8
Transfers	7.9	310.3	878.4	25.6	-1,219.3	-5.0	-
Exchange-rate differences	2.6	57.7	130.4	4.0	176.2	368.3	-
Gross carrying amount as of Dec. 31, 2015	179.9	2,059.0	8,886.6	677.4	1,322.6	12,945.6	98.1
Cumulative depreciation and impairments	-147.8	-1,066.2	-6,520.2	-560.0	-0.1	-8,146.5	-60.0
Carrying amount as of Dec. 31, 2015	32.1	992.8	2,366.4	117.4	1,322.5	4,799.1	38.1
Depreciation and impairments/write-ups in fiscal year	-13.2	-63.2	-459.2	-39.6	-	-562.0	-6.4

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Intangible assets include industrial property rights, similar rights, software and other assets acquired against payment. Business acquisitions result in technologies, customer bases and order backlogs acquired against payment, which are amortized over a period of 3 to 9 years.

The acquisition costs of fixed assets were reduced by investment grants totaling €482.2 million, compared with €481.4 million in the previous year.

In the reporting year, borrowing costs of €1.2 million (versus €18.6 million in the prior year) were capitalized as part of the acquisition and production costs of qualifying assets. The average financing cost rate was 2.6 percent, compared with 3.0 percent in the previous year. Property, plant and equipment also includes technical machinery and other

equipment of €33.9 million (€38.1 million in the prior year) on the basis of an embedded finance lease. Due to the structure of the underlying contracts, economic ownership is attributable to WACKER.

05 Investment Property

Wacker Chemie AG owns real estate at its production site in Cologne, Germany. This comprises land and infrastructure facilities (for energy, waste water, etc.). The land is rented out or leased on a long-term basis. These properties and the associated infrastructure in Cologne are operated, maintained and looked after by third parties, who charge any costs incurred directly to the tenants or leaseholders. WACKER has undertaken to carry out future maintenance measures to the extent necessary in the next few years.

The rent and lease income is included in the following schedule.

€ million	2016	2015
Historical cost*	10.5	11.7
Cumulative depreciation*	-9.0	-10.2
Carrying amount as of Dec.31, 2016	1.5	1.5
Fair value	14.0	14.0
Income from rent/operating leases	0.8	0.8
Costs	-0.1	-0.2

* Disposal of acquisition costs and depreciation of €1.2 million.

The fair value is based on an opinion of an external expert and is updated periodically, most recently in 2014.

From an economic standpoint, the only option open to a potential buyer would be to discontinue current operations and tear down the existing buildings to make the land available for a new use. The fair value was therefore determined using the market value based on potential proceeds from liquidation of the plant. This measurement took into account the current market situation and thus current prices. The fair value of investment property is allocated to Level 2 in the fair value hierarchy. The residual carrying amount relates to the land.

The valuation process has not been changed since the previous valuation date.

06 Investments in Joint Ventures and Associates Accounted for Using the Equity Method

The Group applies the equity method to account for joint ventures and associates. Their impact on the Group's earnings, net assets and financial position is not significant. If shareholders have made loans to joint ventures or associates, repayment of these loans takes precedence over the distribution of dividends.

The following table shows the reporting-period change in the total carrying amount of investments accounted for using the equity method:

Joint Ventures Accounted for Using the Equity Method

€ million	2016	2015
Carrying amount of the investments in accordance with the equity method At the beginning of the year	18.0	16.6
Share of profit/loss for the period	3.2	4.2
Share of change in other equity	0.7	1.4
Overall result of the companies	3.9	5.6
Dividends	-4.1	-4.2
Change in the scope of consolidation	-6.6	-
At the end of the year	11.2	18.0

Associated Companies Accounted for Using the Equity Method

€ million	2016	2015
Carrying amount of the investments in accordance with the equity method At the beginning of the year	3.2	3.9
Share of loss for the period	-3.0	-0.9
Share of change in other equity	-0.2	0.2
Overall result of the companies	-3.2	-0.7
At the end of the year	-	3.2

The following shows the key figures for companies accounted for using the equity method.

Deviations between the share of net income and the result from investments in joint ventures and associates, and between the share of equity and the carrying amount of investments in joint ventures and associates accounted for using the equity method, are primarily the result of fair-value adjustments and consolidation measures.

€ million	2016		2015	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Key Figures for Joint Ventures				
Profit or loss from continuing operations	6.4	3.2	8.4	4.2
Other comprehensive income	1.4	0.7	2.8	1.4
Overall result	7.8	3.9	11.2	5.6
Key Figures for Associated Companies				
Profit or loss from continuing operations	-15.1	-3.8	-3.7	-0.9
Other comprehensive income	-0.8	-0.2	1.1	0.2
Overall result	-15.9	-4.0	-2.6	-0.7

07 Inventories

€ million	2016	2015
Raw materials and supplies	278.3	231.2
Unfinished and finished products, merchandise	566.8	551.9
Services not charged	1.2	2.1
Total	846.3	785.2
Of which recorded at net realizable value if lower	104.6	111.8

Cost of goods sold includes costs for inventories recognized as expenses totaling €4.4 billion, after €4.2 billion a year earlier. Valuation allowances recognized in the reporting period as expenses amounted to €21.5 million, compared with €-1.6 million the year before.

08 Financial and Non-Financial Assets/Receivables

€ million	2016			2015		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Trade receivables	775.7	–	775.7	679.4	–	679.4
Investments	11.1	11.1	–	11.1	11.1	–
Loans	96.4	96.4	–	99.9	99.9	–
Receivables from associated companies	0.9	–	0.9	1.0	–	1.0
Loan and interest receivables	1.4	–	1.4	0.2	–	0.2
Derivative financial instruments	6.1	2.0	4.1	12.6	0.2	12.4
Receivables from suppliers	6.2	–	6.2	6.6	–	6.6
Deposits	2.9	1.4	1.5	1.4	0.1	1.3
Restricted cash and cash equivalents	0.4	–	0.4	3.8	–	3.8
Sundry financial assets	51.2	0.6	50.6	24.7	0.1	24.6
Other financial assets	176.6	111.5	65.1	161.3	111.4	49.9
Accruals and deferrals	10.1	1.7	8.4	10.1	1.0	9.1
Plan assets	0.4	–	0.4	0.4	–	0.4
Other tax receivables	46.1	0.7	45.4	44.2	2.7	41.5
Sundry non-financial assets	14.3	1.3	13.0	8.0	0.6	7.4
Other non-financial assets	70.9	3.7	67.2	62.7	4.3	58.4
Income tax receivables	18.5	–	18.5	19.1	0.1	19.0

Receivables are shown at amortized cost, which corresponds to their market value. Adequate valuation allowances are set up to cover default risks, to the extent that these are not covered by insurance, bank guarantees or advance payments received.

Valuation allowances and past-due debts developed as follows:

Changes in valuation allowances for trade receivables		
€ million	2016	2015
As of Jan. 1	5.6	5.1
Utilization	–2.2	–2.7
(+) Additions/(–) reversals	0.2	2.8
Exchange-rate differences	0.1	0.4
As of Dec. 31	3.7	5.6

Changes in Past-Due Trade Receivables

€ million	2016	2015
Receivables that are neither past due nor written down	634.5	551.3
Receivables that are past due but not written down:		
up to 30 days past due	134.0	121.9
31 to 45 days past due	3.3	2.2
over 45 days past due	3.5	3.5
Total	140.8	127.6
Written-down receivables	0.4	0.5
Carrying amount	775.7	679.4

No valuation allowances were recognized for other financial assets in either the period under review or the prior year. There was no significant credit risk as of December 31, 2016.

Valuation allowances are set up for identifiable credit risks and exchange-rate fluctuations. We continuously monitor the creditworthiness of our debtors to assess the intrinsic value of the corresponding receivables and, where appropriate, we take out credit default insurance. In addition, customers make advance payments and provide bank guarantees. The maximum default risk is equal to the carrying amount of the uninsured receivables. No loans or receivables were renegotiated to prevent an overdue debt or possible valuation allowances. Based on past experience and on the conditions prevailing as of the reporting date, there are no restrictions with regard to credit quality. The additions and reversals in the valuation allowances for receivables in the reporting period mainly relate to Wacker Chemie AG.

09 Cash and Cash Equivalents/Securities

€ million	2016	2015
Securities and fixed-term deposits held to maturity¹	182.2	70.9
Of which current	126.2	67.2
Of which noncurrent	56.0	3.7
Cash and cash equivalents		
Cash equivalents	113.8	94.2
Demand deposits, cash on hand	169.7	216.3
Total	283.5	310.5

¹ The securities mainly consist of bonds from various issuers which are predominantly classified as "available for sale."

Demand deposits and cash on hand are shown at their nominal amounts. Cash equivalents comprise fixed-term deposits and commercial paper (from issuers with first-class credit standing) classified as "held to maturity." None of WACKER's cash funds are subject to currency export restrictions.

10 Equity/Non-Controlling Interests/ Capital Structure Management

The subscribed capital (capital stock) of Wacker Chemie AG amounts to €260,763,000 and comprises 52,152,600 no-par-value shares (total). This corresponds to a notional par value of €5 per share. All of the shares are common shares – no other share classes have been issued. At the reporting date, no capital had been authorized for the issue of new shares. The Executive Board was authorized – in compliance with the provisions of Section 71 (1) no. 8 of the German Stock Corporation Act – to acquire treasury shares totaling a maximum of 10 percent of capital stock.

In the course of the IPO in April 2006, the number of shares outstanding increased due to the sale of some shares previously held as treasury shares. The following table shows the development in the year under review and in the prior year:

Units	2016	2015
Shares outstanding at the start of the fiscal year	49,677,983	49,677,983
Shares outstanding at the end of the fiscal year	49,677,983	49,677,983
Treasury shares in portfolio	2,474,617	2,474,617
Total shares	52,152,600	52,152,600

For more information on Wacker Chemie AG's shareholder structure, please refer to the note concerning Related Party Disclosures.

↳ See Note 22

Capital reserves include the amounts generated with the issue of shares above their nominal values in previous years, as well as other contributions made to equity.

Retained earnings include the amounts of accrued reserves generated at Wacker Chemie AG in previous fiscal years, transfers from the Group's earnings for the year, the earnings of the consolidated companies less amounts due to non-controlling interests, changes to consolidated items affecting income, and changes in the scope of consolidation. The proceeds of the Siltronic IPO added €83.8 million to retained earnings in 2015.

Other equity items include the differences arising from the currency translation of the financial statements of foreign subsidiaries using reporting currencies other than the euro, and the effects of the valuation of financial instruments and pensions – recognized directly in equity.

The net result attributable to non-controlling interests is made up of the following profits and losses:

€ million	2016	2015
Profits	10.1	7.2
Losses	-	-12.1
Net result attributable to non-controlling interests	10.1	-4.9

Non-controlling interests in equity primarily comprised the following companies:

Non-Controlling Interests

€ million	2016	2015
Wacker Asahikasei Silicone Co. Ltd., Tokyo, Japan	12.4	-
Wacker Metroark Chemicals Pvt. Ltd., Parganas, India	25.2	21.4
Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore ¹	10.8	9.0
Siltronic AG, Munich, Germany ¹	165.4	196.5
Total	213.8	226.9

¹ Including subsidiaries

The voting rights of non-controlling interests correspond to their equity share.

As part of its prior-year IPO, Siltronic AG placed 12.65 million shares with investors, consisting of 5 million new shares issued through a capital increase at Siltronic and 7.65 million shares originally held by WACKER. At the same time, WACKER's stake in Siltronic AG was reduced from 100 percent to 57.8 percent.

Within the WACKER Group, Siltronic AG is an important subsidiary with non-controlling interests:

Significant Non-Controlling Interests

	2016	2015
Company's name and registered office: Siltronic AG, Munich, Germany, and its subsidiaries		
Proportion of non-controlling interests (%)	42.17	42.17
Proportion of the voting rights (%)	42.17	42.17
Total non-controlling interests (shares)	12,650,000	12,650,000
Dividends paid to non-controlling interests (€)	-	-

The following table lists condensed financial information on the Siltronic sub-group:

Condensed Financial Information on Siltronic AG and its Subsidiaries¹:

€ million	2016	2015
Current assets	502.7	461.7
Noncurrent assets	531.7	554.3
Current liabilities	151.6	147.5
Noncurrent liabilities	479.9	395.9
Sales	933.4	931.3
Profit or loss from continuing operations	11.2	-18.2
Other comprehensive income	-80.7	62.4
Total	-69.5	44.2
Cash flow from operating activities	115.6	96.1
Cash flow from investing activities	-135.5	-98.7
Of which investments in intangible assets and in property, plant and equipment	-96.7	-58.9
Cash flow from financing activities	-	-32.2

¹ Consolidated sub-group financial statements of the Siltronic Group in accordance with IFRS

For further information on individual companies, please refer to the Breakdown of Shareholdings.

⇒ See Note 21

Information on Capital Management

The goal of the WACKER Group's capital management policy is to ensure that the company remains a going concern in the long term and to generate an appropriate return on capital employed for the company's shareholders. The capital management instruments employed to achieve this goal include dividend payments and stock buybacks.

In managing its capital, Wacker Chemie AG complies with the legal stipulations on capital maintenance. The company's Articles of Association do not stipulate any capital requirements. No special capital terminology is used. The Group's policy on dividends is generally oriented toward distributing about 50 percent of Group net income to shareholders, provided the business situation permits and the committees responsible agree.

Above and beyond this, WACKER actively manages its debt capital with the aim of achieving a balanced financing portfolio, a diversified maturities profile and sufficient liquidity reserves. In addition, our corporate financial structures are designed to keep WACKER's credit rating – at a minimum – in the investment-grade range. In accordance with our policy of value-based management, net financial debt functions as a supplementary financial performance indicator.

➔ See Management Processes and Net Assets sections of the Group management report.

As of the balance sheet date, the WACKER Group's capital structure was as follows:

Capital Structure

€ million	2016	2015
Equity attributable to Wacker Chemie AG shareholders	2,379.4	2,568.2
Share of total capital (%)	62.0	63.8
Noncurrent financial liabilities	791.1	1,136.7
Current financial liabilities	667.1	318.7
Total	1,458.2	1,455.4
Share of total capital (%)	38.0	36.2
Total capital	3,837.6	4,023.6

11 Provisions for Pensions

For WACKER Group employees, there are various post-employment pension plans, which depend on the legal, economic and fiscal conditions prevailing in the respective countries. These pension plans generally take account of the employees' length of service and salary levels.

The company pension plan makes a distinction between defined contribution and defined benefit plans. Defined contribution plans lead to no further obligation for the company beyond paying contributions into special-purpose funds. WACKER has both defined-contribution and defined-benefit plans, which are financed in part by Pensionskasse der Wacker Chemie VVaG or by funds. Pension obligations result from defined benefit plans in the form of entitlements to future pensions and ongoing payments for eligible active and former employees of the WACKER Group and their surviving dependents. The various pension plans basically ensure employees either a life-long pension on the basis of their average salary during employment at WACKER (career average plan) or lump-sum payments.

The Group maintains the following retirement benefit plans:

Retirement Benefits Supplied by the Company Pension Fund

Employees at Wacker Chemie AG and other German Group companies are granted a basic pension model via Pensionskasse der Wacker Chemie VVaG, a legally independent German pension fund. The pension fund is financed by member and company contributions. The payments comprise old-age, disability and surviving dependents' benefits.

The pension fund is a small mutual insurance company within the meaning of Section 210 of the German Insurance Supervision Act and is regulated by Section 233 (1) of this act. It is thus subject to the regulations that apply to German insurers and is monitored by the Federal Financial Supervisory Authority (BaFin). There are statutory minimum financing obligations.

Employees who joined the pension plan before the end of 2004 receive guaranteed payments based on a defined-benefit amount, which is to be taken into consideration in determining pension obligations. The pension payment is the same regardless both of the employee's age when paying contributions and of the interest generated from assets. A new basic-pension model applies for employees who joined the pension fund after 2004. Under that model, the benefits are based on guaranteed interest rates and the benefit amount depends on the age at which the employee pays contributions. Annual profit distributions can increase the future payment. In addition, employees in Germany may make voluntary payments to the "PK+" supplementary insurance fund of Pensionskasse der Wacker Chemie VVaG. Primarily, contributions in connection with retirement benefit plans governed by the collective bargaining agreements concerning one-off payments and retirement benefits, and "Working Life and Demography" are paid into the voluntary supplementary insurance fund.

In fiscal 2016, accounting treatment of the plans for employees in Germany who joined the company after 2004 was changed. Up until fiscal 2015, WACKER treated these plans as defined contribution plans. Since interest rates remained at very low levels, WACKER reassessed the plans in 2016 because the probability of their being utilized had risen and recognized them as defined benefit plans. As a consequence of this change, the present value of the defined benefit obligation rose by €143.1 million in 2016 and was recognized in other comprehensive income. At the same time, additions to plan assets in the amount of €138.6 million were recognized in other comprehensive income. These effects are shown under the line items “Gains/losses from changes in experience-based assumptions” and “Gains/losses from plan assets without amounts already recognized in interest income” in the table “Changes in the Net Liability of Defined Benefit Obligations.”

