TRADITION AND VISION

SUCCESS WITH WAFERS

Annual Report 2018

perfect silicon solutions

Siltronic Group key figures

Statement of profit or loss

In EUR million		2018	2017
Sales		1,456.7	1,177.3
Gross profit		631.9	370.3
Gross margin	%	43.4	31.5
EBITDA		589.3	353.1
EBITDA margin	%	40.5	30.0
EBIT		497.7	235.7
EBIT margin	%	34.2	20.0
Financial result		−9.3	−8.5
Income taxes		−87.8	−35.0
Net result for the period		400.6	192.2
Earnings per share	EUR	12.44	6.18
ROCE	%	58.1	31.3

Capital expenditure and net cash flow

In EUR million	2018	2017
Capital expenditure in property, plant and equipment, and intangible assets	−256.9	−123.2
Net cash flow	240.4	124.8

Statement of financial position

In EUR million		Dec. 31, 2018	Dec. 31, 2017
Total assets		1,818.2	1,252.4
Equity		915.7	637.9
Equity ratio	%	50.4	50.9
Net financial assets		691.3	342.1

Non-financial performance indicators

		2018	2017
Efficiency of the use of silicon (100 percent corresponds to the 2016 base)	%	99	98
Efficiency of energy use (100 percent corresponds to 2016 base)	%	92	95
Share of wafer area in reusable packaging	%	32	38
Accidents at work per million working hours	Number	1.9	1.9
Occupational accidents with chemicals per year	Number	0	1

	2018	2017
Employees (excluding temporary employees)	**3,914**	**3,730**

Company profile

Success with wafers

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

Content

Facts and figures

A brief tour through the world of Siltronic wafers

50 years

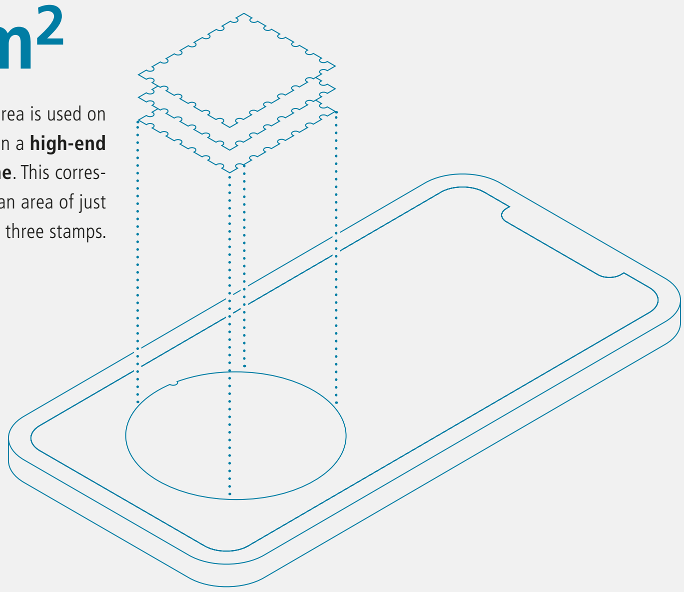
Global player with strong roots in Burghausen. Siltronic can look back on half a century of eventful company history. The recipe for success to this day is to combine technological and strategic vision with proximity to our customers.

2 m²

of wafer area are produced per minute by Siltronic.

17 m²

of silicon area is used on average in a **high-end smartphone**. This corresponds to an area of just under three stamps.



The source of success

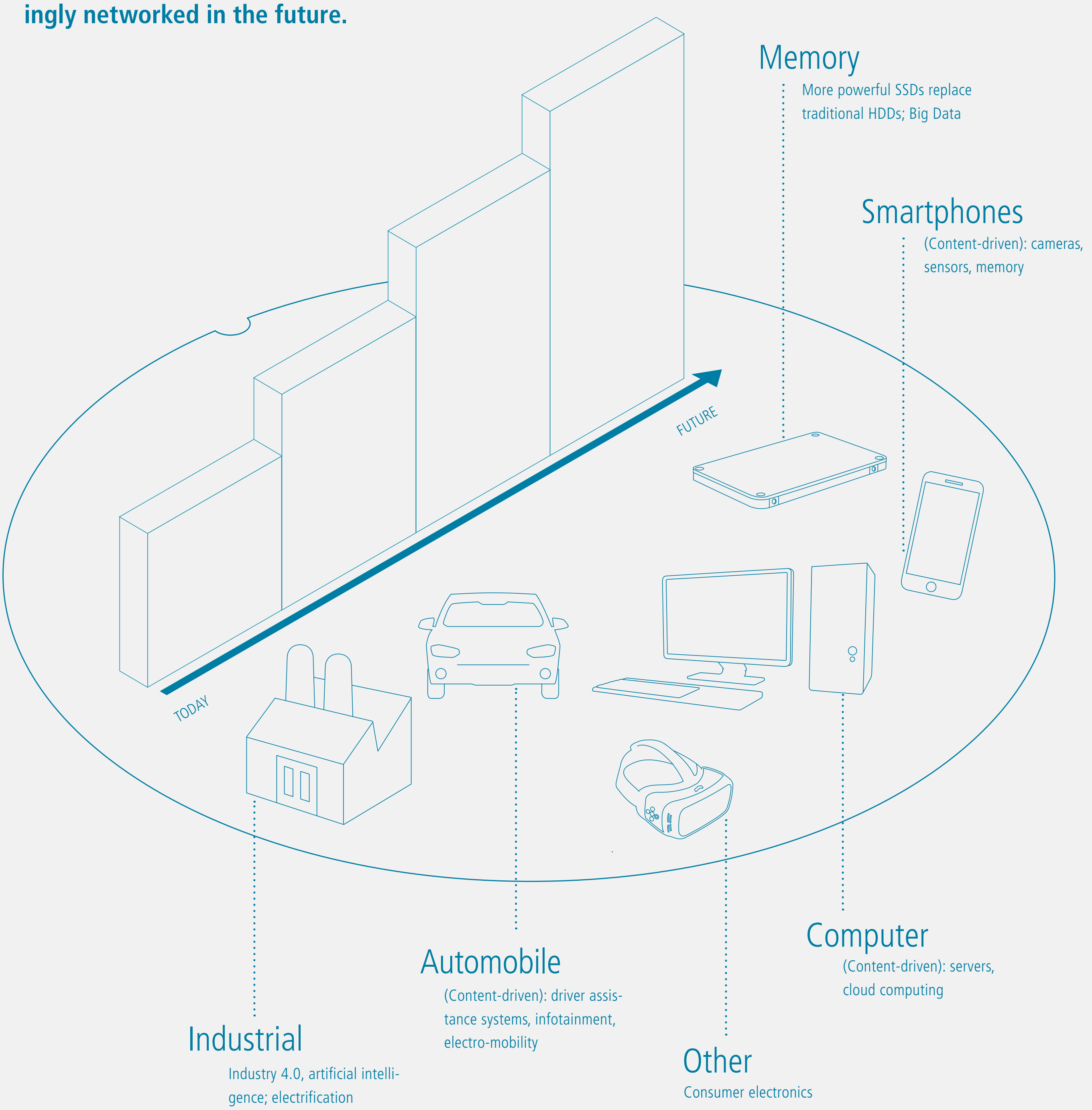
Hyperpure silicon: Siltronic's world revolves around this raw material. Complex processes result in a broadly diversified portfolio of high-purity silicon wafers.