Direct Commitments of the WACKER Group

In addition to the pension fund commitments, employees in Germany receive direct commitments in the form of an additional pension. The additional pension insures that part of an employee’s salary that exceeds the pension insurance contribution assessment ceiling. Employees who joined the company before the end of 2004 – and their surviving dependents – receive a pension. The amount of that pension depends on the average salary earned during the period of employment with WACKER (career average plan). For employees who joined the plan as of 2005, a certain percentage of the salary exceeding the pension insurance contribution assessment ceiling is paid in. This capital accrues interest. The benefits may be paid out as a life-long pension or, in the case of commitments made from 2005 onward, as a lump sum. Employees and their surviving dependents are eligible to receive benefits. Employee entitlements are included when measuring pension obligations, regardless of whether the employees joined the company before the end of 2004 or after the beginning of 2005.

Executive Board members are granted individual pension commitments. For more information on Executive Board member pension plans, please refer to the Compensation Report.

⇒ See page 183

Employees in Germany with salaries above the standard pay scale may pay into an employee-financed pension plan (deferred compensation). This plan affords employees the option of converting part of their future salary claims into equivalent pension capital. Pension capital accrues interest according to the date the pension plan was entered into (commitment) at either 7 percent (1996–2001), 6 percent (2002–2010) or 5 percent (2011–2013). Plans bearing

7 percent or 6 percent interest may be drawn in the form of either a pension or a lump sum. Plans bearing 5 percent interest are paid out exclusively in lump-sum form. Since 2015, management employees have been able to contribute a portion of their salary to an employee-financed pension plan with a variable interest rate. The variable interest rate is linked to the five-year running yield on German bearer bonds and amounts to at least 2.5 percent and at most 5 percent. Disbursement is as a lump sum only. Pension commitments made before or on December 31, 2000 are measured (in accordance with the projected unit credit method) at the present value of years’ service to date or years served to retirement, whereas any commitments made on or after January 1, 2001 are measured at the present value of the defined benefit obligation or at the equivalent of the accumulated capital.

Pension entitlements in Germany are protected against insolvency by the pension guarantee fund (Pensionsversicherungsverein a.G.). This insolvency insurance is capped. There are no statutory minimum financing obligations.

Pension Commitments outside of Germany

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 material to the Group.

In the us, defined benefit plans exist for employees of Siltronic Corporation, Portland, and Wacker Chemicals Corporation, Adrian. However, both plans were closed for new applications effective after December 31, 2003, and defined benefits are carried only for legacy policies. Retirement benefits are paid out from age 65 in the form of a monthly pension and are based on the last average salary paid. Special rules apply to early retirement as of age 55 depending on the employee’s years of service. In view of their pension-like character, obligations relating to medical care for retired employees and severance payments are likewise included under pension provisions. New employees in the USA are offered only defined contribution plans.

The present value of defined benefit plans may be reconciled with the provisions recognized in the balance sheet as follows:

Net Liability of Defined Benefit Obligations

€ million	Dec. 31, 2016			Dec. 31, 2015		
	Germany	International	Total	Germany	International	Total
Present value of the at least partially fund-financed defined benefit obligations	2,806.7	234.1	3,040.8	2,230.2	222.8	2,453.0
Fair value of plan assets	-1,917.3	-177.3	-2,094.6	-1,660.5	-160.4	-1,820.9
Funded status	889.4	56.8	946.2	569.7	62.4	632.1
Present value of unfunded defined benefit obligations	1,141.7	19.9	1,161.6	963.4	16.2	979.6
Provisions for pensions and similar obligations	2,031.1	76.7	2,107.8	1,533.1	78.6	1,611.7

Changes in the Net Liability of Defined Benefit Obligations

€ million	Present value of pension plan obligations	Market value of plan assets	Total
As of January 1, 2015	3,500.3	-1,742.1	1,758.2
Current service cost	87.5	-	87.5
Interest expense/income	85.1	-43.6	41.5
Administrative expenses paid from plan assets	-	0.7	0.7
Past service cost/effects of settlements and curtailments	1.4	-	1.4
Remeasurements			
Gains (-)/losses (+) from plan assets without amounts already recognized in interest income	-	-23.3	-23.3
Gains (-)/losses (+) from changes in demographic assumptions	-3.5	-	-3.5
Gains (-)/losses (+) from changes in financial assumptions	-283.3	-	-283.3
Gains (-)/losses (+) from changes in experience-based assumptions	95.7	-	95.7
Effects of exchange-rate differences	24.5	-16.3	8.2
Contributions by			
Employer	-	-44.2	-44.2
Pension plan beneficiaries	10.3	-10.3	-
Pension payments	-85.4	58.2	-27.2
As of December 31, 2015	3,432.6	-1,820.9	1,611.7
Current service cost	75.9	-	75.9
Interest expense/income	96.6	-52.5	44.1
Administrative expenses paid from plan assets	-	0.8	0.8
Past service cost	0.4	-	0.4
Effects of settlements	-12.7	11.8	-0.9
Remeasurements			
Gains (-)/losses (+) from plan assets without amounts already recognized in interest income	-	-215.2	-215.2
Gains (-)/losses (+) from changes in demographic assumptions	-0.1	-	-0.1
Gains (-)/losses (+) from changes in financial assumptions	545.6	-	545.6
Gains (-)/losses (+) from changes in experience-based assumptions	130.7	-	130.7
Effects of exchange-rate differences	9.1	-5.9	3.2
Contributions by			
Employer	-	-61.5	-61.5
Pension plan beneficiaries	11.2	-11.2	-
Pension payments	-89.0	60.0	-29.0
Change in the scope of consolidation	2.1	-	2.1
As of December 31, 2016	4,202.4	-2,094.6	2,107.8

Assumptions

The pension obligations are calculated by taking account of company-specific and country-specific biometric calculation principles and parameters. The calculations are based on actuarial valuations that factor in the following parameters:

%	2016	2015
Actuarial Assumptions		
Germany		
Discount rate	1.94	2.75
Salary growth rate	2.5	2.5
Pension growth rate ¹		
Basic and supplementary pension	1.8/1.0	1.8/1.0
Deferred compensation	2.5/1.0	2.5/1.0
USA		
Discount rate	3.92	4.2
Salary growth rate	3.0	2.0/3.0

¹Varies according to the date on which the employee joined the company and/or the effective date of the different plan generations.

Life expectancy calculations in Germany are based on Prof. Klaus Heubeck's modified 1998 guideline tables. The pension fund portfolio (basic pension model) is based on the official mortality tables (reduction of male mortality to 75 percent of the guideline table value, and 85 percent for females). The portfolio for other pension commitments is based on a reduction of male mortality to 60 percent of the

Heubeck values and 85 percent for women, which takes into account in particular the recognized connection between life expectancy and the amount of pension paid ("Influence of socio-economic status"). In the USA, the gender-specific RP-2014 mortality tables (Scale SoA MP-2014) are used for both pensioners and pension beneficiaries. The RP-2014 mortality table was extrapolated back to the year 2007 and a modified version of the MP-2014 table was used as a basis for future periods.

The discount rates and salary increase rates used in calculating the pension obligation were determined in line with the general economic situation and by applying uniform standards. The discount rate is based on a yield curve that is derived from the yields of country-specific, high-grade, fixed-interest corporate bonds with maturities corresponding to the pension obligations. The discount rate takes account of the WACKER-specific, expected future cash flows for these obligations.

Sensitivity Analysis

The following sensitivity analysis involves an adjustment of only one assumption – i.e. the other assumptions remain unchanged from the original valuation, so that the sensitivity of each individual assumption can be observed in isolation. As a consequence, possible correlation effects between the individual assumptions cannot be taken into consideration.

The following table shows the possible changes in the present value of pension obligations resulting from changes in the basic actuarial assumptions.

Sensitivity Analysis

	Dec. 31, 2016		Dec. 31, 2015	
	Effect on defined benefit obligation	Change (%)	Effect on defined benefit obligation	Change (%)
	Defined benefit obligation in € million		Defined benefit obligation in € million	
Present value of pension obligations as of the reporting date	4,202.4		3,432.6	
Present value of pension obligations if the discount rate increases by 0.5 percentage points	3,820.4	-9.1	3,154.7	-8.1
the discount rate decreases by 0.5 percentage points	4,643.1	10.5	3,750.3	9.3
salaries increase by 0.5 percentage points	4,242.1	0.9	3,465.8	1.0
salaries decrease by 0.5 percentage points	4,163.2	-0.9	3,399.6	-1.0
future pension increases are 0.25 percentage points higher	4,330.4	3.0	3,526.0	2.7
future pension increases are 0.25 percentage points lower	4,080.9	-2.9	3,343.3	-2.6
life expectancy goes up by one year	4,363.9	3.8	3,553.3	3.5

Composition of Plan Assets

Pensionskasse der Wacker Chemie VVaG invests plan assets in accordance with statutory requirements and the terms of its by-laws. The company pension fund invests nearly half of its assets in equity funds and fixed-income funds. The other half is invested directly in promissory notes (German *Schuldscheine*), real estate, real estate mortgages and private equity. The remaining part of assets

is 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 set up in the us are invested mainly in stocks and funds in accordance with the applicable investment rules. The composition of plan assets for the Group is shown in the following table:

Composition of Plan Assets

€ million	Dec. 31, 2016			Dec. 31, 2015		
	Market prices listed in an active market	No listing in an active market	Total	Market prices listed in an active market	No listing in an active market	Total
Real estate	–	347.1	347.1	–	274.5	274.5
Loans/fixed-interest securities	734.3	425.8	1,160.1	664.4	438.6	1,103.0
Shares/funds	274.8	178.7	453.5	246.0	138.9	384.9
Cash and cash equivalents	–	133.9	133.9	–	58.5	58.5
Total	1,009.1	1,085.5	2,094.6	910.4	910.5	1,820.9

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The WACKER Group was utilizing €84.2 million of plan assets for its own purposes as of December 31, 2016, compared with €80.2 million in the prior year. The assets in question comprised the real estate used by Wacker Chemie AG for its headquarters in Munich.

Risks

In addition to the usual actuarial risks, the risk inherent in the defined benefit obligation relates in particular to financial risks in connection with plan assets. In Germany, substantial amounts of the defined benefit obligation are administered by the pension fund. As part of an annual asset-liability study, the current and future relationships between the portfolio structure and obligations are analyzed and projections made. The result is the long-term return required of the pension fund, on the basis of which the pension fund defines a strategic target portfolio. This leads to an annual review and coordination of the required return, company contributions of sponsoring entities and strategic asset allocation.

All capital investments are exposed to market price fluctuation risks. These risks may comprise shifts in interest rates, share prices or exchange rates. WACKER aims to limit losses to a pre-defined amount using overlay management. In some cases, derivatives are used for hedging purposes.

In addition to actuarial risks, the defined benefit plans used in the us are also subject to market-price fluctuation risks because plan assets are invested in stocks and funds.

Applicable statutes and by-laws require WACKER to reduce under-funding of pension plans by increasing the amount of company contributions in cash.

Risks arise in particular in connection with the life expectancy of the beneficiaries, the interest rate guarantee, and the salary and pension growth rates. The interest rate guarantee risk is regularly monitored as part of the risk management process. It constitutes a major focus of the company pension fund when determining the long-term interest requirements and how to fulfill them. Interest rate guarantee risks also affect the deferred compensation plans.

Pension Plan Financing

In 2016, benefits in the amount of €78.9 million (€75.1 million a year earlier) were paid under pension plans in Germany and €10.1 million (€10.3 million a year earlier) under pension plans outside of Germany. WACKER anticipates that pension payments will reach approximately €95 million in the coming fiscal year. Current employer contributions to plan assets will amount to around €45 million in 2017. The weighted duration of pension obligations as of December 31, 2016 was 20.7 years in Germany (versus 18.4 years in the prior year) and 14.7 years in the us (versus 14.2 years).

Expected Pension Payments Due

€ million	Dec. 31, 2016	Dec. 31, 2015
Less than a year	-95.4	-92.0
One to two years	-100.2	-95.3
Two to three years	-107.1	-98.4
Three to four years	-113.2	-105.0
Four to five years	-119.1	-110.3

Composition of Pension Expenses

€ million	2016	2015
Current service cost from defined benefit plans	-75.9	-87.5
Past service cost/effects of settlements and curtailments	0.5	-1.4
Administrative expenses for defined benefit plans paid from plan assets	-0.8	-0.7
Net interest expense for defined benefit plans	-44.1	-41.5
Defined contribution plan expenses	-9.7	-9.7
Other pension expenses	-1.9	-3.2
Contributions to state pensions	-65.7	-64.0
Total	-197.6	-208.0

12 Other Provisions/Tax Provisions

€ million	2016			2015		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Personnel	124.9	117.1	7.8	105.1	98.2	6.9
Sales/purchasing	70.9	31.5	39.4	60.7	22.9	37.8
Environmental protection	85.3	80.7	4.6	79.9	79.3	0.6
Sundry	61.3	18.1	43.2	59.5	16.6	42.9
Other provisions	342.4	247.4	95.0	305.2	217.0	88.2
Income tax provisions	100.5	73.7	26.8	79.8	52.8	27.0

Provisions for Personnel

These include obligations for anniversary payments and funeral expenses as well as provisions for early-retirement and phased-early-retirement plans. There is a continuous reduction of noncurrent provisions for anniversary payments and of provisions for phased-early-retirement plans. Interest-rate effects increased anniversary-payment provisions; provisions for phased-early-retirement plans increased due to newly concluded agreements with employees still working for the company.

Sales/Purchasing Provisions

These provisions cover warranty and product-liability obligations, as well as discounts, cash bonuses and other price reductions still to be granted, commissions payable to sales agents, and contingent losses from contractual agreements. The major portion of the provisions will probably be used for payouts over the next three years.

Provisions for Environmental Protection

Provisions for environmental protection are created for anticipated obligations regarding contaminated-site remediation, water pollution control, recultivation of landfills, the clean-up of contaminated storage and production sites, and similar environmental measures. These provisions also include environmental protection charges likely to be imposed by government bodies. The additions are mainly attributable to the adjustments made to the actuarial interest rate. The noncurrent provisions for environmental protection are likely to be utilized within a period of 25 years.

Sundry Provisions

These provisions are formed for a multiplicity of identifiable individual risks and contingencies (e.g. damages, reimbursement claims, legal expenses).

Income Tax Provisions

These contain amounts for current income tax obligations as well as for risks from tax audits and legal action. The existing noncurrent tax provisions will largely be utilized over the next two to four years.

Depending on the situation in the individual countries, interest rates of up to 10 percent were used to determine the provisions; in the prior year these interest rates ranged up to 9 percent. These provisions were primarily ones associated with purchasing, environmental provisions, provisions for phased-early-retirement plans and anniversary-payment provisions.

Other Provisions/Income Tax Provisions

€ million	Jan. 1, 2016	Utilization	Reversal	Addition	Interest effect/effect of change in interest	Exchange-rate differences	Other*	Dec. 31, 2016
Personnel	105.1	-36.9	-0.2	67.8	1.7	-0.1	-12.5	124.9
Sales/purchasing	60.7	-13.3	-2.0	22.5	3.3	-0.3	-	70.9
Environmental protection	79.9	-8.1	-2.9	11.8	4.4	0.2	-	85.3
Sundry	59.5	-5.0	-8.4	13.1	-	2.1	-	61.3
Other provisions	305.2	-63.3	-13.5	115.2	9.4	1.9	-12.5	342.4
Income tax provisions	79.8	-21.3	-2.8	44.2	-	0.6	-	100.5

* Includes the change in plan assets for phased-early-retirement commitments.

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13 Financial Liabilities

€ million	2016			2015		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Liabilities to banks	990.8	339.6	651.2	1,000.2	700.1	300.1
Liabilities from lease obligations	36.1	32.0	4.1	39.1	33.2	5.9
Other financial liabilities	431.3	419.5	11.8	416.1	403.4	12.7
Financial liabilities	1,458.2	791.1	667.1	1,455.4	1,136.7	318.7

In 2016, WACKER took out new bank loans for an amount totaling US\$250 million (€237.6 million) and KRW (Korean won) 23.3 million (€18.4 million). A maturing, euro-denominated investment loan of €200 million was repaid on schedule and ongoing scheduled repayments of a further investment loan were made in the amount of €16 million. A renminbi-denominated investment loan of CNY 252.8 million (€34.6 mil-

lion) falling due in 2018 was repaid ahead of schedule in 2016.

In 2015, the company made a scheduled repayment of €150 million on a promissory note (German Schuldschein). In addition, around €50 million was repaid on renminbi-denominated loans.

No collateral exists for the financial liabilities, nor are they secured through liens or similar rights. Some of the liabilities to banks have fixed interest rates and others have variable interest rates. Moreover, some of the liabilities to banks

were granted on condition that particular covenants be complied with.

The liabilities to banks comprise the following:

€ million	2016				2015			
	Currency	Carrying amount € million	Of which with variable interest rates	Maturity	Currency	Carrying amount € million	Of which with variable interest rates	Maturity
Investment loan	-	-	-	-	EUR	200.0	200.0	2016
Investment loan	EUR	200.0	-	2017	EUR	200.0	-	2017
Investment loan	CNY	-	-	2018	CNY	35.6	35.6	2018
Investment loan	EUR	64.0	64.0	2020	EUR	80.0	80.0	2020
Promissory notes (German Schuldscheine)	EUR	150.0	39.0	2017	EUR	150.0	39.0	2017
Bank loan	JPY	81.2	40.6	2017	JPY	76.1	38.0	2017
Bank loan	BRL	7.3	-	2017	BRL	5.8	-	2017
Bank loan	KRW	18.4	18.4	2017	KRW	-	-	2017
Bank loan	CNY	109.5	-	2017	CNY	112.8	-	2017
Bank loan	EUR	50.0	-	2018	EUR	50.0	-	2018
Bank loan	JPY	4.0	-	2018	JPY	-	-	2018
Bank loan	USD	237.6	237.6	2019	USD	-	-	2019
Operating loan	CNY	66.5	66.5	2017	CNY	-	-	2017
Operating loan	CNY	-	-	-	CNY	89.9	89.9	-
Operating loan	JPY	1.8	1.8	2017	JPY	-	-	2017
Other		0.5		-		-		
Total		990.8				1,000.2		
Fair value		996.0				1,012.5		

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Other financial liabilities comprise the following:

€ million	2016				2015			
	Currency	Carrying amount € million	Of which with variable interest rates	Maturity	Currency	Carrying amount € million	Of which with variable interest rates	Maturity
Private placement (1st installment)	USD	66.3	-	2018	USD	63.9	-	2018
Private placement (2nd installment)	USD	123.2	-	2020	USD	118.5	-	2020
Private placement (3rd installment)	USD	189.5	-	2023	USD	182.4	-	2023
Minority-shareholder loans	SGD	40.4	-	Indefinite	SGD	38.6	-	Indefinite
Sundry other financial liabilities		11.9	-			12.7	-	
Total		431.3				416.1		
Fair value		423.5				409.2		

The carrying amounts of the current financial liabilities correspond to the repayment amounts. With the exception of the euro-denominated investment loan in the amount of €64 million, all the loans fall due on maturity.

The following table shows the future redemption and interest payments for the bank liabilities and other financial liabilities.

€ million	2017	2018	2019	2020	2021 to 2023	Indefinite maturity
Redemption	663.0	136.6	253.6	139.6	188.9	40.4
Interest	31.9	20.2	15.1	10.9	23.2	1.6 p.a.

There are also unused long-term lines of credit amounting to €801.1 million (€602.8 million a year earlier), where all the conditions for their utilization have been met.

As of the reporting date, the future minimum lease payments under finance lease agreements amount to:

€ million	2016			2015		
	Nominal value	Interest	Present value	Nominal value	Interest	Present value
Minimum lease payment within a year	7.1	3.0	4.1	9.1	3.2	5.9
Minimum lease payment between one and five years	25.2	11.0	14.2	25.7	10.3	15.4
Minimum lease payment over five years	32.9	15.1	17.8	35.3	17.5	17.8
Total	65.2	29.1	36.1	70.1	31.0	39.1

There are no conditional lease payments from finance leases.

Wacker Chemie AG has capitalized a finance lease for the leased ccGT (combined-cycle gas turbine) power station at its Burghausen site. The lease for the power station is due to expire in 2019 at the latest. WACKER has the right to acquire the power station at a price oriented to book values in accordance with German commercial law. If WACKER acquires this power station, it may not be sold to a third party for five years.

WACKER also has leasing agreements for several technical facilities that qualify as finance leases and were capitalized accordingly. Here, too, the Group in some cases has rights of preemption and lease rollover options.

The lease agreements serve to simplify the procurement and financing of operating materials and fixed assets. The long-term commitment that they involve, however, leads to a constant future outflow of cash from which the company cannot extract itself.

14 Financial and Non-Financial Liabilities

€ million	2016			2015		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Trade payables	369.7	–	369.7	378.3	–	378.3
Liabilities due to associated companies	–	–	–	0.3	–	0.3
Derivative financial instruments	28.7	2.3	26.4	28.3	2.6	25.7
Sundry financial liabilities	35.4	–	35.4	21.5	–	21.5
Other financial liabilities	64.1	2.3	61.8	50.1	2.6	47.5
Payables relating to social security	5.9	–	5.9	3.0	–	3.0
Payroll liabilities	7.9	–	7.9	5.6	–	5.6
Variable compensation	72.9	–	72.9	75.5	–	75.5
Other personnel liabilities	30.0	–	30.0	28.1	–	28.1
Other tax liabilities	23.0	–	23.0	16.9	–	16.9
Accruals and deferrals	1.6	–	1.6	1.1	–	1.1
Advance payments received (third parties)	270.7	164.1	106.6	453.3	287.5	165.8
Sundry liabilities	6.7	0.1	6.6	1.6	–	1.6
Other non-financial liabilities	418.7	164.2	254.5	585.1	287.5	297.6
Income tax liabilities	0.8	–	0.8	0.3	–	0.3

In addition to those tax amounts for which Group companies are liable, tax liabilities include taxes paid for the account of third parties.

Payables relating to social security refer in particular to social-insurance contributions that have yet to be paid.

The other payroll liabilities include, in particular, vacation and flextime credits, as well other HR-related liabilities.

The advance payments received relate primarily to future deliveries of semiconductor wafers and polysilicon.

No collateral exists for other liabilities, nor are they secured through liens or similar rights.

15 Contingencies, Other Financial Obligations and Other Risks

Contingent Liabilities

The values assigned to contingent liabilities correspond to the extent of liability that exists on the reporting date. At WACKER, contingent liabilities primarily concern incurred guarantees totaling €0.5 million, versus €0.6 million in the prior year. It is unlikely that the guarantees will be utilized.

Other Financial Obligations and Other Risks

€ million	2016	2015
Obligations from rent and operating leases		
Due within one year	49.7	38.2
Due between one and five years	82.8	64.6
Due after five years or more	52.4	35.7
Total	184.9	138.5
Lease payments occasioned by operating leases	49.6	44.1
Total expected minimum lease payments from subtenancies	4.6	2.9

The Group leases property, plant and equipment, motor vehicles and IT equipment by way of rental agreements and operating leases. These leases generally have terms of between three and five years. Tenancy agreements for office space, property, plant and equipment, etc. have considerably longer terms. Due to regulatory requirements, the Group is also leasing the land on which its production facilities in Singapore were built.

€ million	2016	2015
Obligations from orders for planned investment projects (commitments)	121.3	205.0

Obligations from orders for planned investment projects (commitments) amount to €121.3 million, after €205.0 million in the prior year, and concern the operating segments.

The Group ensures capacity utilization at its joint venture company with Dow Corning via long-term purchasing commitments of some €90.0 million annually, versus €100 million in the prior year. The contractually agreed transfer prices led to creation of a provision for onerous contracts, included in other provisions.

As regards raw-material supplies, WACKER has entered into long-term agreements to purchase strategic raw materials, electricity and gas. Accordingly, in net terms the company had other financial obligations arising from major minimum purchasing obligations in the amount of €1.32 billion in the reporting period, after €1.58 billion the year before. The agreements have terms of between one and seven years. The Group has an obligation to accept delivery in the amount of €8.9 million (€13.6 million a year earlier) to take back stock from consignment warehouses.

The Group receives government incentives and allowances for investing activities. These incentives are granted on condition that a certain number of jobs be created or maintained at certain sites. If these contractual commitments are not fulfilled, any funding received must be paid back either in full or in part. The period for which the Group has to fulfill its contractual commitments is limited.

WACKER is occasionally involved in legal or arbitration proceedings as well as official investigations and actions. Pending proceedings can have a negative impact on WACKER's earnings, net assets or financial position. At the present time, WACKER does not expect any significant negative effects from pending proceedings.

16 Other Disclosures

€ million	2016	2015
Cost of materials	-2,233.5	-2,276.6
Personnel expenses	-1,106.9	-1,070.2
Wages and salaries		
Social benefits and financial aid funds	-184.7	-177.4
State pension contributions	65.7	64.0
Social security contributions	-119.0	-113.4
Pension expenses	-87.8	-102.5
Contributions to state pensions	-65.7	-64.0
Pension expenses	-153.5	-166.5
Total personnel expenses	-1,379.4	-1,350.1

Social benefits relate mainly to the employer's share of social insurance contributions and to employers' liability insurance association contributions. The pension expenses consist mainly of contributions to state pensions and allocations to pension provisions. Related interest is shown in the financial result. The expenses incurred in transfers to external pension funds and pension plans are likewise included in pension expenses.

€ million	2016	2015
Expenses for auditors' fees	1.0	1.3
Audit		
Other attestation services	0.1	0.4
Total	1.1	1.7

Auditors' fees in the amount of €1.1 million (versus €1.7 million a year earlier) were paid to KPMG AG Wirtschaftsprüfungsgesellschaft, of which €1.0 million (€1.3 million a year earlier) was for financial statement auditing services and €0.1 million (€0.4 million a year earlier) for other attestation services.

17 Earnings per Share/Dividend

	2016	2015
Average number of outstanding common shares (units)	49,677,983	49,677,983
Number of common shares outstanding at the end of the year (units)	49,677,983	49,677,983
Dividend per dividend-bearing common share (€)	2.00	2.00
Net result for the year after non-controlling interests (€ million)	179.2	246.7
Earnings due to common shares (€ million)	179.2	246.7
Earnings per common share (average, €)	3.61	4.97
Earnings per common share (as of reporting date, €)	3.61	4.97

The diluted earnings per share are identical to the basic earnings in both the year under review and the previous year.

In the absence of relevant circumstances, earnings per share relating to results from continuing or discontinued operations are not reported.

The dividend distribution for 2015 amounted to €99.4 million, or €2.00 per dividend-bearing share. No allocations to retained earnings were made at Wacker Chemie AG for fiscal 2015.

The Executive Board of Wacker Chemie AG has proposed a dividend of €2.00 for 2016. The proposed dividend relates solely to dividend-bearing shares, i.e. excluding treasury shares. The acceptance or rejection of this proposal is incumbent on the Annual Shareholders' Meeting of Wacker Chemie AG. Subject to acceptance of the proposal, an amount of €99,355,966.00 will be distributed on the 49,677,983 no-par-value shares that are not held by the company.

18 Financial Instruments

The following table shows a presentation of financial assets and liabilities by measurement categories and classes. Also presented are liabilities from finance leases and derivatives that qualify for hedge accounting even though they do not belong to any of the IAS 39 measurement categories. WACKER has not pledged any financial assets as security.

The fair value of financial instruments measured at amortized cost is determined by means of discounting, taking into account market-participant interest rates that are adequate to the inherent risk and correspond to the relevant maturity. For reasons of immateriality, the carrying amount of current balance-sheet items is the same as their fair value.

Financial Assets and Liabilities by Measurement Category and Class as of Dec. 31, 2016

€ million

	Balance sheet carrying amount Dec. 31, 2016	(Amortized) cost	Fair value through profit or loss	Measurement pursuant to IAS 39 Fair value through other comprehensive income	Measurement pursuant to IAS 17 (Amortized) cost	Fair value Dec. 31, 2016
Trade receivables	775.7	775.7	–	–	–	775.7
Loans and receivables	–	775.7	–	–	–	775.7
Other financial assets	176.6	170.5	2.9	3.2	–	165.5
Loans and receivables	–	159.4	–	–	–	159.4
Available-for-sale financial assets ¹	–	11.1	–	–	–	–
Derivatives that do not qualify for hedge accounting	–	–	2.9	–	–	2.9
Derivatives that qualify for hedge accounting	–	–	–	3.2	–	3.2
Securities and fixed-term deposits	182.2	78.9	–	103.3	–	182.2
Loans and receivables	–	78.9	–	–	–	78.9
Available-for-sale securities	–	–	–	103.3	–	103.3
Cash and cash equivalents	283.5	283.5	–	–	–	283.5
Loans and receivables	–	283.5	–	–	–	283.5
Total financial assets	1,418.0	–	–	–	–	1,406.9
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	1,104.8	1,104.8	–	–	–	1,104.8
Held-to-maturity securities	192.7	192.7	–	–	–	192.7
Available-for-sale financial assets	114.4	11.1	–	103.3	–	103.3
Derivatives that do not qualify for hedge accounting	2.9	–	2.9	–	–	2.9
Derivatives that qualify for hedge accounting	3.2	–	–	3.2	–	3.2
Financial liabilities (excluding finance leases)	1,422.1	1,422.1	–	–	–	1,419.5
Measured at amortized cost	–	1,422.1	–	–	–	1,419.5
Liabilities from finance leases	36.1	–	–	–	36.1	36.1
Trade payables	369.7	369.7	–	–	–	369.7
Measured at amortized cost	–	369.7	–	–	–	369.7
Other financial liabilities	64.1	35.4	17.4	11.3	–	64.1
Measured at amortized cost	–	35.4	–	–	–	35.4
Derivatives that do not qualify for hedge accounting	–	–	4.3	–	–	4.3
Derivatives that qualify for hedge accounting	–	–	13.1	11.3	–	24.4
Total financial liabilities	1,892.0	–	–	–	–	1,889.4
Of which pursuant to IAS 39 measurement categories:						
Measured at amortized cost	1,827.2	1,827.2	–	–	–	1,824.6
Derivatives that do not qualify for hedge accounting	4.3	–	4.3	–	–	4.3
Derivatives that qualify for hedge accounting	24.4	–	13.1	11.3	–	24.4

¹ This item contains available-for-sale financial assets the market values of which cannot be calculated reliably and which have been recognized at cost. It is recognized in the statement of financial position under noncurrent financial assets.

Financial Assets and Liabilities by Measurement Category and Class as of Dec. 31, 2015

€ million

	Balance sheet carrying amount Dec. 31, 2015	(Amortized) cost	Fair value through profit or loss	Measurement pursuant to IAS 39 Fair value through other comprehensive income	Measurement pursuant to IAS 17 (Amortized) cost	Fair value Dec. 31, 2015
Trade receivables	679.4	679.4	–	–	–	679.4
Loans and receivables	–	679.4	–	–	–	679.4
Other financial assets	161.3	148.7	12.1	0.5	–	150.2
Loans and receivables	–	137.6	–	–	–	137.6
Available-for-sale financial assets ¹	–	11.1	–	–	–	–
Derivatives that do not qualify for hedge accounting	–	–	11.2	–	–	11.2
Derivatives that qualify for hedge accounting	–	–	0.9	0.5	–	1.4
Securities and fixed-term deposits	70.9	64.6	–	6.3	–	70.9
Loans and receivables	–	64.6	–	–	–	64.6
Available-for-sale securities	–	–	–	6.3	–	6.3
Cash and cash equivalents	310.5	310.5	–	–	–	310.5
Loans and receivables	–	310.5	–	–	–	310.5
Total financial assets	1,222.1	–	–	–	–	1,211.0
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	1,033.3	1,033.3	–	–	–	1,033.3
Held-to-maturity securities	158.8	158.8	–	–	–	158.8
Available-for-sale financial assets	17.4	11.1	–	6.3	–	6.3
Derivatives that do not qualify for hedge accounting	11.2	–	11.2	–	–	11.2
Derivatives that qualify for hedge accounting	1.4	–	0.9	0.5	–	1.4
Financial liabilities (excluding finance leases)	1,416.3	1,416.3	–	–	–	1,421.7
Measured at amortized cost	–	1,416.3	–	–	–	1,421.7
Liabilities from finance leases	39.1	–	–	–	39.1	39.1
Trade payables	378.3	378.3	–	–	–	378.3
Measured at amortized cost	–	378.3	–	–	–	378.3
Other financial liabilities	50.1	21.8	16.0	12.3	–	50.1
Measured at amortized cost	–	21.8	–	–	–	21.8
Derivatives that do not qualify for hedge accounting	–	–	15.9	–	–	15.9
Derivatives that qualify for hedge accounting	–	–	0.1	12.3	–	12.4
Total financial liabilities	1,883.8	–	–	–	–	1,889.2
Of which pursuant to IAS 39 measurement categories:						
Measured at amortized cost	1,816.4	1,816.4	–	–	–	1,821.8
Derivatives that do not qualify for hedge accounting	15.9	–	15.9	–	–	15.9
Derivatives that qualify for hedge accounting	12.4	–	0.1	12.3	–	12.4

¹ This item contains available-for-sale financial assets the market values of which cannot be calculated reliably and which have been recognized at cost. It is recognized in the statement of financial position under noncurrent financial assets.

The loans and receivables reported include trade receivables, other loans and fixed-term deposits as well as cash and cash equivalents. Cash and cash equivalents in foreign currency are measured at the conversion rate prevailing on the reporting date. Their carrying amounts correspond to their fair values. The fair value of the loans corresponds to their present value, i.e. the present value of the expected future cash flows. Discounting is carried out on the basis of the interest rates valid on the reporting date.

Available-for-sale financial assets include securities and investments in joint ventures and associates. Investments in joint ventures and associates are measured at cost, as no observable prices on active markets are available.

The carrying amounts of trade payables and other financial liabilities correspond to their fair values. The fair values of financial liabilities constitute the present value of the expected future cash flows. Discounting is carried out on the basis of the interest rates valid on the reporting date. All other financial liabilities are valued at cost as no observable prices for them are available.

The following table shows the net gains and losses from financial instruments.

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€ million	2016	2015
Net gains/losses from financial instruments		
Loans and receivables	17.9	29.5
Available-for-sale financial assets	1.3	0.7
Assets/liabilities classified as at fair value through profit or loss	-15.9	7.5
Financial liabilities at amortized cost	-46.3	-66.0
Total	-43.0	-28.3

The net result of the category “Loans and receivables” was primarily due to net losses/gains from foreign currency translation, interest income from financial assets, demand deposits and valuation allowances.

The category “Available-for-sale financial assets” includes interest income from fixed-interest securities.

The category “Held-to-maturity financial assets” mainly comprises fixed-term deposits with terms of up to one year that are posted under securities.

The gains and losses from changes in the fair value of foreign-currency exchange rates, interest rates and commodity derivatives that do not fulfill the requirements of IAS 39 for hedge accounting are posted in the category “Assets/liabilities classified as at fair value through profit or loss.” The effects of fair value hedge accounting are also reported here.