~30%

performance increase – The computing power of computer chips doubles approximately every two years. For us as a wafer manufacturer, this means a tightening of material requirements by around 30 percent.

Increasing demand for silicon

The demand for silicon wafers is rising steadily. But where exactly is Siltronic's technology used? A look at the most important application areas shows that smartphones are the biggest consumers of silicon, closely followed by computers, including desktops, notebooks, tablets and servers. And even though automobiles and SSDs (very powerful memories) were still in the single-digit percentage range in 2018, we see high growth potential for the future due to megatrends such as big data and electro-mobility. The same applies to industrial applications, which will become increasingly networked in the future.

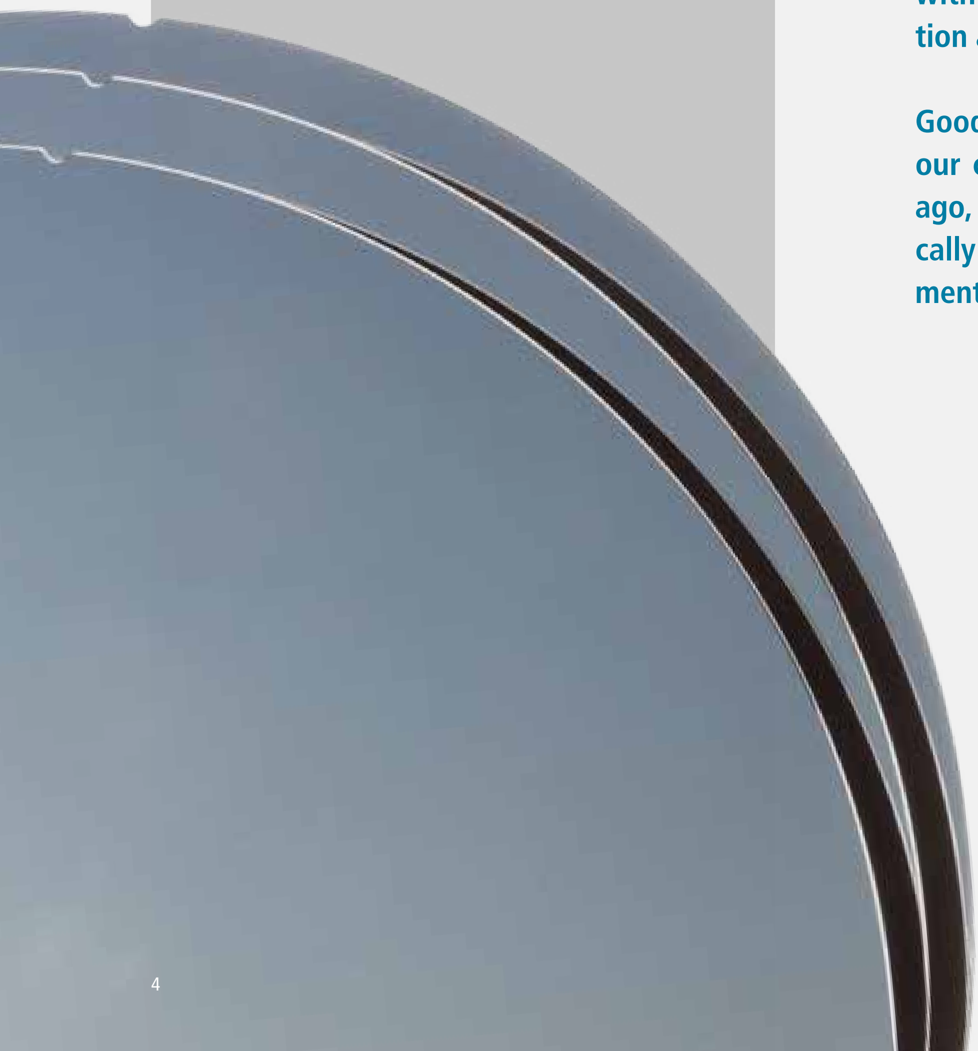


Tradition and vision
Success with wafers

Fascination wafer: A highly specialized product for a wide range of applications

Wafers made of high-purity silicon are so versatile in their use that almost every human being has at least indirectly come into contact with them. A simple calculation shows why: without wafers there is no semiconductor and without semiconductors there is no computer, no smartphone, no electrical appliance, no navigation device, no rail and air traffic. The list could be continued endlessly. And the demand for silicon and thus also for wafers increases with every new technological application and further development.

Good prospects for our business. Since our company was founded fifty years ago, this has developed just as dynamically as the challenging market environment in which we operate.



On a strong foundation, it is possible to build particularly stable structures. Our basis consists of more than five decades of experience and know-how in the development and production of high-purity silicon wafers for the highest technological customer requirements. Siltronic **'TRADITION'** is committed to delivering top performance. This attitude has made us one of the world market leaders in the industry.

Tradition

As diverse as the ingredients of our recipe for success may be, one thing is always present: We strive for the best in everything we do. For the most intelligent solution, the most innovative product, the most efficient processes. The fact that this claim to **'PERFECTION'** is also reality is demonstrated not only by the impressive series of our technological milestones and patents, but above all by the satisfaction of our customers – all top 20 in the semiconductor industry.