The interest income from financial assets that are not recognized at fair value through profit or loss amounted to €5.6 million, compared with the prior-year figure of €6.9 million. This interest income mainly results from demand deposits and loans as well as from held-to-maturity securities.

The interest expense from financial liabilities that are not recognized at fair value through profit or loss amounts to €42.4 million, versus €31.8 million in the prior year. These interest expenses are mainly due to financial liabilities.

The net losses in the category “Financial liabilities measured at amortized cost” primarily consist of interest expenses on bank liabilities and other financial liabilities, as well as net losses/gains from foreign currency translation.

Neither in the year under review nor in the previous year were there any reclassifications of financial assets between those recognized at amortized cost and those recognized at market value or vice versa.

The financial assets and liabilities measured at fair value in the financial statements were allocated to one of three categories in accordance with the fair value hierarchy described in IFRS 13. Allocation to these categories reveals which of the fair values reported were settled through market transactions and the extent to which the measurement was based on models in the absence of observable market transactions.

The following are the levels of the hierarchy.

Level 1

Financial instruments measured using quoted prices in active markets, the fair value of which can be derived directly from prices in active liquid markets and for which the financial instrument observable in the market is representative of the financial instrument being measured. These include fixed-interest securities traded in liquid markets.

Level 2

Financial instruments measured using valuation methods based on observable market data, the fair value of which can be determined using similar financial instruments traded in active markets or using valuation methods all of whose parameters are observable. These include hedging and non-hedging derivative financial instruments, loans and financial liabilities.

Level 3

Financial instruments measured using valuation methods not based on observable parameters, the fair value of which cannot be determined using observable market data and which require application of different valuation methods. The financial instruments belonging to this category have a value component that is not market-observable and has a major impact on fair value. These include over-the-counter derivatives and unquoted equity instruments.

The following table shows the categories in the fair value hierarchy to which the financial assets and liabilities measured at fair value in the statement of financial position are allocated. The table also shows financial assets and liabilities measured at cost in the statement of financial position. Their fair values are given in the Notes:

Fair Value Hierarchy

€ million	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
As of December 31, 2016				
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	2.9	–	2.9
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	3.2	–	3.2
Available-for-sale securities and fixed-term deposits	103.3	–	–	103.3
Total	103.3	6.1	–	109.4
Financial assets measured at amortized cost				
Loans and receivables				
Loans	–	96.4	–	96.4
Total	–	96.4	–	96.4
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	4.3	–	4.3
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	24.4	–	24.4
Total	–	28.7	–	28.7
Financial liabilities measured at amortized cost				
Financial liabilities				
Measured at amortized cost	–	1,419.5	–	1,419.5
Total	–	1,419.5	–	1,419.5

Fair Value Hierarchy

€ million	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
As of December 31, 2015				
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	11.2	–	11.2
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	1.4	–	1.4
Available-for-sale securities and fixed-term deposits	6.3	–	–	6.3
Total	6.3	12.6	–	18.9
Financial assets measured at amortized cost				
Loans and receivables				
Loans	–	99.9	–	99.9
Total	–	99.9	–	99.9
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	15.9	–	15.9
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	12.4	–	12.4
Total	–	28.3	–	28.3
Financial liabilities measured at amortized cost				
Financial liabilities				
Measured at amortized cost	–	1,421.7	–	1,421.7
Total	–	1,421.7	–	1,421.7

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WACKER regularly reviews whether its financial instruments are still appropriately allocated to the fair-value-hierarchy levels. As was the case in the previous year, no reclassifications were carried out within the fair value hierarchy in 2016.

In the period under review, WACKER measured only financial assets and liabilities at fair value. The market values were calculated using market information available on the reporting date and based on counterparties' quoted prices or via appropriate valuation methodologies (discounted cash-flow or well-established actuarial methodologies, such as the par method).

Derivative financial instruments and available-for-sale financial assets are recognized at fair value and are thus subject to a recurring fair-value assessment.

The fair value of derivative financial instruments is calculated based on market data such as exchange rates or yield curves in accordance with market-specific valuation methodologies. The calculation of the fair value contains our own and the counterparty's default risk, using maturity-matching and market-observable CDs values. The fair value of available-for-sale financial assets can be derived from prices listed in active markets.

Loans and financial liabilities are measured at amortized cost. However, the fair values must be provided in the Notes.

The fair value of the loans corresponds to the present value of expected future cash flows. Application of the discounted cash flow method using market interest rates means that the carrying amount of the loans corresponds to their fair value.

The fair value of financial liabilities is determined using the net present value method and is based on standard market interest rates.

It was not possible to calculate the fair value of the equity instruments that WACKER measures at amortized cost as no stock market prices or market values are available. The instruments in question are shares in unlisted companies for which there was no indication of a lasting impairment on the reporting date and the fair value of which cannot reliably be determined. WACKER had no intention of selling any of the shares reported as of December 31, 2016.

The unilateral call option held by WACKER for the purchase of 1 percent of the shares in the subsidiary WACKER Asahikasei Silicones Co. Ltd., Japan is recognized at cost as of December 31, 2016.

WACKER does not currently have any financial instruments measured at fair value that are allocated to Level 3 of the fair value hierarchy.

No changes were made to the valuation methodology compared with the previous year.

Management of Financial Risks

In the normal course of business, WACKER is exposed to credit, liquidity, and market risks from financial instruments. The aim of financial risk management is to limit risks from operations and the resultant financing requirements by using certain derivative and non-derivative hedging instruments.

The risks connected with the procurement, financing and selling of WACKER's products and services are described in detail in the management report. WACKER counters financial risks via the risk management system it has in place. That system is monitored by the Supervisory Board. The fundamental purpose of the risk management system is to identify, analyze, coordinate, monitor and communicate risks in a timely manner. The Executive Board receives regular analyses on the extent of those risks. The analyses focus on market risks, in particular on the potential impact of raw-material price risks, foreign-currency exchange risks, and interest rate risks on EBITDA and interest result.

Credit Risk (Risk of Default)

In terms of financial instruments, the Group is exposed to a default risk should a contractual party fail to fulfill its commitments. The maximum risk is therefore the amount of the respective financial instrument's positive fair value. To limit the risk of default, particularly for investments of securities and cash, transactions are conducted only within defined limits and with partners of very high credit standing. To make efficient risk management possible, the market risks within the Group are controlled centrally. The conclusion and handling of transactions comply with internal credit-risk principles and are subject to monitoring procedures that take account of the separation of duties. As for operations, outstanding receivables and default risks are continually monitored and hedged with trade credit insurance, advance payments and bank guarantees. Customer credit ratings and limits are based on generally available information from rating agencies and internal

documents. No collateral exists for financial instruments. Receivables from major customers are not so high as to represent an extraordinary concentration of risks. Default risks are accounted for by valuation allowances, taking advance payments received into account.

Liquidity Risk

A liquidity risk means that a company may not be able to meet its existing or future financial obligations due to inadequate funds. To ensure uninterrupted solvency and financial flexibility, the Group holds long-term lines of credit at financial institutions of high credit standing and liquid funds based on multiyear financial planning and rolling liquidity planning.

To limit liquidity risk, WACKER keeps liquid reserves in the form of current investments and unused lines of credit. WACKER has also concluded agreements with a number of banks for long-term syndicated loans and bilateral loans.

For information on the maturity analysis for non-derivative financial liabilities, please refer to the note on Financial Liabilities.

⇒ See Note 13

Market Risks

Market risks refer to the risk that fair values or future cash flows of a primary or derivative financial instrument could fluctuate due to changing risk factors.

Foreign Exchange Risk

The potential currency exposure to be hedged with derivative financial instruments is determined on the basis of major foreign-currency income and expenditure. The greatest risk is posed by the us dollar. us-dollar income is taken to mean all sales invoiced in us dollars, while all purchases in us dollars as well as site costs incurred in us dollars are reported under us-dollar expenditure. The evaluation of potential risks includes not only direct us-dollar income and expenditure, but also the indirect us-dollar impact of WACKER's main raw materials (methanol and natural gas). The us dollar is the only relevant risk variable for the sensitivity analysis in accordance with IFRS 7, since the largest share of foreign-currency cash flows is in us dollars. By comparison, increases in the euro exchange rate against the renminbi (CNY) and yen (JPY) have a minor impact. In determining sensitivity, we simulate a 10-percent us-dollar devaluation against the euro, taking as a starting point the exchange rate used in the forecast. Such a devaluation would have had an effect on EBITDA of €-58 million as of December 31, 2016 and of

€-60 million as of December 31, 2015. The effect from cash-flow-hedge designated items would have increased equity before income taxes by €15.3 million, versus €29.4 million a year earlier. The Group's currency exposure amounted to €582 million as of December 31, 2016, after €595 million in the prior year.

Interest Rate Risk

The interest rate risk results mainly from financial liabilities and interest-bearing investments. The Executive Board determines the mix of fixed- and variable-interest financial debt. Interest rate derivatives are concluded as required, taking account of the given structure. Depending on whether the instrument in question has a fixed or variable interest rate, the interest rate risks are measured on the basis of either market-value sensitivity or cash-flow sensitivity. As financial liabilities and fixed-interest investments are measured at amortized cost, they are, in accordance with IFRS 7, not subject to any interest-rate risk. Available-for-sale securities are recognized at fair value. Due to their short maturities, they are not subject to a significant risk of changes in interest rates. Hedge accounting is not used for any of the interest rate derivatives. Changes in market interest rates have an impact on the net interest income generated by variable-interest financial instruments and are thus included in the calculation of earnings-related sensitivity. Changes in the market interest rates of interest rate derivatives affect the financial result, and are consequently included in any earnings-related sensitivity analysis. If the market interest rate on December 31, 2016 had been 100 base points lower (December 31, 2015: lower), the interest result would have been €0.4 million (€1.4 million) lower (lower).

Raw-Material Price Risk

In general, the company is faced with the risk that its supplies of raw materials may be inadequate and that potential increases in raw-material prices could threaten its results. These risks are covered by long-term contracts. Cash flow hedge accounting is used only to a minor degree for long-term energy needs in Norway. This item is recognized in profit or loss under the cost of goods sold.

Derivative Financial Instruments

Financial risks are also hedged using derivative financial instruments. The raw-material price risks that WACKER hedges against result principally from ongoing energy procurement. Electricity-supply price hedging takes place via contractual stipulations, for which the "own-use exemption" rules of IAS 39 can essentially be used. These contracts, which are concluded for the purpose of receiving or delivering non-financial goods according to WACKER's own needs, are not recognized as derivatives, but rather as pending transactions.

In those cases where WACKER hedges against currency risks, it uses derivative financial instruments, in particular currency forward exchange contracts, currency options and foreign exchange swaps. Derivatives are used only if they are backed by positions, cash deposits and funding, or scheduled transactions arising from operations. The scheduled transactions also include anticipated, but not yet invoiced, sales in foreign currencies.

Foreign exchange hedging is carried out particularly for the us dollar, Japanese yen and Singapore dollar. Potential interest rate hedges are based on the maturities of the underlying transactions.

Operational hedging in the foreign exchange area relates to the receivables and liabilities already recognized, and generally covers time horizons of between two and three months. The time horizon for strategic hedging is between three and a maximum of 21 months. The hedged cash flows influence the statement of income at the time when sales are realized. The cash inflows are usually recorded shortly afterward, depending on the payment deadline. As well as receivables from and liabilities to third parties, intercompany financial receivables and liabilities are hedged.

The fair values refer to the repurchase values (redemption values) of the financial derivatives as of the balance sheet date and are calculated using recognized actuarial methods.

The derivatives are recognized at their fair values, irrespective of their stated purpose. They are reported in the statement of financial position under other financial assets or other financial liabilities. Where permissible, cash flow hedge accounting is carried out for the strategic hedging of currency exchange risks from future foreign exchange positions. Depending on the nature of the underlying transaction, they are posted in the statement of income either under the operating result or, if financial liabilities are being hedged, under interest result or other financial result.

For strategic hedging purposes, graduated hedging ratios of between 50 and 30 percent are used in relation to the expected net exposure in us dollars. The expected net exposure for 2017 is about 50 percent hedged, with the expected additional net exposure for semiconductor business for 2018 being around 15 percent hedged. The average hedging ratio for operational hedging in us dollars is around 50 percent.

In fiscal 2016, the accumulated income and expenses recorded directly in equity included a pre-tax result from cash flow hedges amounting to €7.6 million, compared with €15.8 million in the prior year. During 2016, €–21.1 million was reclassified to the statement of income, after €69.7 million in the prior year. In the result for the period, no gains or losses from hedge accounting ineffectiveness were recorded, as the hedging relationships were almost entirely effective.

The purpose of fair value hedges is to hedge against changes in the fair value of financial assets and liabilities that come about because of fluctuations in the value of currencies (foreign currency swap). If the hedge is effective, the carrying amount of the corresponding underlying transaction is amended to reflect the changes in the fair value of the hedged risks. At year end, WACKER recognized income of €5.1 million from the valuation of the hedging instrument under fair value hedges, versus income of €7.3 million in the prior year. At the same time, an expense of €–5.1 million was realized on the underlying transaction, versus an expense of €–7.3 million a year earlier. Both amounts were recognized in the financial result. In the case of another fair value hedge, a loss of €3.2 million from measurement of the hedge and a gain of €3.2 million from measurement of the underlying transaction were recognized under other operating expenses.

€ million	Dec. 31, 2016		Dec. 31, 2015	
	Nominal values	Market values	Nominal values	Market values
Foreign exchange derivatives	1,637.2	–21.8	1,826.5	–12.7
Other derivatives	15.0	–0.8	17.3	–3.0
Total	1,652.2	–22.6	1,843.8	–15.7
Market values of derivative financial instruments used for hedge accounting		–21.1		–11.3

The foreign exchange derivatives mainly comprise forward exchange contracts, foreign exchange options and foreign exchange swaps amounting to US\$610.8 million, ¥33.1 billion, S\$70.7 million and €687.0 million, versus US\$1,309.5 million, ¥28.0 billion, S\$469.7 million and CHF10.5 million a year earlier. Derivatives with market values of €–22.4 million are due in 2017, and €0.5 million expire in 2018.

Other derivatives involve electricity futures traded on the Norwegian market for a nominal amount of €15.0 million, after €17.3 million in the prior year. The electricity futures are used to limit the risk of rising spot-market prices for energy via structured price setting on the electricity market. The hedged amount represents up to 90 percent of the Holla (Norway) site's future silicon-production power needs not covered by long-term supply contracts. The futures have maturities of between one and four years. Derivatives with maturities up until 2020 were concluded.

The following table contains information on the netting of financial assets and liabilities in the consolidated statement of financial position.

Financial Assets/Liabilities Subject to Netting Agreements, Enforceable Global Netting Agreements and Similar Agreements

€ million	Dec. 31, 2016		Dec. 31, 2015	
	Derivatives with a positive market value	Derivatives with a negative market value	Derivatives with a positive market value	Derivatives with a negative market value
I				
Gross amounts of recognized financial assets/liabilities	7.4	-29.9	12.7	-28.4
II				
Gross amounts of recognized financial assets/liabilities netted out in the balance sheet	-1.3	1.3	-0.1	0.1
I+II				
Net amounts of financial assets/liabilities presented in the balance sheet	6.1	-28.6	12.6	-28.3
Related amounts not netted out in the balance sheet				
Financial instruments	-5.0	5.0	-6.1	6.1
Cash collateral received/paid	-	-	-	-
Net amount	1.1	-23.6	6.5	-22.2

In addition to the financial instruments complying with the provisions on netting pursuant to IAS 32, the table also includes those financial instruments that are subject to netting agreements or master netting agreements but may not be netted pursuant to IAS 32.

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As a part of strategic hedging activities, WACKER closes out forward-exchange contracts prior to maturity by means of offsetting transactions. The strategic forward-exchange contract and the corresponding offsetting forward-exchange transaction are recognized as a net amount in accordance with IAS 32 criteria. In addition, general offsetting agreements, which apply only in cases of insolvency, have been concluded with a number of banks.

The net amount shows the amount of financial assets or liabilities that, despite netting and global netting agreements, is not received or must be paid in the event of insolvency.

19 Notes to the Statement of Cash Flows

Cash flow from operating activities is calculated using the indirect method, which adjusts the relevant changes in statement-of-financial-position items for any exchange-rate effects and effects of changes in the scope of consolidation. This means that changes to the relevant statement-of-financial-position items cannot be reconciled with the corresponding values based on the published consolidated statements of financial position.

Construction-related borrowing costs that have to be capitalized were deducted from the interest payments recognized in cash flow from operating activities. These construction-related borrowing costs increased capital expenditure included in cash flow from investing activities by €1.2 million, versus €18.6 million in the prior year.

In the case of cash flow from investing activities, the actual outflows of funds are recognized. As a result, it is also not possible to reconcile these figures with the additions to investments in the consolidated statement of financial position. If subsidiaries or business activities are acquired or sold, the effects of these transactions are shown as separate items in the statement of cash flows. Investment in securities falling due in more than three months is reported separately under cash flow from investing activities because, in economic terms, these transactions are considered an element of liquidity.

The Group is financed mainly by bank loans granted in the form of loan commitments. Within the defined approval limits for loan commitments, our utilization of credit may be subject to considerable fluctuations both within a given year and over several years. The raising and repayment of loans in foreign currencies are translated at the exchange rate prevailing as of the time of transaction, with the result that here, too, it is not possible to reconcile all the inflows and outflows with the changes in financial liabilities in the statement of financial position.

Please see the Notes for more details on the composition of funds made up of cash and cash equivalents.

↔ See Note 09

20 Explanatory Notes on Segment Reporting

The Group's segment reporting is in line with the internal organizational and reporting structure. WACKER reports on five operating segments (Silicones, Polymers, Biosolutions, Polysilicon and Siltronic), which are organized and managed autonomously on the basis of the type of products they offer and their different risk and income structures. Business segments are not combined. Any activities or results not assigned to an operating segment are shown under "Other." Foreign currency gains or losses pertaining to the Siltronic operating segment are recognized directly in that operating segment because an assignment in Siltronic's sub-group financial statements is possible. Foreign currency gains or losses pertaining to the chemical divisions and the Polysilicon operating segment are shown under "Other."

Items in the statement of financial position and statement of income are assigned to the operating segments in accordance with the commercial power of disposition. Assets used jointly by several segments are generally shown under "Other" if they cannot be assigned clearly to a particular segment. A similar approach is adopted for borrowed funds. For the geographical regions, the assets and liabilities are assigned in accordance with where the respective Group company's site is located. Sales are classified in accordance with both the customer's location and the respective Group company's site.

WACKER measures the segments' success using the segment profitability variable EBITDA. EBITDA is calculated by adjusting EBIT for depreciation and amortization, impairments, and write-ups. EBIT consists of the gross profit from sales, selling and general administrative expenses, research and development expenses, and other operating income and expenses including income from investments in joint ventures and associates and other income from investments.

Asset additions, depreciation, amortization and write-ups refer to intangible assets, to property, plant and equipment, to investment property and to financial assets. Internal sales show the sales that are generated between the segments. They are settled mainly on the basis of market prices or planned cost of sales. Segment information is based on the same presentation and accounting methods used for the consolidated financial statements. Receivables and liabilities, provisions, income, expenses, and results between the segments are eliminated in the course of consolidation.

As a rule, the assets reported for the segments encompass all of their assets. Loans, cash and cash equivalents, and deferred tax assets, however, are allocated to the "Other" segment.

The liabilities shown for the segments represent all of their liabilities – except deferred tax liabilities, which are shown under "Other." The Group's financial liabilities are allocated to individual segments in proportion to the segment assets. Provisions for pensions are allocated in accordance with Group HR ratios. The advance payments received are allocated directly to the individual segments.

Non-cash expenses and income are divided up between the individual segments as follows:

Other Non-Cash Expenses (+) and Income (–)

€ million	2016	2015
SILICONES	-1.4	1.5
POLYMERS	-2.4	0.9
BIOSOLUTIONS	0.8	0.1
POLYSILICON	15.1	4.3
SILTRONIC	2.9	-9.7
Other	-35.8	-36.2
Total	-20.8	-39.1

The decline in both advance payments received for polysilicon deliveries and advance payments retained due to the termination of polysilicon contracts amounted to €161.1 million, compared with €214.4 million in the prior year. In the Siltronic segment, advance payments received decreased by €20.1 million, versus €23.9 million in the prior year. The Biosolutions segment accounted for €1.9 million of this decrease.

Important valuation changes not recognized through profit or loss include changes in the market value of derivative financial instruments (cash flow hedging) and changes in value from the remeasurement of defined benefit pension plans.

Of the changes in the market value of derivative financial instruments from cash flow hedging, €5.0 million (versus €13.5 million a year earlier) is attributable to the Siltronic segment and €-1.9 million (versus €8.9 million) to "Other."

The changes in value due to the remeasurement of defined benefit plans are allocated to the segments as follows:

€ million	2016	2015
SILICONES	-93.6	41.8
POLYMERS	-35.4	15.3
BIOSOLUTIONS	-9.2	3.7
POLYSILICON	-63.8	28.2
SILTRONIC	-90.5	47.3
Other	-167.4	77.8

In addition to Germany, the USA and China are the only countries in which WACKER generates significant sales from a Group viewpoint. Measured in relation to the headquarters of the selling unit, sales amounted to €756.8 million in the USA – after €732.9 million in the previous year – and €406.3 million in China, after €419.5 million the year before. Measured by customer location in the USA and China, the respective sales generated were €773.7 million (€754.1 million in the prior year) and €1,016.0 million (€1,013.8 million in the prior year). WACKER has no major customer whose sales it is obliged to report.

The reconciliation of the segments' aggregate results with the net income for the year is shown in the following list:

Reconciliation of Segment Results (€BIT)

€ million	2016	2015
Operating result of reporting segments	365.8	472.5
Consolidation	0.4	0.9
Group EBIT	366.2	473.4
Financial result	-101.4	-66.7
Income before taxes	264.8	406.7
Income taxes	-75.5	-164.9
Net income for the year	189.3	241.8

21 Breakdown of Shareholdings

Unless otherwise stated, the following figures for international subsidiaries were calculated in accordance with IFRS.

Serial number	Activity	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number ¹	
Affiliated Companies							
Germany							
1	Alzwerke GmbH, Munich	Other	a), b)	7,160	-	100.00	0
2	DRAWIN Vertriebs-GmbH, Hohenbrunn	Silicones	a), b)	5,016	-	100.00	0
3	W.E.L.T. Reisebüro GmbH, Munich ²	Other		191	75	100.00	0
4	Wacker-Chemie Versicherungsvermittlung GmbH, Munich	Other	a), b)	26	-	100.00	0
5	Wacker-Chemie Beteiligungsfinanzierungs GmbH, Munich	-		29	-1	100.00	0
6	Wacker Polysilicon Geschäftsführungs GmbH, Nünchritz	-		27	-	100.00	0
7	Wacker-Chemie Erste Venture GmbH, Munich	-		80	-	100.00	0
8	Wacker-Chemie Zweite Venture GmbH, Munich	-		35	-1	100.00	0
9	Wacker-Chemie Dritte Venture GmbH, Munich	Holding	a), b)	387,727	-	100.00	0
10	Wacker-Chemie Sechste Venture GmbH, Munich	-		27	-	100.00	0
11	Wacker Biotech GmbH, Jena	Biosolutions	a), b)	290	-	100.00	0
12	Wacker-Chemie Siebte Venture GmbH, Munich	-		25	-	100.00	0
13	Wacker-Chemie Achte Venture GmbH, Munich	-	a), b)	2,753	-	100.00	0
14	Siltronic AG, Munich	Siltronic		503,044	-22,716	49.50	9
						8.33	0
15	Wacker-Chemie Zehnte Venture GmbH, Munich	-		25	-	100.00	0
16	Wacker-Chemie Elfte Venture GmbH, Munich	-		25	-	100.00	0
17	Wacker-Chemie Zwölfte Venture GmbH, Munich	-		25	-	100.00	0

Serial number	Activity	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number ¹
Rest of Europe						
18	Wacker Chemicals Finance B.V., Krommenie, Netherlands	Holding	1,373,006	3,156	100.00	0
19	Wacker-Chemicals Ltd., Egham, Surrey, Great Britain	Sales and distribution	792	717	100.00	0
20	Wacker-Chemie Italia S.r.l., San Donato Milanese, Italy	Sales and distribution	2,599	1,009	100.00	0
21	Wacker-Chemie Benelux B.V., Krommenie, Netherlands	Sales and distribution	498	480	100.00	18
22	Wacker Chimie S.A.S., Lyon, France	Sales and distribution	460	225	100.00	0
23	Wacker-Kemi AB, Solna, Sweden	Sales and distribution	580	526	100.00	0
24	Wacker Química Ibérica, S.A., Barcelona, Spain	Sales and distribution	530	392	100.00	0
25	Siltronic Holding International B.V., Krommenie, Netherlands	Holding	331,173	11,815	100.00	14
26	Wacker-Chemie S.r.o., Prague, Czech Republic	Sales and distribution	3,290	255	100.00	0
27	Wacker-Chemie Polska Sp. z o.o., Warsaw, Poland	Sales and distribution	503	377	100.00	0
28	Wacker-Chemie Hungária Kft., Budapest, Hungary	Sales and distribution	532	343	100.00	0
29	OOO Wacker Chemie RUS, Moscow, Russia	Sales and distribution	1,027	226	100.00	0
30	Wacker Chemicals Norway AS, Holla, Norway	Silicones	46,423	2,668	100.00	18
31	Wacker Kimya Tic. Ltd. Sti., Istanbul, Turkey	Sales and distribution	137	78	100.00	18
32	Wacker Biosolutions León, S.L.U., León, Spain	Biosolutions	1	-2	100.00	18
The Americas						
33	Wacker Química do Brasil Ltda., São Paulo, Brazil	Silicones, Polymers	27,665	1,150	100.00	0
34	Wacker Mexicana S.A. de C.V., Mexico, D.F., Mexico	Sales and distribution	1,184	635	100.00	0
35	Wacker Chemical Corp., Adrian, Michigan, USA	Silicones, Polymers, Biosolutions	1,513,610	34,251	100.00	18
36	Wacker Polysilicon North America, LLC, Cleveland, Tennessee, USA	Polysilicon	1,110,510	-7,761	100.00	35
37	Siltronic Corp., Portland, Oregon, USA	Siltronic	11,924	5,106	100.00	25
38	Wacker Colombia S.A.S., Bogotá, Colombia	Sales and distribution	192	175	100.00	18
Asia						
39	Wacker Asahikasei Silicone Co. Ltd., Tokyo, Japan	Silicones	25,016	2,985	50.00 ⁵	0
40	Wacker Chemicals (South Asia) Pte. Ltd., Singapore	Sales and distribution	2,120	618	100.00	0
41	Wacker Chemicals Hong Kong Ltd., Hong Kong, China	Sales and distribution	3,495	767	100.00	0
42	Wacker Metroark Chemicals Pvt. Ltd., Parganas, India	Silicones	51,363	9,662	51.00	0
43	Wacker Chemicals Korea Inc., Seoul, South Korea	Silicones, Polymers	42,413	8,952	100.00	18
44	Wacker Chemicals East Asia Ltd., Tokyo, Japan	Sales and distribution	122	105	100.00	0

Serial number	Activity	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number ¹
45 Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore	Holding		47,982	-18	51.00	0
46 Wacker Chemicals Fumed Silica (ZJG) Co. Ltd., Zhangjiagang, China	Silicones		21,881	4,100	100.00	45
47 Wacker Chemicals (Zhangjiagang) Co. Ltd., Zhangjiagang, China	Silicones		54,269	4,844	100.00	49
48 Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi, China	Biosolutions		2,540	-122	100.00	49
49 Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, China	Sales and distribution		138,705	13,202	100.00	0
50 Wacker Chemicals (Nanjing) Co. Ltd., Nanjing, China	Polymers, Biosolutions		54,640	1,557	100.00	49
51 Wacker Chemicals India Ltd., Mumbai, India	Sales and distribution		4,324	190	100.00	18
52 PT. Wacker Chemicals Indonesia, Tangerang, Indonesia	Silicones, Polymers, Biosolutions		147	-42	99.00	18
					1.00	2
53 Siltronic Singapore Pte. Ltd., Singapore	Siltronic		171,371	43,418	100.00	25
54 Siltronic Japan Corp., Hikari, Japan	Siltronic		-7,506	-292	100.00	25
55 Siltronic Silicon Wafer Pte. Ltd., Singapore	Siltronic		-39,510	-9,778	77.70	25
Other Regions						
56 Wacker Chemicals Australia Pty. Ltd., Melbourne, Australia	Sales and distribution		671	319	100.00	0
57 Wacker Chemicals Middle East Ltd., Dubai, UAE	Sales and distribution		3,020	-89	100.00	0
Joint Ventures/Associated Companies³						
58 Dow Corning (ZJG) Holding Co. Private Ltd., Singapore	Silicones		342,311	-15,143	25.00	0
59 Wacker Dymatic (Shunde) Co. Ltd., Guangdong, China	Silicones		22,530	5,247	50.00	49
Special-Purpose Entity						
60 WMM-Universal-Fonds, Germany	-		105,514	-92	100.00 ⁴	0

* Identifier:

^{a)} Wacker Chemie AG has either directly or indirectly concluded profit and loss transfer agreements with these entities.^{b)} The shareholders of Wacker Chemie AG have agreed not to disclose the financial statements of these entities (Section 264 (3) of the German Commercial Code).¹ Serial number 0: Wacker Chemie AG² Prior-year figures³ Only direct holdings in the relevant parent company are listed⁴ Share of special assets; as per IFRS⁵ Control on the basis of potential voting rights

22 Related Party Disclosures

IAS 24 stipulates that a person or company which controls, or is controlled by, Wacker Chemie AG must be disclosed unless the person or company is already included in Wacker Chemie AG's consolidated financial statements as a consolidated company. A shareholder is deemed to have control if the shareholder has more than half of the voting rights in Wacker Chemie AG or, by virtue of provisions in the Articles of Association or contractual arrangements, has the possibility of controlling the financial and business policy of the WACKER Group's Executive Board.

In the year under review, the WACKER Group was affected by the disclosure obligations under IAS 24 in respect of the business relations with Wacker Chemie AG's major shareholders and its Executive and Supervisory Board members. The principles of IAS 24 also apply to all transactions with non-consolidated subsidiaries, associated companies and joint ventures, since Wacker Chemie AG exercises significant influence over them.

Dr. Alexander Wacker Familiengesellschaft mbH, Munich, informed Wacker Chemie AG on June 7, 2006, that it holds over 50 percent of the voting shares in Wacker Chemie AG. Blue Elephant Holding GmbH, Pöcking, informed Wacker Chemie AG on April 12, 2006, that it holds over 10 percent of the voting shares in Wacker Chemie AG.

The WACKER Group is controlled by its majority shareholder, Dr. Alexander Wacker Familiengesellschaft mbH, which holds over 50 percent of the voting shares in Wacker Chemie AG.

Provision of services between Wacker Chemie AG and its majority shareholder, Dr. Alexander Wacker Familiengesellschaft mbH, as well as with the shareholders of Dr. Alexander Wacker Familiengesellschaft mbH and their close family members, is of subordinate importance, and concerns the renting of office space and exchange of services. None of these services is of significant business scope. The provision of services takes place at standard market terms.

Apart from that, WACKER Group companies have not conducted any material transactions with members of Wacker Chemie AG's Executive or Supervisory Boards or with any other key management personnel or with companies of which these persons are members of executive or supervisory bodies. The same applies to close relatives of the aforementioned persons.

Wacker Chemie AG's pension fund is also considered a related party pursuant to IAS 24. Provision of services takes place between the two entities in the area of company pension plan benefits. WACKER makes payments to plan assets to cover pension obligations. Wacker Chemie AG also rents the headquarters building and the land on which it stands from a subsidiary of Pensionskasse der Wacker Chemie VVaG. Overall, expenditures amounted to €44.8 million (prior year: €45.3 million). Receivables amounted to €48.0 million after €0.5 million in the prior year, while liabilities came to €0.5 million versus €0.0 million in the prior year.

On June 22, 2015, Capital Research and Management Company, Inc., Los Angeles, USA (a subsidiary of Capital Group Companies, Inc. Los Angeles, USA) reported holding 3.07 percent, thereby exceeding the 3-percent threshold of voting shares in Wacker Chemie AG.

Further detailed information has been published in the German register of companies.

www.unternehmensregister.de

Business with joint ventures and associates, the pension fund, and non-consolidated subsidiaries is conducted under conditions that are customary between outside third parties (arm's length transactions). Contractually agreed transfer-price formulas have been defined for joint-venture and associated-company product shipments.

Related Party Disclosures

€ million	2016				2015			
	Income	Expenses	Receivables	Liabilities	Income	Expenses	Receivables	Liabilities
Associated companies	7.8	125.8	3.6	15.0	9.5	144.9	3.2	8.7
Joint ventures	24.4	1.1	0.9	0.1	31.5	1.4	5.4	0.5

Transactions with joint ventures and associates relate to such supplies and services as arise during the normal course of business (for example in connection with sales revenue, license revenue and administrative expense allocations). Joint ventures and associates submitted invoices for material purchases and commissions. Any guarantees or other security pledges are reported under Other Financial Obligations.

⇒ See Note 15

In addition, there is a loan to an associated company totaling €96.4 million (€99.9 million in the prior year).

Information Regarding Compensation for the Supervisory and Executive Boards:

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Compensation for the Executive and Supervisory Boards

€	Fixed compensation	Variable compensation	Pension expenses ¹	Total
Executive Board compensation 2016	2,611,723	4,866,125	1,177,876	8,655,724
Executive Board compensation 2015	2,629,052	3,681,166	2,174,835	8,485,053
Pension commitments for active members of the Executive Board 2016				27,587,433
Pension commitments for active members of the Executive Board 2015				22,692,191
Compensation for former members of the Executive Board and their surviving dependents 2016				2,383,467
Compensation for former members of the Executive Board and their surviving dependents 2015				1,922,900
Pension commitments for former members of the Executive Board and their surviving dependents 2016				39,163,469
Pension commitments for former members of the Executive Board and their surviving dependents 2015				36,718,229
Supervisory Board compensation 2016	2,165,000	–	–	2,165,000
Supervisory Board compensation 2015	1,716,973	–	–	1,716,973

¹ The compensation for retirement benefits is based on service cost. Interest expense amounted to €624,036, after €585,079 in the prior year.