Perfection

The value of a company is measured in qualities that are often more than mere facts and figures. At Siltronic, there are four key factors that make us what we are: A company with clear visions for future success. A cooperative partner – always with a demand for perfection.

Cooperation

In our technology-driven and fast-moving industry, partnership is a core value. By this we mean the close **'COOPERATION'** with our customers as well as with our employees, who drive us forward with the right mix of expertise and ambition. This also includes a sustainable view beyond our own horizons in order to live up to our social responsibility and to bring our work into harmony with the environment in the best possible way.

Vision

In the 50-year history of Siltronic, we have made a lot of progress and achieved our position as one of the world market and technology leaders. Even more important than looking back on what we have achieved, however, are our prospects for the future: What is our **'VISION'** and what strategies do we use to make it a reality? We continue to write our success story with the help of our employees, our know-how and our top-quality products.

50 years of Siltronic. We build on TRADITION.

1968 is the year Siltronic was born. However, the origins of Siltronic go back to the beginning of the research and development of high-purity silicon in 1953. Since then, this business has been characterized by growth. A look back at the past more than five decades also takes us on a journey through the history of technology –with exciting prospects for the future, which we want to actively shape.

Half a century: Milestones in our success story

1968

Founding of Wacker-Chemitronic Gesellschaft für Elektronik-Grundstoffe mbH ('Wacker-Chemitronic')

1978

Wafers reach a diameter of 100 mm

Founding of Wacker Siltronic Corporation in Portland (USA)

1990

First research and development projects for 300 mm wafers

1995

Wacker-Chemitronic transfers the wafer business to Wacker Siltronic

1997

Founding of Wacker Siltronic Singapore Pte. Ltd.

2004

Change of name from Wacker Siltronic to Siltronic AG

Production start of 300 mm silicon wafers in Freiberg

1980: The dawn of a new era

An employee of VEB Spurenmetalle Freiberg manually loads a lapping machine with wafers. In this process step the surfaces of the wafers are mechanically smoothed.

2018: One of the world's leading wafer manufacturers

An employee checks the crystal removed from the system for dislocations.

2006

Foundation of the joint venture Siltronic Samsung Wafers Pte. Ltd. (now: Siltronic Silicon Wafer Pte. Ltd.) with Samsung

2014

Take-over of the majority interest (78%) in Siltronic Silicon Wafer Pte. Ltd. (now: Siltronic Silicon Wafer Pte. Ltd.)

2015

Siltronic successfully goes public

2016

Inauguration of a new crystal pulling hall in Freiberg

2017

Wacker Chemie AG sells majority stake in Siltronic

2018

Siltronic celebrates 50th anniversary

Ground-breaking ceremony for a new crystal pulling hall in Singapore

Always with the best in mind. **We strive for PERFECTION.**

Those who, like Siltronic, produce for the best and biggest in the industry must convince with a top performance. We meet the high demands of the top 20 in the semiconductor industry with first-class quality, tailor-made products and efficient processes. In this way, we create the conditions for increasingly complex technologies and thus for the sustainable growth of our company.

In our business, we are permanently in a kind of race: Driven by trends such as digitization, miniaturization and increased efficiency, the markets and thus also our customers are setting a rapid pace in the further development of silicon wafers. As the demand placed on end products increases, so does the demand placed on their most important intermediate products – wafers made of hyperpure silicon.

Devices and applications are demanding ever higher computing power and storage density with constantly decreasing manufacturing costs. According to Moore's Law, the computing power of computer chips doubles every two years or so. For a wafer manufacturer, this means a tightening of material requirements by around 30 percent.

In the 'More than Moore' principle, not only larger diameters are the means of choice for the realization of high-performance chips, but also a change in transistor design, the transition from lateral structures to three-dimensional transistors (finFETs), and the stacking of memory elements, for example in the 3D-NAND flash memory.

The short innovation cycles are a constant challenge to which we are committed in a highly professional manner – with highly qualified employees, intensive research and development work, as well as most modern production facilities.

x2

While a Design Rule is developed the number of semiconductor circuits per wafer doubles approximately every two years.

Broadly diversified markets

1,770

patents and patent applications in 331 patent families are an exclamation mark behind our claim to be one of the technology leaders in the world market.

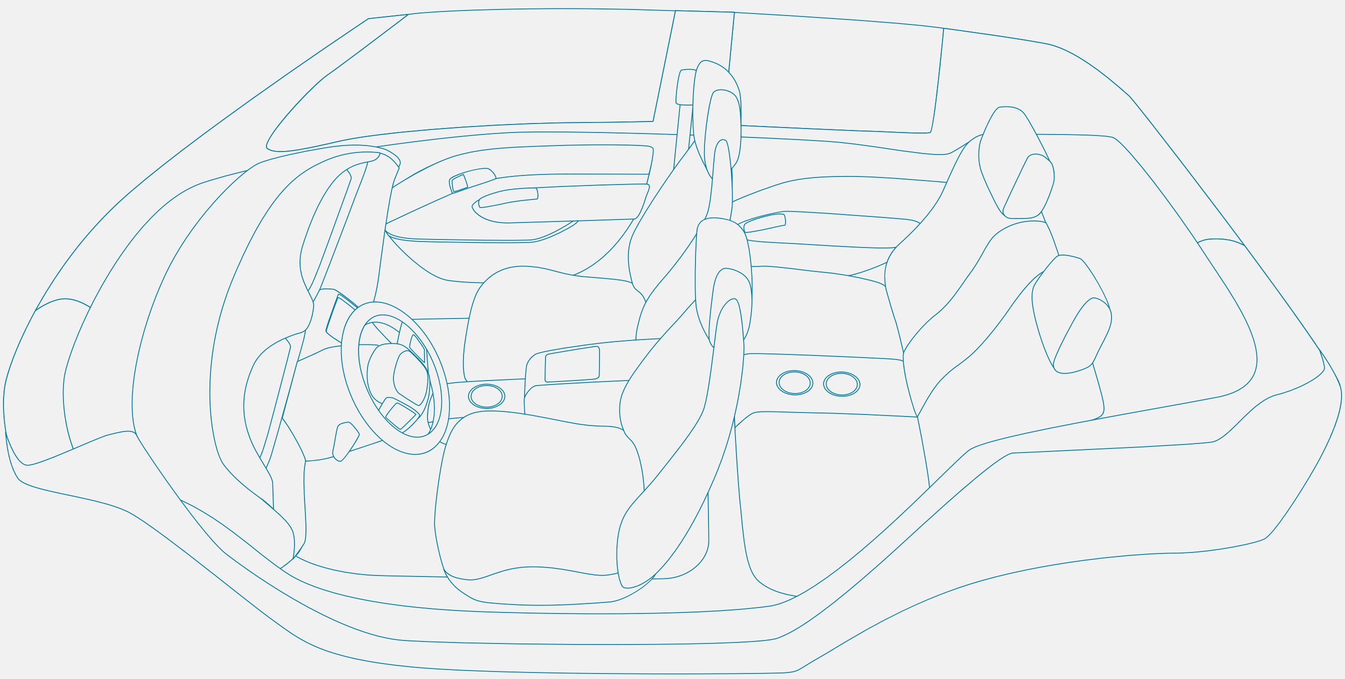
The decisive factor is to actively exploit the opportunities that the market offers us. Looking at the past two decades, new perspectives have opened up on many levels: The now broadly diversified markets and applications for semiconductor components have long outgrown the pure computer environment. New applications, electronic devices and the infrastructure they support are all based on semiconductors. This development is a major growth driver for us as a manufacturer of tailor-made silicon products. Current trends from which our business benefits include, for example:

Data creation: increasing data volumes due to digitization and networking, higher demands on data transport and storage, trends such as Big Data and Artificial Intelligence.

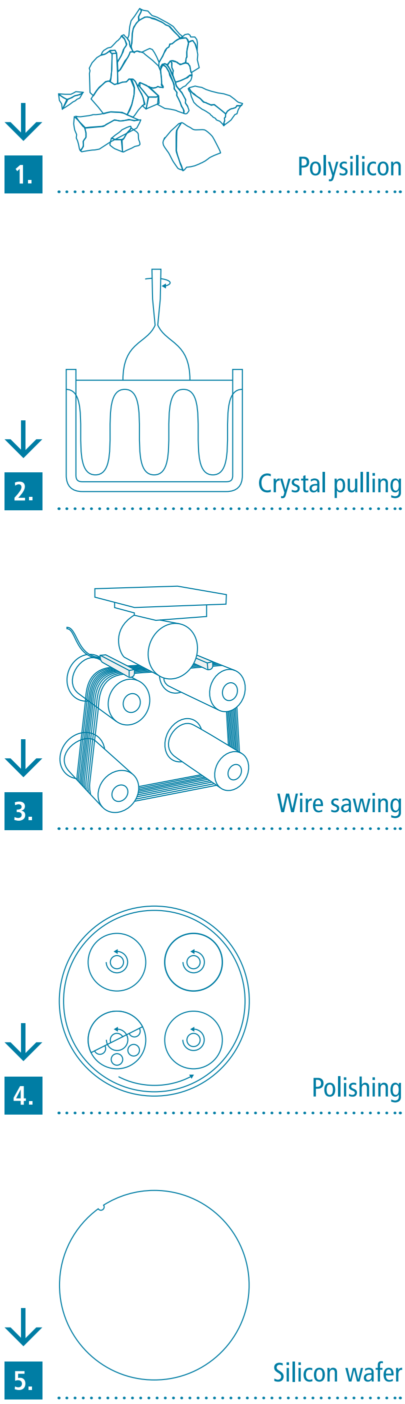
Electrification and energy: strong expansion of renewable energies, need for storage facilities such as battery storage, complex linking in an intelligent grid.

Mobility: global increase in electro-mobility, extensive automotive applications such as infotainment and driver assistance systems.

Smartphone: increasingly powerful smartphones in which complex features such as face recognition and several high-performance cameras are used in addition to ever-increasing memory.



Wafer production



The term wafer refers to silicon wafers that are approximately 1 millimeter thin and that are given an extremely flat surface by technically highly sophisticated processes. The choice of the crystal growing process is determined by the subsequent application. After various production steps, the customer receives the wafer manufactured according to his specifications in special packaging that allows the immediate use of the wafers in his production line.