Dr. Rauhut retired on October 31, 2015 after his employment contract expired as scheduled. Before expiry of his employment contract, Dr. Rauhut had received all compensation due him under the provisions of this contract. He will receive the agreed competitive-restriction compensation, which will total €636,548 for the 12 months following his departure. €106,091 of that total amount was paid to him in 2015 and is included under compensation for former members of the Executive Board and their surviving dependents.

Detailed information about Executive Board compensation is contained in the compensation report, which forms part of the management report. German commercial law (HGB) requires the inclusion of this information in the notes to the consolidated financial statements.

Other business relations with members of the Supervisory and Executive Boards comprise the purchase and sale of shares in Wacker Chemie AG. Such transactions take place on customary market terms and conditions. These transactions were published both in the German register of companies and on the Wacker Chemie AG website.

✂ www.wacker.com/directors-dealings

The members of Wacker Chemie AG's Supervisory Board and Executive Board are listed on the following pages.

23 Events after the Balance Sheet Date

On February 20, 2017, Pensionskasse der Wacker Chemie VVaG informed WACKER that the pension fund's technical business plan had been changed. In this context, it requested a special payment of €48 million for the Group companies covered by the pension fund.

Munich, February 27, 2017
Wacker Chemie AG

Rudolf Staudigl

Christian Hartel

Tobias Ohler

Auguste Willems

Supervisory Board

Dr. Peter-Alexander Wacker^{1,2,3}

Chairman

Bad Wiessee
Former President & CEO
of Wacker Chemie AG, businessman

Chairman of the Supervisory Board
Blue Elephant Energy AG (since April 15, 2016)

Chairman of the Administrative Council and Board of Trustees
ifo Institute – Leibniz-Institut für Wirtschaftsforschung
an der Universität München e.V.

Anton Eisenacker^{*,1,2,3,4}

Deputy Chairman
(until December 31, 2016)
Perach
Member of Employee Council, Burghausen Plant,
Wacker Chemie AG

Manfred Köppl^{*,1,2,3,4}

Deputy Chairman
(since January 1, 2017)
Kirchdorf
Member of Employee Council, Burghausen Plant,
Wacker Chemie AG

Peter Áldozó^{*,4}

Burghausen
Deputy Chairman of the Group Employee
Council of Wacker Chemie AG

Dr. Andreas H. Biagosch

Munich
Managing Director of Impacting I GmbH & Co. KG
and Impact GmbH

Member of the Board of Directors
Ashok Leyland, Chennai, India
Hinduja Leyland Finance, Chennai, India

Member of the Supervisory Board
Aixtron SE

Member of the Advisory Board
Lürssen Werft GmbH & Co. KG

Member of the Southern Regional Advisory Council
Commerzbank AG

Dr. Gregor Biebl

Munich
Undersecretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity

Matthias Biebl

Munich
Attorney and in-house lawyer
UniCredit Bank AG

Dagmar Burghart^{*,4}

Kirchdorf
Team Leader of Retirement Benefits
Service Center, Wacker Chemie AG

Deputy Chairwoman of the Supervisory Board
Pensionskasse der Wacker Chemie VVaG
(until April 30, 2016)

Konrad Kammergruber^{*,4}

Burghausen
Director of Infrastructure Services, Wacker Chemie AG

Eduard-Harald Klein^{*,1,4}

Neuötting
Chairman of the Group and General Employee
Councils of Wacker Chemie AG

Franz-Josef Kortüm^{1,2,3}

Munich
Former Chairman of the Executive Board of Webasto SE

Deputy Chairman of the Supervisory Board
Webasto SE

Chairman of the Advisory Council
Brose Fahrzeugteile GmbH & Co. KG

Member of the Board of Directors
Autoliv Inc., USA

Seppel Kraus^{*,4}

Olching
Regional head of the IG BCE labor union, Bavaria

Member of the Supervisory Board
Novartis Deutschland GmbH
Hexal AG
Gerresheimer AG

Hansgeorg Schuster^{*,4}

(since January 1, 2017)
Braunau am Inn, Austria
Member of General Employee Council of Siltronic AG**

Harald Sikorski^{*,4}

Munich
District Chairman of the IG BCE labor union, Altötting

Member of the Supervisory Board
Siltronic AG**

Executive Board

Dr. Thomas Strüngmann

Tegernsee
Co-Managing Director of ATHOS Service GmbH

Dr. Susanne Weiss

Munich
Attorney and a partner in the law firm
Weiss Walter Fischer-Zernin

Chairwoman of the Supervisory Board

ROFA INDUSTRIAL AUTOMATION AG

Member of the Supervisory Board

Porr AG, Austria
Schattdecor AG
UBM Development AG, Austria

Chairwoman of the Advisory Council

Alu-Sommer GmbH, Austria
Wirtschaftlicher Verband der Stadt und
des Landkreises Rosenheim e.V.

Prof. Ernst-Ludwig Winnacker

Munich
Professor emeritus of Biochemistry
at LMU Munich

Member of the Supervisory Board

Bayer AG (until April 29, 2016)
MediGene AG (until August 11, 2016)

Dr. Rudolf Staudigl

President & CEO

WACKER POLYSILICON
Executive Personnel
Corporate Development
Corporate Communications
Investor Relations
Corporate Auditing
Legal
Compliance
Retirement Benefits
(since July 1, 2016)

Chairman of the Supervisory Board

Pensionskasse der Wacker Chemie VVaG

Deputy Chairman of the Supervisory Board

Groz-Beckert KG

Member of the Advisory Council, Bavaria

Deutsche Bank AG

Dr. Christian Hartel

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

Dr. Tobias Ohler

SILTRONIC
Corporate Accounting and Tax
Corporate Controlling
Corporate Finance and Insurance
Information Technology
Technical Procurement & Logistics
Raw Materials & Energy
Region: The Americas

Chairman of the Supervisory Board

Siltronic AG**

Member of the Supervisory Board

Pensionskasse der Wacker Chemie VVaG

Auguste Willems

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

Member of the Bavarian State Branch Advisory Committee

tüv Süd AG

* Employee representative

** Affiliated company

¹ Mediation Committee (Chairman: Dr. Peter-Alexander Wacker)

² Executive Committee (Chairman: Dr. Peter-Alexander Wacker)

³ Audit Committee (Chairman: Franz-Josef Kortüm)

⁴ These employee representatives are subject to the rules of the German Trade Union Confederation (DGB) and of the German Association of Employed Academics and Executives in the Chemical Industry (VAA) concerning the transfer of supervisory board compensation.

Corporate Governance Report and Declaration on Corporate Management

Corporate governance is an important part of a company's success and of responsible corporate management and supervision. Wacker Chemie AG attaches great importance to the rules of proper corporate governance. In this report, the Executive Board provides details – also on behalf of the Supervisory Board – on corporate governance in accordance with Item 3.10 of the German Corporate Governance Code (the Code) as well as Section 289a (1) and Section 315 (5) of the German Commercial Code (HGB).

Declaration of Conformity and Corporate Governance Reporting

In 2016, the Executive Board and the Supervisory Board dealt intensively with the company's corporate governance and the recommendations of the Code in its currently valid version published on May 5, 2015. The Executive and Supervisory Boards resolved in December 2016 to issue the following Declaration of Conformity. The Declaration of Conformity has since been made permanently available to the general public on the company's website.

Declaration of Conformity 2016 Issued by the Executive Board and Supervisory Board of Wacker Chemie AG

1. General Declaration Pursuant to Section 161 of the German Stock Corporation Act

The Executive Board and the Supervisory Board of Wacker Chemie AG issued their most recent declaration of conformity pursuant to Section 161 of the German Stock Corporation Act in December 2015. Since that time, Wacker Chemie AG has complied with the recommendations of the German Corporate Governance Code (the Code) as amended on May 5, 2015, with the exceptions listed in the following, and will continue to comply with the recommendations of the Code in said version, with the following exceptions.

2. Exceptions

a) D&O Insurance Deductible for Supervisory Board Members

German law and a company's articles of association set clear limits in regard to the supervisory board's ability to exert influence on the business activities of a stock corporation. Pursuant to Section 76 (1) of the German Stock Corporation Act, the executive board has direct responsibility for managing the corporation. The supervisory board is instrumental in defining the main features of corporate

strategy. However, beyond this contribution, the supervisory board's abilities are limited in terms of influencing the implementation of corporate strategy or operations. The same applies to measures taken to avert damage or loss to the company. Furthermore, since our Supervisory Board members receive only a relatively small amount for reimbursement of expenses compared to our Executive Board compensation, we do not deem the agreement of a deductible reasonable for members of our Supervisory Board.

b) Formation of a Nomination Committee within the Supervisory Board

The supervisory board is required to establish a nomination committee that is exclusively composed of shareholder representatives and whose task it is to make recommendations to the supervisory board with regard to candidates suitable for proposal to the annual shareholders' meeting. We do not comply with this recommendation because, in view of our shareholder structure, we do not believe that the formation of such a committee is appropriate. Due to the majority situation, nominations to the Supervisory Board must be agreed with the majority shareholder in any case, so that an additional nomination committee would not serve to increase efficiency.

c) Announcement to Shareholders of Proposed Candidates for the Chair of the Supervisory Board

According to this recommendation, shareholders shall be informed of any candidates for the supervisory board chair even though, as a rule, the supervisory board has not yet been appointed. Under German law, the supervisory board chair must be elected by, and from among, the supervisory board members. There is no legal requirement to announce the candidates for the chair from among a yet-to-be-appointed group of supervisory board members. Furthermore, this would result in a de facto predetermination, which is also not provided for under German law. For these reasons, we do not comply with this recommendation.

d) Defining Concrete Objectives Regarding the Number of Independent Members of the Supervisory Board

The Supervisory Board of Wacker Chemie AG, as it is composed at present, meets the requirements of the Code regarding an adequate number of independent members. The Supervisory Board will continue to ensure in future elections that it recommends to the shareholders a number of independent candidates it considers to be appropriate. Additionally defining a concrete objective in this regard would not only limit the choice of suitable candidates for the Supervisory Board, but also restrict the shareholders' right to elect those Supervisory Board members whom they consider to be the most suitable. For these reasons, we do not comply with this recommendation.

e) Term Limit for Length of Service on the Supervisory Board

According to this recommendation, the supervisory board should determine a general term limit for the length of service on the board. A generally applicable term limit of this sort is not required in our opinion, as we consider an individual analysis of the respective supervisory board members to be more effective. This particularly applies since the Code provides for self-inspection of the supervisory board and its members anyway as part of the regular examination of efficiency. Furthermore, a general term limit would restrict the majority shareholder's freedom to choose representatives on the Supervisory Board at its own discretion in fulfillment of its corporate responsibility.

f) Time Limit Placed on Applications for the Judicial Appointment of a Supervisory Board Member

According to this recommendation, applications for the judicial appointment of a supervisory board member shall be limited in time up to the next annual shareholders' meeting. We do not comply with this recommendation. Proposals for candidates to be appointed by the court are agreed with the majority shareholder beforehand anyway. In view of the majority situation, the election of this same candidate at the next Annual Shareholders' Meeting would merely constitute a confirmation of his/her appointment, which we consider to be superfluous.

Corporate Governance Reporting

Shareholders and Annual Shareholders' Meeting

Transparent Information for Shareholders and the Public
WACKER's aim is to inform all of the company's target groups – shareholders, shareholder representatives, analysts and the media – as well as the interested general public promptly and without preference. We regularly publicize important company dates in a financial calendar published in our Annual Report, in the interim reports and on our website. Capital market participants are in close contact with our Investor Relations team. We inform investors and analysts about the current and future development of business in telephone conferences held whenever a quarterly report is published. We regularly attend roadshows and investors' conferences. Once a year, we organize an event for analysts. Important presentations are available on the internet, as well as all press releases and ad-hoc disclosures in both German and English, the online version of the Annual Report, all interim reports and the Sustainability Report. Further information is provided by our online customer magazine, media library and Podcast Center.

↗ www.wacker.com

Annual Shareholders' Meeting

The Annual Shareholders' Meeting provides an efficient and inclusive forum for informing shareholders about the company's situation. Even before the Annual Shareholders' Meeting begins, shareholders receive important information about the previous fiscal year in the Annual Report. The agenda items are described and the conditions of attendance explained in the invitation to the Annual Shareholders' Meeting. The notice of the Annual Shareholders' Meeting – together with all legally prescribed reports and documents, including the Annual Report (of which the consolidated financial statements and the combined management report form part) – as well as the annual financial statements of Wacker Chemie AG are also available on the company's website. After the Annual Shareholders' Meeting, we publish the attendance figures and the results of the votes on the internet. All these communication measures contribute to the regular exchange of information with our shareholders. WACKER helps its shareholders exercise their voting rights by giving them the option of casting their vote either in person or by proxy. Proxies are available to exercise shareholders' voting rights as instructed and can also be contacted during the Annual Shareholders' Meeting.

Working Methods of the Executive and Supervisory Boards

Wacker Chemie AG has a dual management system as prescribed by the German Stock Corporation Act. It consists of the Executive Board, which manages the company, and the Supervisory Board, which supervises and advises the Executive Board in its management of the company. These two bodies are kept strictly separate from one another with regard to both their membership and their spheres of competence. The Executive and Supervisory Boards collaborate closely, however, to ensure WACKER's sustainable long-term success.

Executive Board

The Executive Board currently consists of four members. The Executive Board bears direct responsibility for managing the company and represents Wacker Chemie AG in all dealings with third parties. The Executive Board's actions and decisions are driven by the company's interest and the aim to sustainably increase the Group's value. With this goal in mind, the Executive Board determines the WACKER Group's strategic alignment. It then steers and monitors this by allocating funds, resources and capacities, and by supporting and overseeing the operating units. The Executive Board also ensures compliance with legal requirements and an appropriate risk management system and control.

While the members of the Executive Board bear joint responsibility for managing the company, each individual member is directly responsible for managing his/her respective unit. All Executive Board decisions require a simple majority. In the case of a tie of votes, the president & CEO has the deciding vote. However, he/she does not have the right to veto Executive Board resolutions.

Close Collaboration between the Executive Board and the Supervisory Board

The Executive Board and the Supervisory Board work together closely to promote the interests of the company. Their common goal is the sustainable growth of the company and the enhancement of its value. The Executive Board reports to the Supervisory Board and the Audit Committee regularly, promptly and comprehensively on all relevant issues of strategy, planning, business development, risk exposure, risk management and compliance. Also in the period between meetings, the Supervisory Board chairman maintains contact with the Executive Board, in particular with the president & CEO, consulting with that body on the above-mentioned issues. The Executive Board explains any deviations from approved business plans and objectives to the Supervisory Board and gives reasons for these deviations.

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The Rules of Procedure for Wacker Chemie AG's Executive Board stipulate that certain measures require the consent of the Supervisory Board before their implementation. These include approving the annual budget (including financial and investment planning), acquiring and disposing of shares in companies, establishing new production or business units or suspending existing ones, and concluding sizable long-term loan agreements.

Supervisory Board

The Supervisory Board appoints, oversees and advises the Executive Board and is directly involved in any decisions of crucial importance to WACKER. Fundamental decisions on the company's development require Supervisory Board approval.

Supervisory Board Composition

The Supervisory Board comprises 16 members. In compliance with the German Co-Determination Act (MitbestG), it has an equal number of shareholder and employee representatives. Shareholder representatives are elected by the Annual Shareholders' Meeting and employee representatives by the employees, as stipulated by the German Co-Determination Act. As a rule, the term of office is about five years.

WACKER has always placed importance on having highly qualified individuals sit on its Supervisory Board. In compliance with the recommendation made in Item 5.4.1 of the German Corporate Governance Code as amended on May 26, 2010, WACKER's Supervisory Board resolved in December 2010 to set itself concrete objectives in respect of its composition. These include the qualifications, international experience and gender of Supervisory Board members, and the prevention of conflicts of interest. Accordingly, the profile of requirements and targets is as follows:

- International scope: an appropriate number of Supervisory Board members – however, at least one – should have international experience.
- Prevention and handling of conflicts of interest: the Supervisory Board's Rules of Procedure already contain extensive provisions on members' conflicts of interest. In addition, the Supervisory Board actively strives to prevent such conflicts of interest and also takes this goal into consideration when making recommendations to the Annual Shareholders' Meeting.
- Diversity and gender representation: the objective set in December 2010 to increase the number of female members to at least two – one shareholder and one employee representative – was achieved in 2013. Please see the subsequent item Supporting the Participation of Women in Executive Positions as per Section 76 (4) and Section 111 (5) of the German Stock Corporation Act for our measures to meet the requirements of the Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector, which came into effect on May 1, 2015. According to this act, the Supervisory Board is to be composed of at least 30 percent female members and at least 30 percent male members.

The Supervisory Board's Rules of Procedure already define an age limit. The Supervisory Board does not comply with the recommendation made in Item 5.4.1 of the German Corporate Governance Code as amended on May 5, 2015, to set a general term limit for the length of service of its members. The reasons for this decision are given in the Declaration of Conformity of December 2016.

As members of the Supervisory Board cannot simultaneously sit on the Executive Board, this structure ensures a high degree of independence in monitoring the Executive Board. Since the Supervisory Board believes that it comprises an adequate number of independent members, it does not comply with the additional recommendation made in Item 5.4.2 of the German Corporate Governance

Code as amended on May 5, 2015, to name a specific target number of independent members. The reasons for this decision are given in the Declaration of Conformity of December 2016.

The Supervisory Board will take into account the objectives it has set when making its nomination proposals to the Annual Shareholders' Meeting. The composition of the Supervisory Board complies with the objectives set in December 2010. The age limit provision is also complied with.