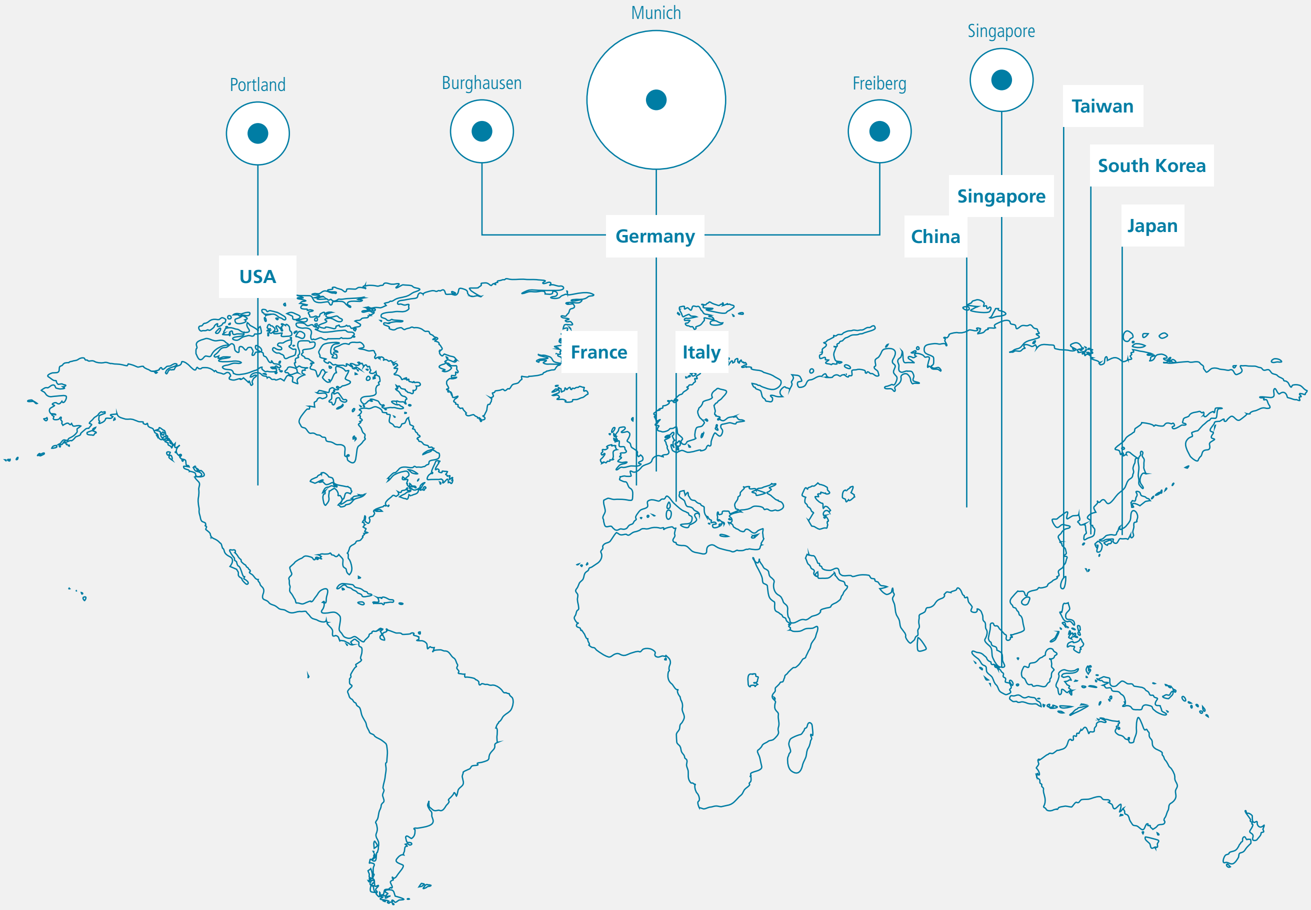
Fully automated yet flexible

In our advanced plants, wafers are produced from hyperpure silicon with different diameters and surface qualities. We are continuing to expand the already high level of automation at our production facilities in order to benefit from the numerous advantages of standardized processes in terms of quality, purity and efficiency.

However, fully automated processes do not mean that flexibility is sacrificed: in intensive cooperation with our customers, we fulfil specific wishes and requirements. The crystal properties of the wafers have a decisive influence on the respective function of the semiconductor components. Therefore, numerous different processes are available to realize the optimal material properties for each application. Our customers need nothing less than a perfect product in the shortest possible time. Our specialty is to be able to supply large quantities while maintaining consistently high quality.

3

continents – a global network: With state-of-the-art production facilities in Asia, Europe and the USA as well as an international sales network, we are always close to our customers.



Exploiting growth opportunities

Investments in our locations are always also investments in our future. By improving our capabilities, we enable ourselves to remain on a par with the ever-increasing demands of our customers. The most recent example is Siltronic Singapore.

For Siltronic, Singapore is both a traditional and a future location. For more than twenty years, we have been continuously investing in our company's Asian headquarters – and we still have a lot to do there. In mid-June 2018, the foundation stone was laid for a new crystal-pulling hall at the production site in Tampines Wafer Fab Park. This will go into operation in the course of 2019. In addition to the approximately 1,000 employees that we employ in the existing local plants, the new investment will create another 90 jobs for engineers, technicians and skilled workers.

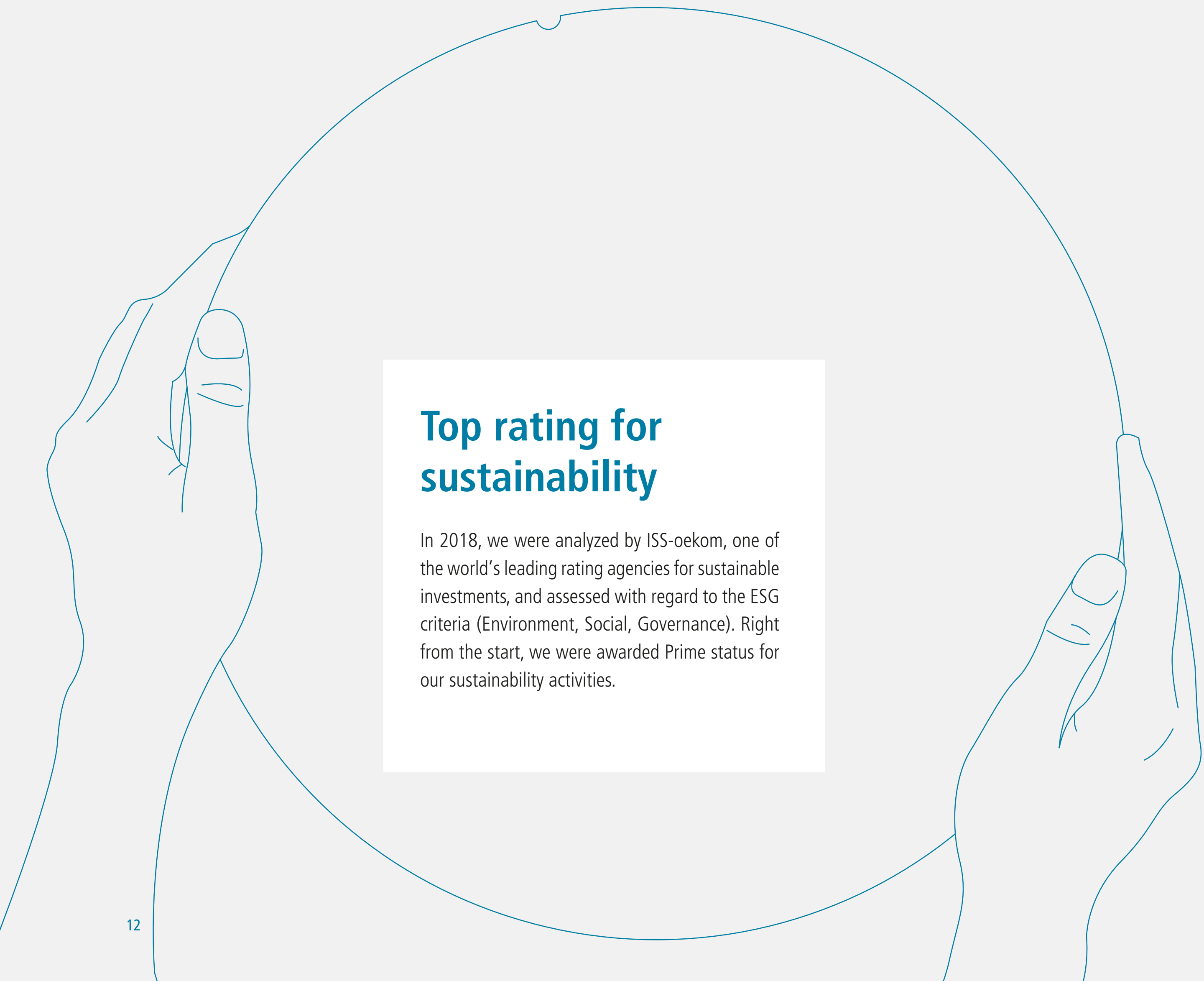
The crystal pulling hall complements our already strong presence in Singapore, where we currently operate the most advanced production plants for 200- and 300-millimeter wafers.

68.1

million euros were invested in R&D activities in 2018. We see our ability to innovate as an essential key to success – this is also reflected in the fact that our R&D spending has remained at a consistently high level in recent years.

Successful, sustainable management. **We live COOPERATION.**

Achieve common goals and thus increase the benefit for all: The best results are achieved by working together. That's why we focus on cooperation. And it has many facets and faces. Siltronic, that's almost 4,000 people who make up our company and fill our philosophy with life every day. We combine top performance with passion for what we do: for technology and innovation, for our customers and partners all over the world.



Top rating for sustainability

In 2018, we were analyzed by ISS-oekom, one of the world's leading rating agencies for sustainable investments, and assessed with regard to the ESG criteria (Environment, Social, Governance). Right from the start, we were awarded Prime status for our sustainability activities.

Creating value for key stakeholders

Siltronic offers ...

… its customers and suppliers
Quality & innovation
Product safety
Process reliability

… its shareholders
Long-term value appreciation
Profitable sales increase
Ongoing cost reduction

… its employees
Occupational safety & health protection
Personnel development & satisfaction
Diversity & equality

… society
Conservation of resources & recycling
Compliance & human rights
Social commitment

We are proud to be a diverse team. We want to make the best possible use of the different talents and abilities of our employees – and in return be a good employer. All the bright minds in our ranks have made Siltronic a technology leader and keep us in this position. For consistent standards in cooperation across all sites, we follow the principles of the Sustainable Development Goals, the United Nations Global Compact and the Responsible Care and Responsible Business Alliance initiatives.

Despite our focus on our own goals, we are always aware that, as a large, globally active company, we bear responsibility for people and the environment. Sustainability and the careful use of resources have therefore been of great importance to us for many years.

Our clear commitment to sustainability

Requirement: We understand sustainability as responsible action for society and at the same time want to generate competitive advantages.

Strategy: We plan from the outset to save resources based on product and production safety as well as health and environmental protection.

Goal: We want to harmonize the effects of our business activities with the expectations and needs of society.

What does this mean for our work in practice? An essential success factor is efficiency. For example, we aim to consistently increase the proportion of reusable packaging for wafer shipping and reducing factors such as CO_2 emissions, water consumption and specific energy consumption per square centimeter of wafer surface. We thus want to combine positive effects on the environment with economic effects for our company.

Sustainable with wafers. **We have a clear VISION.**

Dr. Christoph von Plotho
Chief Executive Officer

Rainer Irle
Chief Financial Officer

'Wafers as the basis for semiconductor devices are a prerequisite for digitization.'

Dr. Christoph von Plotho | Chief Executive Officer

50 years of Siltronic – that's 50 years of wafer history. 2018 was a very successful year. High wafer demand, full capacity utilization and high profitability are the buzzwords that characterize the past financial year. And we are looking to the future with confidence. The digitization of our world, which goes hand in hand with the generation of ever-larger volumes of data, is progressing constantly. The course for long-term growth has been set.

How do you characterize the past financial year?

Dr. Christoph von Plotho: 2018 was consistently positive. The extremely high capacity utilization of our production, which we have seen since the end of 2016, has continued. Due to the high demand we were able to further increase our wafer prices. As expected, however, the price increases were more moderate than in 2017. Due to the positive development in 2018, we slightly increased our sales and earnings forecast twice during the year.

What are the concrete financial figures for 2018?

Rainer Irle: Our revenue was EUR 1,456.7 million and EBITDA EUR 589.3 million. The EBITDA margin thus reached 40.5 percent. The net cash flow came to EUR 240.4 million.

Earnings per share doubled to EUR 12.44. The Executive Board and Supervisory Board will therefore propose to the Annual General Meeting on May 5, 2019 that a dividend of EUR 5.00 per share be paid.

What were the main drivers for the good result?

Rainer Irle: The positive price development has mainly contributed to this development. Demand for our wafers remained high. As we had already been working at full capacity throughout 2017, we were only able to increase sales volume slightly in 2018. Today, wafer demand mainly comes from five end applications. Firstly, the PC sector, which has stabilized after the declines in recent years. On the other hand, there are the growing areas of smartphones, automotive, general industrial applications and solid state drives.

The content of silicon in smartphones and vehicles continues to rise. While the majority of smartphones are equipped with more and more memory, cameras and sensors, more and more driver assistance systems are being used in cars. And even if electro-mobility is on everyone's lips today, this is a future market for us. We see high growth above all in solid states drives (SSD) – already now, but also tomorrow. In industrial applications, the energy sector is of particular interest. Because today it is important to transport energy from offshore wind turbines to where it is needed.

What were the operational highlights?

Dr. Christoph von Plotho: We continuously invest in the future. For example, we have continued to pursue automation projects at our German locations. In Freiberg, the automated ceiling-mounted transport system is now completely installed and ready for use. Here, after a successful test phase, we have also introduced automated guided vehicles (AGVs) into our production in order to optimize the production flow and standardize processes. And, of course, we are also working on the subject of digitization and how we can make optimum use of it in our company. Since 2018, for example, we have been testing the use of data glasses in production in order to be able to support technical problems at foreign locations from Germany. This leads to faster processes and fewer misunderstandings in the team. The absolute highlight, of course, was the groundbreaking ceremony for our new crystal pulling hall in Singapore in June 2018. With this step, we are adapting our crystal pulling shell capacities to the wafering shell capacities and are well equipped for further growth.