Committees Increase the Supervisory Board's Efficiency

The Supervisory Board has constituted three professionally qualified committees to help it perform its duties optimally. The work of those committees is reported on regularly at Supervisory Board meetings.

The Executive Committee prepares the Supervisory Board's personnel decisions, especially the appointment and dismissal of Executive Board members and the nomination of the president & CEO. In addition, it negotiates contracts with Executive Board members and develops a compensation system that the full Supervisory Board then uses as a basis for determining the compensation for Executive Board members. In fiscal 2016, the Executive Committee consisted of the Chairman of the Supervisory Board, Dr. Peter-Alexander Wacker, and Supervisory Board members Anton Eisenacker and Franz-Josef Kortüm. Effective January 1, 2017, the new Deputy Chairman of the Supervisory Board, Manfred Köppl, succeeded Anton Eisenacker on the Executive Committee in accordance with the Rules of Procedure. Mr. Eisenacker had in turn left the Supervisory Board as of December 31, 2016 as its Deputy Chairman.

The Audit Committee does the groundwork for the Supervisory Board's decision on the adoption of the annual financial statements and the approval of the consolidated financial statements. To this end, the committee is obliged to pre-audit the annual financial statements, the consolidated financial statements, the combined management report and the proposal on appropriation of profits. In addition, it discusses and examines the half-yearly financial reports and the quarterly figures. The Audit Committee gives the Supervisory Board a well-founded recommendation as to which auditors it should propose to the Annual Shareholders' Meeting. In accordance with the resolution of the Annual Shareholders' Meeting, it awards the auditing contract to the auditors and determines the focus of auditing. It then monitors the audit, in particular the auditors' independence and the services they deliver. Above and beyond that, the Audit Committee reviews the accounting process and the effectiveness of the internal control, risk management and auditing systems, as well as compliance-

related issues. The members of this committee in fiscal 2016 were Franz-Josef Kortüm (as chairman), Dr. Peter-Alexander Wacker and Anton Eisenacker. Following Anton Eisenacker's departure at year-end, Manfred Köppl was elected to the Audit Committee as a new member effective January 1, 2017.

The Group also has a statutory Mediation Committee, the tasks of which are stipulated by German law. In 2016, this committee consisted of Dr. Peter-Alexander Wacker (as chairman), Anton Eisenacker, Franz-Josef Kortüm and Manfred Köppl. Since January 1, 2017, the committee has comprised Dr. Peter-Alexander Wacker, Manfred Köppl, Franz-Josef Kortüm and Eduard-Harald Klein.

Key Corporate Management Practices

Compliance as a Key Managerial Duty of the Executive Board

At WACKER, managerial and monitoring duties include ensuring that the company complies with legal requirements and that employees observe internal company regulations. WACKER's compliance management system is regularly reviewed and adapted.

These tasks are the responsibility of the compliance management department. The company has appointed and trained compliance officers in Germany, the USA, China, Japan, India, South Korea, Brazil, Mexico, Norway, Singapore, Russia, the United Arab Emirates and Taiwan, who hold regular training courses to inform employees of key legal provisions and internal regulations. They also serve as contacts whenever employees have questions or need advice, information and training relating to compliance.

Principles of Corporate Ethics

Beside our vision and goals, our ethical principles form the third pillar of WACKER's corporate policy guidelines. These principles – embedded in five separate codes – govern how the company goals should be achieved. A set of rules consisting of regulations and instructions supplement the codes.

- Code of Conduct: this contains our principles for dealing with business partners and third parties. It also governs the handling of information, confidentiality and data security, the prevention of money laundering, and the separation of personal and business interests.
- Code of Innovation: this specifies our principles concerning research and development, partnerships, patents and innovation management.

- Code of Teamwork & Leadership: this outlines our understanding of teamwork and leadership. Key aspects here include trust and esteem, motivation and success, recognition and development, teamwork and equal opportunity, work-life balance and the positive example set by managerial employees.
- Code of Safety: this defines our safety culture and sets safety guidelines for workplaces, facilities, and products and their transport.
- Code of Sustainability: this lists principles for sustainability to be adhered to by R&D, procurement and logistics, production and products, and describes our commitment to society.

✂ The codes are available at: www.wacker.com/cms/en/wacker_group/wacker_facts/policy/policy.jsp.

Responsible Care® and the Global Compact – Integral Parts of Corporate Management

Two voluntary global initiatives form the basis for sustainable corporate management at WACKER: the chemical industry's Responsible Care® initiative and the UN's Global Compact. WACKER has been an active member of the Responsible Care® initiative since 1991. Program participants undertake to continually improve health, safety and environmental performance on a voluntary basis – even in the absence of statutory requirements. WACKER is equally committed to the UN's Global Compact initiative. We observe the Global Compact's ten principles, which address social and environmental standards, anticorruption and the protection of human rights. We also expect our suppliers to respect the principles of the Global Compact, and we evaluate them on this point in our risk assessments.

In 2011, WACKER created an internal Corporate Sustainability department, which implements the company's voluntary commitments under Responsible Care® and the Global Compact, and coordinates its sustainability activities worldwide.

Social Commitments

Companies can be commercially successful only if they have society's trust. Consequently, WACKER is serious about its social responsibilities toward communities near its sites and wherever people are in need around the world. We regularly promote and support a wide variety of charitable projects, organizations and initiatives. Our commitment covers activities relating to science, education, sports and various charities.

Further Information on Corporate Governance at WACKER

Compliance with the Provisions of Article 17 of MAR

We comply with the provisions of Article 17 of MAR (EU Regulation No. 596/2014 – Market Abuse Regulation). For a number of years, we have maintained an ad-hoc publicity coordination unit in which representatives of various specialist areas examine issues for their ad-hoc relevance. In this way, we guarantee that potential insider information is handled in accordance with the law. Employees who have access to insider information as part of their jobs are included in insider lists.

Share Dealings by the Executive and Supervisory Boards

Persons discharging managerial responsibilities (at Wacker Chemie AG, these are members of the Executive and Supervisory Boards) as well as persons closely associated with them are obligated under Art. 19 of MAR to notify the German Federal Financial Supervisory Authority (BaFin) and the company of transactions conducted on their own account relating to the shares or debt instruments of that company or to derivatives or other financial instruments linked thereto within three business days. A reporting obligation exists, however, only where the total volume of the transactions made by the person concerned exceeds €5,000 within a calendar year.

In 2016, no reportable transactions were notified by members of the Executive and Supervisory Boards or by persons closely associated with them who are subject to reporting requirements.

Blue Elephant Holding GmbH, which is majority-owned by Dr. Peter-Alexander Wacker (Supervisory Board Chairman of Wacker Chemie AG), holds over 10 percent of the shares in Wacker Chemie AG.

Dealing Responsibly with Opportunities and Risks

Dealing responsibly with risks is an important part of good corporate governance. WACKER has in place an opportunity and risk management system to regularly identify and monitor material risks and opportunities. Its objective is to recognize risks at an early stage and minimize them through systematic risk management. The Executive Board informs the Supervisory Board regularly about existing risks and their development. The Audit Committee regularly reviews the accounting process and the effectiveness of the internal control, risk management and auditing systems. It is also involved in auditing the financial statements. The opportunity and risk management system is continuously being enhanced and adapted to meet changing conditions.

Accounting and Auditing

As stipulated by the Corporate Governance Code, we have agreed with the auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, that the Chairman of the Supervisory Board shall be informed without delay during the audit about any grounds for disqualification and/or bias. In addition, the auditors shall immediately report all significant discoveries and events which concern the Supervisory Board's duties. If, in the course of their audit activities, the auditors establish facts that reveal errors in the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act, the Supervisory Board shall be notified accordingly and/or a note included in the audit report.

D&O Insurance

WACKER has concluded a financial liability insurance policy (i.e. D&O insurance) that also covers the activities of the Executive Board and Supervisory Board members. This insurance provides for a statutory deductible for the members of the Executive Board.

Supporting the Participation of Women in Executive Positions as per Section 76 (4) and Section 111 (5) of the German Stock Corporation Act

Effective May 1, 2015, the Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector calls for the Supervisory Board of Wacker Chemie AG to be composed of at least 30 percent female members and at least 30 percent male members. These requirements apply to new appointments for the first time as of January 1, 2016. Since January 1, 2016, neither the shareholders nor the employees have made any new appointments to Wacker Chemie AG's Supervisory Board, which is why the proportion of female members on the Supervisory Board remained unchanged at 12.5 percent in fiscal 2016 (one shareholder and one employee representative). As of January 1, 2017, Hansgeorg Schuster – who had already been elected an alternate member during the last employee-representative elections to the Supervisory Board in March 2013 – automatically succeeded employee representative Anton Eisenacker, who left the Supervisory Board with effect from December 31, 2016. Since the election of Mr. Schuster was completed prior to December 31, 2015, the new legal provisions did not yet apply. The proportion of female members on the Supervisory Board therefore currently totals 12.5 percent.

The act also requires Wacker Chemie AG to specify target values for the proportion of women on the Executive Board and in the two management levels below the Executive Board. The target values for the Executive Board are set by the Supervisory Board and those for the two management levels below the Executive board are set by the Executive Board.

In September 2015, the Supervisory Board set the target for the proportion of women on the Executive Board for the period up to June 30, 2017 at zero.

Likewise in September 2015, and with a deadline for implementation of June 30, 2017, the Executive Board of Wacker Chemie AG set target values of 10 percent for the management level directly below the Executive Board and 17.5 percent for the second management level below the Executive Board.

Compensation Report

The following compensation report forms part of the combined management report and of the audited consolidated financial statements.

Compensation System for the Executive Board

On the basis of preparatory input from the Executive Committee, the full Supervisory Board is responsible for determining the individual compensation paid to members of Wacker Chemie AG's Executive Board.

In accordance with the Executive Board compensation system in effect since January 1, 2010, the Executive Board's compensation comprises the following key components:

(I) A fixed annual salary:

The fixed annual salary is paid in equal monthly installments.

(II) A variable, performance-related bonus:

The amount of the variable bonus (long-term bonus), which is paid annually and in arrears, depends on the achievement of agreed annual Group targets set by the Supervisory Board for all Executive Board members. The bonus is calculated based on target achievement in the reporting year, as well as on average overall target achievement in the two years prior to the reporting year. The targets are based on the following key indicators: business value contribution, cash flow, target return, and return on capital employed (ROCE). The computational target bonus in the event of 100-percent target achievement during the evaluation period depends on the Executive Board member in question and amounts to either 180 percent or 140 percent of the average annual base salary in the last year of the evaluation period. The maximum bonus, too, depends on the specific Board member and amounts to either 220 percent or 180 percent of the average annual base salary in the last year of the evaluation period. The Supervisory Board thus has the discretion to increase or reduce the calculated bonus by as much as 30 percent, taking into account all circumstances and the Executive Board member's individual performance. The Executive Board members are obligated to purchase Wacker Chemie AG shares for an amount equal to 15 percent of their annual gross bonus. A holding period of two years applies to these shares.

(III) A contribution to retirement benefits:

The members of the Executive Board are entitled to payment of an annual retirement pension should the event insured against occur, i.e. when they reach retirement age or become afflicted by permanent occupational disability. Before said event occurs, Dr. Rudolf Staudigl has a basic entitlement to the premature payment of an annual pension if he leaves the Executive Board against his will without good cause or if he, of his own accord, ceases his activity for good cause and the company is responsible for said cause. The amount of the pension is calculated on the basis of the last pensionable fixed annual salary received and the length of Executive Board membership. A percentage of the pensionable base salary is defined as a basic amount and adjusted by means of an annual percentage rate of increase for each year of service. Entitlement to a pension presupposes at least five years of service on the Executive Board.

The company grants the members of the Executive Board appropriate insurance coverage, in particular D&O insurance, with a deductible as stipulated in the German Stock Corporation Act (AktG).

If they leave the company, Executive Board members are subject to a 12-month obligatory waiting period, during which they are paid competitive-restriction compensation. The competitive-restriction compensation is calculated as 50 percent of the member's latest overall annual compensation (average of the last three years). Any pension received is set off against the competitive-restriction compensation.

If Executive Board membership is prematurely terminated without good cause, the contracts with Executive Board members specify that any compensatory payments shall be limited to a maximum of two full annual salaries (in the case of Dr. Rudolf Staudigl, Auguste Willems and Dr. Tobias Ohler) or one full annual salary (in the case of Dr. Christian Hartel). This is referred to as the severance pay cap.

Total Compensation for the Members of the Executive Board for Fiscal 2016

The current level of each Executive Board member's compensation is listed in the tables below, which follow the model tables recommended by the German Corporate Governance Code (DCGK).

With effect from April 1, 2016, Dr. Rudolf Staudigl's gross fixed annual salary was increased from €800,000 to €840,000. Also with effect from April 1, 2016, Auguste Willem's gross fixed annual salary was increased from €580,000 to €610,000. These salary increases were paid pro rata temporis in 2016. Said increases have no effect on calculation of the pension, since they were determined as additional fixed non-pensionable compensation components. They are taken into account, however, when calculating the long-term bonus.

The following table shows the value of compensation and benefits granted for fiscal 2016. It also lists minimum and maximum attainable values.

Compensation and Benefits Granted for the Year Under Review (Targets)

€	2016 (target)	2016 (min.)	2016 (max.)	2015 (target)	2016 (target)	2016 (min.)	2016 (max.)	2015 (target)
	Dr. Rudolf Staudigl President & CEO				Auguste Willems Executive Board member			
Fixed compensation ¹	830,000	830,000	830,000	800,000	602,500	602,500	602,500	580,000
Payment unrelated to the accounting period ²	–	–	–	28,125	–	–	–	20,625
Additional benefits ³	54,733	54,733	54,733	55,132	50,302	50,302	50,302	53,995
Total	884,733	884,733	884,733	883,257	652,802	652,802	652,802	654,620
Multiyear variable compensation ⁴	1,552,100	737,870	2,158,000	1,312,000	1,126,675	535,623	1,566,500	951,200
Total	2,436,833	1,622,603	3,042,733	2,195,257	1,779,477	1,188,425	2,219,302	1,605,820
Pension expenses ⁵	10,079	10,079	10,079	10,583	538,976	538,976	538,976	598,603
Total compensation	2,446,912	1,632,682	3,052,812	2,205,840	2,318,453	1,727,401	2,758,278	2,204,423
	Dr. Tobias Ohler Executive Board member				Dr. Christian Hartel Executive Board member since November 1, 2015			
Fixed compensation ¹	580,000	580,000	580,000	400,000	400,000	400,000	400,000	66,668
Payment unrelated to the accounting period ²	–	–	–	15,000	–	–	–	–
Additional benefits ³	44,479	44,479	44,479	44,391	49,709	49,709	49,709	8,100
Total	624,479	624,479	624,479	459,391	449,709	449,709	449,709	74,768
Multiyear variable compensation ⁴	1,084,600	515,620	1,508,000	516,000	588,000	280,000	832,000	86,000
Total	1,709,079	1,140,099	2,132,479	975,391	1,037,709	729,709	1,281,709	160,768
Pension expenses ⁵	456,746	456,746	456,746	354,563	172,075	172,075	172,075	1,201,045
Total compensation	2,165,825	1,596,845	2,589,225	1,329,954	1,209,784	901,784	1,453,784	1,361,813

¹ Calculation of the pensionable portion of the compensation excluded an amount of €30,000 (Dr. Staudigl) and €22,500 (Mr. Willems) in 2016.

² In 2015, the Executive Board members were each paid the second 50-percent installment of the amount withheld in 2013.

³ Additional benefits include, in particular, social insurance allowances and the use of a company car.

⁴ Multiyear refers to the assessment basis. The Executive Board members purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus (holding period of two years). Once determined, the fixed bonus amount calculated using a three-year assessment basis is not influenced by subsequent developments. Calculation of the minimum and maximum values took the actual level of target achievement in the two previous years into consideration. The following values were set for 2016: a minimum value of 0 percent and a maximum value of either 220 percent or 180 percent. The disclosure of each theoretically achievable minimum or maximum value also includes the Supervisory Board's potential scope of discretion.

⁵ Service cost, pursuant to IAS 19, from pension commitments and other pension-related benefits. In connection with the appointment of Dr. Hartel to the Executive Board of Wacker Chemie AG, a past service cost in the amount of €1,119,185 was incurred in 2015.

The following table shows the payments for fiscal 2016 from fixed compensation, additional benefits and variable compensation – grouped according to one-year and multiyear variable compensation – as well as pension expenses.

Payments in the Year Under Review

€	2016	2015	2016	2015
	Dr. Rudolf Staudigl President & CEO		Auguste Willems Executive Board member	
Fixed compensation ¹	830,000	800,000	602,500	580,000
Payment unrelated to the accounting period ²	–	28,125	–	20,625
Additional benefits ³	54,733	55,132	50,302	53,995
Total	884,733	883,257	652,802	654,620
Multiyear variable compensation ⁴	1,734,700	1,320,000	1,259,225	957,000
Total	2,619,433	2,203,257	1,912,027	1,611,620
Pension expenses ⁵	10,079	10,583	538,976	598,603
Total compensation	2,629,512	2,213,840	2,451,003	2,210,223
	Dr. Tobias Ohler Executive Board member		Dr. Christian Hartel Executive Board member since November 1, 2015	
Fixed compensation ¹	580,000	400,000	400,000	66,668
Payment unrelated to the accounting period ²	–	15,000	–	–
Additional benefits ³	44,479	44,391	49,709	8,100
Total	624,479	459,391	449,709	74,768
Multiyear variable compensation ⁴	1,212,200	520,000	660,000	86,667
Total	1,836,679	979,391	1,109,709	161,435
Pension expenses ⁵	456,746	354,563	172,075	1,201,045
Total compensation	2,293,425	1,333,954	1,281,784	1,362,480

¹ Calculation of the pensionable portion of the compensation excluded an amount of €30,000 (Dr. Staudigl) and €22,500 (Mr. Willems) in 2016.