I would like to take this opportunity to express my sincere thanks to our employees for their tireless commitment. Without this motivated team, we would not have been able to master the various challenges.

> ‘Earnings per share have doubled.’
>
> **Rainer Irle** | Chief Financial Officer

Dr. Christoph von Plotho
Chief Executive Officer

40.5 %

The EBITDA margin showed a very positive development in 2018.

The successful fiscal year is not reflected in the share price. What is the reason for this?

Dr. Christoph von Plotho: Overall, the environment is very volatile and the stock markets are currently rather in a bear phase. This also affects semiconductor stocks. There is general caution among investors who experienced the last semiconductor cycle 10 years ago. Macroeconomic developments such as the trade dispute between the US and China or the fear of a rise in interest rates in the US also contribute to the uncertainty. Some of our customers' outlooks for 2019 have also become somewhat more cautious. From an operational point of view, it is difficult for us to comprehend the negative development of the Siltronic share price.

The issue of capacity expansion seemed to occupy investors and analysts alike. How do you see the current demand and supply situation?

Dr. Christoph von Plotho: Basically, all growth drivers are intact. However, the year should get off to a moderate start, especially for storage applications and in the foundry sector. Logic, power and image sensors remain strong. We assume that the demand for wafer area will continue to rise in the medium term. This is in line with our expansion plans, which are secured by long-term contracts with customers.

Rainer Irle
Chief Financial Officer

What are your investment plans for 2019?

Rainer Irle: Our investments will amount to around EUR 350 million. This sounds a lot at first, but is split up into various investment projects. In addition to our basic investments, we will complete the new pulling hall in Singapore and then begin to gradually install crystal pulling equipment. We are thus continuing to invest in leading edge technology to meet the latest design rule requirements of our customers. We will also continue to expand our 300 mm capacity in 2020 on the basis of long-term contracts. The majority of the investments will be made in the current financial year. And we are also investing in additional epi-reactors due to the good demand for epitaxial wafers, which bring high added value. In 2020, investments will fall significantly compared to 2019.

What does the Siltronic strategy 2019 look like?

Dr. Christoph von Plotho: We remain committed to our successful strategy. On the one hand, we are continuously working on improving our leading technology position in the wafer business. In such a fast moving market like the semiconductor industry, we have to accomodate new specifications of our customers every day. To deliver the right quantity at the right time is indispensable in our industry. In addition, we will continue to pursue our ongoing cost-cutting programs. Since the easy-to-achieve measures have already been implemented during the previous years, we expect to see less savings potential than in the past. And of course we will continue to operate profitably.

Siltronic is in a good position – also in terms of profitability, and I'm convinced that we can remain at the top.

What do you expect for 2019?

Dr. Christoph von Plotho: We currently expect wafer sales in the first half of 2019 to be significantly lower than in the second half of 2018. However, due to the expected recovery of the market environment in the second half of 2019, we expect revenue for the full year to be in the region of the previous year with slightly rising average selling prices. We are confronted with tariff increases and higher electricity costs in Germany, which will naturally also have an impact on our earnings. If you compare this with the business performance of the last two years, 2019 will be a challenging year. But as a whole, there remains a positive view of the semiconductor market. This is another reason why we will implement our capacity expansions in 2019 and 2020 as planned on the basis of the long-term agreements we have concluded.

So you are assuming an intact growth trend?

Dr. Christoph von Plotho: In the medium term definitely. If we look at the various end markets, it is difficult not to assume that this will be the case. Even if 2019 will be a rather muted year. But in the medium term we see growth in solid state drives (SSDs), which have considerable potential to replace traditional hard disk drives. The largest consumer of silicon area is still the smartphone, which is being driven by more and more content. Other keywords are big data, electro-mobility, driver assistance systems – to name but a few.

To our shareholders

Supervisory Board report

Dear shareholders,

In its anniversary year of 2018, Siltronic reaped its own rewards by delivering excellent business results. Thanks to very high capacity utilization, the Company once again succeeded in significantly raising its sales and income earnings in the reporting year. Siltronic has been supplying the semiconductor industry for half a century with its most important raw material – the silicon wafer. The fundamentals for Siltronic to continue its success story are very good. Digitalization is permeating all walks of life, and the connection and integration of humans and machines is on the rise, while the automation and electrification of vehicles is in full progress. This process of transformation will continue to ensure high growth rates in the semiconductor industry. Siltronic delivers the key raw material driving this fourth industrial revolution. At the same time, the volatile semiconductor market remains demanding. More stringent technological requirements, fiercer competition, increased energy and personnel costs, as well as high capital intensity are challenges that the company must and will face in the future with cost discipline, creativity and technological excellence.

As in the prior year, you as our shareholders are to participate in Siltronic's success, not least through receiving appropriate dividend. The Executive Board and Supervisory Board therefore recommend raising the dividend to EUR 5.00 per dividend-bearing share. This is in line with the dividend policy adopted by the Executive Board in September 2017 under which around 40 percent of Group profits attributable to the shareholders shall be distributed.

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

Continuous dialogue with the Executive Board

The Supervisory Board performed its duties in accordance with the law, the Articles of Incorporation, and the Rules of Procedure with the utmost diligence throughout the 2018 fiscal year. The Executive Board and the Supervisory Board worked together in a spirit of trustworthy collaboration in the best interests of the Company. The Supervisory Board regularly advised the Executive Board in matters pertaining to the management of the Company, monitored its activities, and satisfied itself that the Company was managed in a lawful, expedient, and correct manner. The Executive Board informed the Supervisory Board and its committees promptly and in detail, both verbally and in writing, about the Company's performance, its financial position, and its strategic development, as well as the risk situation, the activities of the internal audit department, and compliance topics. The Supervisory Board and its relevant committees were involved in all decisions of fundamental importance at an early stage. The Supervisory Board had the opportunity at all times of critically examining the reports and proposed resolutions of the Executive Board. Deviations from plans and targets in the business performance were explained in detail. Furthermore, the Chairman of the Supervisory Board and the Chairman of the Audit Committee maintained close contact with the Executive Board outside the regular meetings of the Supervisory Board and were kept informed about current developments and significant business transactions.

Main work of the Supervisory Board plenum

During the reporting year, the Supervisory Board held four ordinary meetings – two in the first half of the year and two in the second. An extraordinary meeting of the Supervisory Board was also held on April 19, 2018, in the form of a constitutive meeting directly after the Annual General Meeting.