² In 2015, the Executive Board members were each paid the second 50-percent installment of the amount withheld in 2013.

³ Additional benefits include, in particular, social insurance allowances and the use of a company car.

⁴ Multiyear refers to the assessment basis. The Executive Board members purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus (holding period of two years). Once determined, the fixed bonus amount calculated using a three-year assessment basis is not influenced by subsequent developments.

⁵ Service cost, pursuant to IAS 19, from pension commitments and other pension-related benefits; this does not concern payments during the fiscal year. In connection with the appointment of Dr. Hartel to the Executive Board of Wacker Chemie AG, a past service cost in the amount of €1,119,185 was incurred in 2015.

Compensation for Former Members of the Executive Board and Their Surviving Dependents

€	2016	2015
Total	2,383,467¹	1,922,900

¹This compensation contains the competitive-restriction compensation paid to Dr. Rauhut in 2016 in connection with the expiry of his employment contract.

The members of the Supervisory Board are compensated for any outlays incurred in connection with the execution of their duties with an annual lump sum of €20,000, and are also reimbursed for any VAT payable on that lump sum.

The company grants the members of the Supervisory Board appropriate insurance coverage; in particular, the company concludes a D&O insurance policy for the benefit of the Supervisory Board members.

Pension Obligations for Executive Board Members

€	2016	2015
Pension obligations for active Executive Board members	27,587,433	22,692,191
Total	27,587,433	22,692,191
Pension obligations for former members of the Executive Board or their dependents	39,163,469	36,718,229
Total	39,163,469	36,718,229

Supervisory Board Compensation

€	2016	2015
Fixed compensation ^{1,2}	2,165,000	1,716,973
Variable compensation	-	-
Total	2,165,000	1,716,973

¹ Fixed compensation includes the aforementioned annual lump sum.

² The employee representatives are subject to the rules of the German Trade Union Confederation (DGB) and of the German Association of Employed Academics and Executives in the Chemical Industry (VAA) concerning the transfer of supervisory board compensation.

Compensation of Supervisory Board Members

The compensation of Wacker Chemie AG's Supervisory Board members is governed by the company's Articles of Association.

At the Annual Shareholders' Meeting of May 20, 2016, it was resolved that both the fixed compensation and the annual lump sum (for outlays) for members of the Supervisory Board would be increased retroactively as of fiscal 2016.

Consequently, as of January 1, 2016, the members of the Supervisory Board receive fixed annual compensation in the amount of €90,000, payable on expiry of the fiscal year, and are also reimbursed for any VAT payable on their compensation. Supervisory Board members who join, or depart from, the Supervisory Board during the fiscal year receive the corresponding compensation pro rata temporis.

The compensation is multiplied by a factor of 3 for the Chairman of the Supervisory Board, by a factor of 2 for the Vice Chairman and for chairs of committees, and by a factor of 1.5 for members of committees. Multiple functions are ignored in this calculation.

Declaration by the Executive Board on Accounting Methods and Auditing

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The Executive Board is responsible for preparing Wacker Chemie AG's consolidated financial statements and combined management report. WACKER's consolidated financial statements were prepared in compliance with the rules published in London by the International Accounting Standards Board (IASB) and endorsed by the European Union. WACKER has set up effective internal monitoring and steering systems to guarantee that the combined management report and the consolidated financial statements comply with the applicable rules and procedures of proper corporate reporting. The internal auditing division continuously examines the reliability and workability of the monitoring and steering systems on a worldwide basis. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Wacker Chemie AG's consolidated financial statements and Group management report and granted them an unqualified certificate. WACKER's consolidated financial statements, its combined management report and the auditors' report were discussed in detail by the Supervisory Board's Audit Committee at its meeting on February 27, 2017. For information about the Supervisory Board's audit, please refer to its report.

Assurance by the Legal Representatives in Accordance with Sections 297 (2) and 315 (1) HGB

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the Group's net assets, earnings and financial position, and the combined management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Munich, February 27, 2017
Wacker Chemie AG

Rudolf Staudigl

Christian Hartel

Tobias Ohler

Auguste Willems

Auditors' Report

We have audited the consolidated financial statements prepared by Wacker Chemie AG, Munich – comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes – together with the report on the position of the Company and the Group for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the report on the position of the Company and the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch: “German Commercial Code”) are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the report on the position of the Company and the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB (“German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The report on the position of the Company and the Group is consistent with the consolidated financial statements, complies with the statutory requirements and, as a whole, provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, February 27, 2017
KPMG AG Wirtschaftsprüfungsgesellschaft

Andrejewski	Maurer
Auditor	Auditor

Multiyear Overview

€ million	2016	Change in %	2015	2014	2013	2012
Sales	5,404.2	2.0	5,296.2	4,826.4	4,478.9	4,634.9
Income before taxes	264.8	-34.9	406.7	365.2	31.0	203.9
Net income for the year	189.3	-21.7	241.8	195.4	6.3	114.7
EBITDA	1,101.4	5.0	1,048.8	1,042.3	678.7	795.4
EBIT	366.2	-22.6	473.4	443.3	114.3	266.6
Fixed assets	4,765.5	-4.0	4,964.9	4,471.0	4,067.7	4,260.7
Intangible assets	50.4	57.0	32.1	32.9	20.4	25.5
Property, plant and equipment	4,596.4	-4.3	4,800.6	4,312.8	3,785.6	3,924.4
Financial assets	118.7	-10.2	132.2	125.3	261.7	310.8
Current assets, incl. deferred taxes + accruals and deferrals	2,696.1	17.2	2,299.5	2,476.2	2,264.7	2,232.1
Liquidity	283.5	-8.7	310.5	325.9	431.8	192.6
Equity	2,593.2	-7.2	2,795.1	1,946.5	2,197.1	2,121.3
Subscribed capital	260.8	-	260.8	260.8	260.8	260.8
Capital reserves	157.4	-	157.4	157.4	157.4	157.4
Treasury shares	-45.1	-	-45.1	-45.1	-45.1	-45.1
Retained earnings, consolidated net income, and other equity items	2,006.3	-8.6	2,195.1	1,549.3	1,805.7	1,730.0
Non-controlling interests	213.8	-5.8	226.9	24.1	18.3	18.2
Borrowed capital	4,868.4	8.9	4,469.3	5,000.7	4,135.3	4,371.5
Provisions	2,550.7	27.7	1,996.7	2,137.7	1,401.9	1,575.3
Liabilities, incl. deferred taxes + accruals and deferrals	2,317.7	-6.3	2,472.6	2,863.1	2,733.4	2,796.2
Net financial debt (-) Net financial receivables (+)	-992.5	-7.6	-1,074.0	-1,080.6	-792.2	-700.5
Total assets	7,461.6	2.7	7,264.4	6,947.2	6,332.4	6,492.8
Employees (average for the year)	17,118	1.1	16,937	16,744	16,134	16,663
Employees (Dec. 31)	17,205	1.4	16,972	16,703	16,009	16,292

€ million	2016	Change in %	2015	2014	2013	2012
Key profitability figures						
Return on sales (EBIT) = EBIT/sales (%)	6.8	n.a.	8.9	9.2	2.6	5.8
Return on sales (EBITDA) = EBITDA/sales (%)	20.4	n.a.	19.8	21.6	15.2	17.2
Return on equity = net income for the year/equity (as of Dec.31) (%)	7.3	n.a.	8.7	10.0	0.3	5.4
ROCE – return on capital employed = EBIT/capital employed (%)	6.1	n.a.	8.1	8.4	2.2	5.2
Key statement-of-financial-position figures						
Investment intensity of the fixed assets = fixed assets/total assets (%)	63.9	n.a.	68.3	64.4	64.2	65.6
Equity ratio = equity/total assets (%)	34.8	n.a.	38.5	28.0	34.7	32.7
Capital structure = equity/borrowed capital (%)	53.3	n.a.	62.5	38.9	53.1	48.5
Cash flow and investments						
Cash flow from operating activities	736.6	19.3	617.2	485.2	464.0	363.2
Cash flow from long-term investing activities	-516.9	-36.6	-815.6	-497.3	-555.2	-1,053.8
Cash flow from financing activities	-135.8	>100	57.9	-88.6	227.6	326.6
Net cash flow = CF from operating activities + CF from investing activities – additions from finance leases	400.6	>100	22.5	215.7	109.7	-536.2
Investments	427.6	-48.7	834.0	572.2	503.7	1,095.4
Share and valuation						
Consolidated net income	189.3	-21.7	241.8	195.4	6.3	114.7
Earnings per share (€) = consolidated net income/ number of shares	3.61	-27.4	4.97	4.1	0.05	2.4
Market capitalization (total number of shares without treasury shares)	4,910.7	27.5	3,851.0	4,523.2	3,994.1	2,466.5
Number of shares	49,677,983	-	49,677,983	49,677,983	49,677,983	49,677,983
Price as of reporting date December 31	98.85	27.5	77.52	91.05	80.4	49.7
Dividend per share (€)	2.00	-	2.00	1.50	0.50	0.60
Dividend yield (%)	2.6	n.a.	2.2	1.7	0.8	1.0
Capital employed	6,018.0	2.4	5,875.4	5,260.7	5,238.2	4,979.0

Financial Glossary

Business Value Contribution (BVC)

BVC is a financial performance measurement that determines the value created by the WACKER Group and its units once all capital costs have been deducted. BVC is the difference between profit (EBIT) and cost of capital (WACC x CE). BVC is a profit variable that is adjusted to allow for extraordinary effects (e.g. sale of parts of the company). This makes it an ideal tool for measuring business performance.

Capital Employed (CE)

Capital employed is the sum of average noncurrent fixed assets (less noncurrent securities and deferred tax assets), plus inventories and trade receivables less trade payables. It is a variable used in calculating the cost of capital.

Cash Flow

Cash flow represents the movement of cash and cash equivalents into or out of a business activity during a finite period. Net cash flow is the sum of cash flow from operating activities (excluding the change in advance payments received) and cash flow from long-term investing activities (before securities), including finance leases.

EBIT

Earnings before interest and taxes: EBIT is a good indicator for comparing companies' profitability, since it is widely used across the corporate world.

EBITDA

Earnings before interest, taxes, depreciation and amortization.

Equity Ratio

The equity ratio is calculated from the ratio of equity to a company's total assets. It indicates the level of economic and financial stability at a company.

IFRS

The International Financial Reporting Standards (until 2001 International Accounting Standards, IAS) are compiled and published by the London-based International Accounting Standards Board (IASB). Since 2005, publicly listed EU-based companies have been required to use IFRS in accordance with IAS regulations.

ROCE

Return on capital employed is the profitability ratio relating to the capital employed.

Chemical Glossary

Biotechnology

Biotech processes use living cells or enzymes to transform and produce substances. Depending on the application, a distinction is made between red, green and white biotechnology. Red biotechnology: medical and pharmaceutical applications. Green biotechnology: agricultural applications. White biotechnology: biotech-based products and industrial processes, e.g. in the chemical, textile and food industries.

Chlorosilanes

Compounds of silicon, chlorine and hydrogen. The semiconductor industry mainly uses trichlorosilane to make polysilicon and for the epitaxial deposition of silicon.

Cyclodextrins

Cyclodextrins belong to the family of cyclic oligosaccharides (i.e. ring-shaped sugar molecules). They are able to encapsulate foreign substances such as fragrances and to release active ingredients at a controlled rate. WACKER BIOSOLUTIONS produces and markets cyclodextrins.

Cysteine

Cysteine is a sulfur-containing amino acid. It belongs to the non-essential amino acids, as it can be formed in the body. It is used, for example, as an additive in food and cough mixtures. Cysteine and its derivatives are a business field at WACKER BIOSOLUTIONS.

Dispersions

Binary system in which one component is finely dispersed in another. VINNAPAS® dispersions from WACKER are vinyl-acetate-based binary copolymers and terpolymers in liquid form. They are mainly used as binders in the construction industry, e.g. for grouts, plasters and primers.

Dispersible Polymer Powders

Created by drying dispersions in spray or disc dryers. VINNAPAS® polymer powders from WACKER are recommended as binders in the construction industry, e.g. for tile adhesives, self-leveling compounds and repair mortars. The powders improve adhesion, cohesion, flexibility and flexural strength, as well as water-retention and processing properties.

Elastomers

Polymers that exhibit almost perfectly elastic behavior, i.e. they deform when acted upon by an external force and return to their exact original shape when the force is removed. While the duration of the force has no effect on perfectly elastic behavior, the temperature does.

Ethylene

Ethylene is a colorless, highly reactive gas and a key raw material in the chemical industry.

Polymer

A polymer is a large molecule made up of smaller molecular units (monomers). It contains between 10,000 and 100,000 monomers. Polymers can be long or ball-shaped.

Polymer Blends

Mixtures of synthetic and natural products in which the renewable raw material forms the main component comprising at least 65 percent. The VINNEX® binder system allows polymer blends to be produced from renewable raw materials such as starch, polylactic acid (PLA) or polyhydroxyalkanoates (PHA).

Polysilicon

Hyperpure polycrystalline silicon from WACKER POLYSILICON is used for manufacturing wafers for the electronics and solar industries. To produce it, metallurgical-grade silicon is converted into liquid trichlorosilane, highly distilled and deposited in hyperpure form at 1,000°C.

Pyrogenic Silica

White, synthetic, amorphous silicon dioxide (SiO₂) in powder form, made by flame hydrolysis of silicon compounds. It is versatile in applications as an additive for silicone rubber grades, sealants, surface coatings, pharmaceuticals and cosmetics.

Semiconductor

A substance whose electrical conductivity is much lower than that of metals, but increases dramatically as the temperature rises. Semiconductors can be modified for a particular purpose by doping them with foreign atoms.

Silanes

Silanes are used as monomers for the synthesis of siloxanes or sold directly as reagents or raw materials. Typical applications include surface treatment, reagents in pharmaceutical synthesis or coupling agents for coatings.

Silicon

After oxygen, silicon is the most common element in the earth's crust. In nature, it occurs without exception in the form of compounds, chiefly silicon dioxide and silicates. Silicon is obtained through energy-intensive reaction of quartz sand with carbon and is the most important raw material in the electronics industry.

Silicon Wafer

A silicon wafer is a disc with a thickness of between approximately 200 and 800 µm and is used by the semiconductor industry for the manufacture of semiconductor devices, i.e. integrated circuits and discrete components.

Silicones

General term used to describe compounds of organic molecules and silicon. According to their areas of application, silicones can be classified as fluids, resins or rubber grades. Silicones are characterized by a myriad of outstanding properties. Typical areas of application include construction, the electrical and electronics industries, shipping and transportation, textiles and paper coatings.

Siloxanes

Systematic name given to compounds comprising silicon atoms linked together via oxygen atoms and with the remaining valences occupied by hydrogen or organic groups. Siloxanes are the building blocks for the polymers (polysiloxane and polyorganosiloxane) that form silicones.

VINNAPAS®

VINNAPAS® is the name of WACKER's product line of dispersions, polymer powders, solid resins and their associated product solutions. VINNAPAS® dispersions and polymer powders are primarily used in the construction industry as polymeric binders, e.g. in tile adhesives, exterior insulation and finish systems (EIFS)/external thermal insulation composite systems (ETICS), self-leveling compounds, and plasters.

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Our Annual Report was published on March 14, 2017. It is available in English and German and you can access both versions online. www.wacker.com/annual-report

This Annual Report contains forward-looking statements based on assumptions and estimates of WACKER's Executive Board. Although we assume the expectations in these forward-looking statements are realistic, we cannot guarantee they will prove to be correct. The assumptions may harbor risks and uncertainties

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that may cause the actual figures to differ considerably from the forward-looking statements. Factors that may cause such discrepancies include, among other things, changes in the economic and business environment, variations in exchange and interest rates, the introduction of competing products, lack of acceptance for new products or services, and changes in corporate strategy. WACKER does not plan to update the forward-looking statements, nor does it assume the obligation to do so.

2017 — Financial Calendar



**Interim Report
on the 1st Quarter of 2017**



Annual Shareholders' Meeting



**Interim Report
on the 2nd Quarter of 2017**



**Interim Report
on the 3rd Quarter of 2017**

Contacts — Publishing Details

Investor Relations

Joerg Hoffmann
Head of Investor Relations
Tel. +49 89 6279-1633
joerg.hoffmann@wacker.com

Media Relations

Christof Bachmair
Tel. +49 89 6279-1830
christof.bachmair@wacker.com

Publisher

Wacker Chemie AG
Corporate Communications
Hanns-Seidel-Platz 4
81737 München, Germany
Tel. +49 89 6279-0
Fax +49 89 6279-1770
www.wacker.com

Overall Responsibility

Jörg Hettmann

Project Coordination

Heide Feja

Concept and Design

hw.design, München, Germany
www.hwdesign.de

Wacker Chemie AG
Hanns-Seidel-Platz 4
81737 München, Germany
Tel. +49 89 6279-0
Fax +49 89 6279-1770
www.wacker.com