At the Supervisory Board's financial statements meeting held on March 1, 2018 – together with the auditors, who were present at the meeting – we discussed in great depth the single-entity and consolidated financial statements for the year ending December 31, 2017 as well as the relevant management reports and the dependency report and approved them. Furthermore, based on the recommendation of the Executive Committee and on the target achievement levels specified, the Supervisory Board determined the variable compensation of the Executive Board for the fiscal year 2017 and the variable compensation targets for the fiscal year 2018.

We also approved the Supervisory Board's report to the Annual General Meeting and deliberated on the agenda for the Annual General Meeting to be held on April 19, 2018. In addition, the Executive Board reported on the business performance during the fiscal year 2017 and the early stages of the fiscal year 2018.

The terms of office of all Supervisory Board members ended as of the Annual General Meeting on April 19, 2018. The Supervisory Board members of the shareholders were elected by the Annual General Meeting for the new 2018 to 2023 period. The Supervisory Board members for the employees had already been elected for this period at the beginning of March 2018, effective as of the end of this Annual General Meeting. The Supervisory Board's constitutive meeting was held directly after the Annual General Meeting. Dr. Tobias Ohler and Johann Hautz were confirmed as Chairman and Vice Chairman of the Supervisory Board in this meeting. In addition, the Supervisory Board held the elections for appointing members to the various committees.

On June 14, 2018, an onboarding information event took place to inform new Supervisory Board members about the Company. We discussed the Company's business performance and other items at the Supervisory Board meeting on the same day. Moreover, we discussed the expansion of the location of the Siltronic subsidiary Silicon Wafer Pte. Ltd. in Singapore, and authorized increasing the investment budget for the fiscal year 2018.

In the Supervisory Board meeting held on September 13, 2018, we addressed the Executive Board's report on business performance and the Company's financial position. The Supervisory Board also reviewed the efficiency of its activities. The German Corporate Governance Code and the submission of a declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG) were further agenda items.

At its meeting on November 29, 2018, and in addition to the report of the Executive Board on business performance, the Supervisory Board discussed the budget of the Siltronic Group for the fiscal year 2019 and the medium-term planning for the fiscal years up until and including 2021. The 2019 budget presented by the Executive Board, including financial and investment planning, was given lengthy consideration and subsequently approved. Finally, we deliberated on the legal requirements that may arise from implementation of the European Shareholders' Rights Directive.

Supervisory Board committees

In order to perform its duties efficiently, the Supervisory Board has established a total of four committees: an Audit Committee, an Executive Committee, a Nomination Committee and a statutorily required Conciliation Committee pursuant to section 27 (para. 3) of the German Codetermination Act. The Chairman of the Supervisory Board chairs the committees, with the exception of the Audit Committee which is chaired by Supervisory Board member Bernd Jonas. The committee chairpersons reported to the Supervisory Board regularly and comprehensively on their committee work.

The Executive Committee met once during the reporting year. It discussed personnel matters relating to the Executive Board as well as the latter's compensation, and in this context prepared the resolutions of the Supervisory Board plenum on setting targets for the variable compensation.

The Audit Committee met four times in the fiscal year 2018, and passed a resolution on the election of the Audit Committee Chairman as part of the constitutive Supervisory Board meeting on April 19, 2018. In the presence of the auditor, the Audit Committee deliberated on the single-entity and consolidated annual financial statements as well as the corresponding combined management reports. It also discussed the quarterly reports and – in the presence of the auditor – the half-year report as well as the auditor's review thereof. The Audit Committee recommended that the Supervisory Board proposes KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, as auditor at the Annual General Meeting 2018. The Audit Committee issued an audit engagement letter to the auditor for the financial year 2018, defined the key audit areas and determined the auditor's fee. The Committee also monitored the selection, independence, qualification, rotation and efficiency of the auditor. In particular, it addressed the treatment of non-audit services. Furthermore, the Audit Committee gave detailed consideration to the financial reporting process, the company's risk management system, the effectiveness and findings of the internal audit department and the compliance system and received regular reports on compliance topics and tax audits. Finally, the Audit Committee deliberated on the implementation of the modified IFRS accounting standards and discussed the impact on the balance sheet of the payment of insurances in connection with environmental contamination at the site of the affiliate Siltronic Corp. in Portland, USA.

The Nomination Committee met four times to prepare a resolution for the Supervisory Board for the election of the Supervisory Board members of the shareholders in the April 19, 2018 Annual General Meeting. In further informal consultations the committee addressed the selection of suitable candidates. In a first step, a concrete competence profile was defined for suitable candidates based on the requirements of the German Stock Corporation Act (AktG), the German Corporate Government Code, the rules of procedure for the Supervisory Board, the goals of the Supervisory Board for its composition as well as the skills profile and diversity concept for the Supervisory Board. In addition to the knowledge, the capabilities and professional experience required the competence profile asks for in particular industrial and technological skills and lays out demands for independence and potential conflicts of interest, international experience and availability, as well as diversity. We identified candidates for Supervisory Board members on the basis of the defined criteria and conducted personal interviews.

The Conciliation Committee did not convene in the 2018 fiscal year.

Audit of annual and consolidated financial statements

The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements of Siltronic AG for the 2018 fiscal year, the consolidated financial statement of the Siltronic Group and the combined management report relating to the annual and consolidated financial statements (as at December 31, 2018) prepared by the Executive Board and issued an unqualified audit opinion thereon. Signing auditors are Damir Ratkovic since the fiscal year 2016 and Volker Specht who have been responsible for the audit since the fiscal year 2017. The external rotation period for auditors defined as a maximum of ten years in compliance with the European Auditing Regulation (EU-VO 537/2014) began in 2015, the year of Siltronic AG's stock market listing.

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

The Executive Board's proposal for the use of unappropriated profit, the various financial statements, the combined management report and the auditor's reports were made available to all members of the Supervisory Board in a timely manner and were initially discussed in a draft version at the Audit Committee meeting on February 21, 2019. The final version was subsequently discussed and examined in great detail at the Supervisory Board's financial statements meeting on March 1, 2019. The auditor was present at both meetings. The Audit Committee dealt in particular with the key audit matters described in the auditor's opinion, including the audit procedures performed. The auditor reported on the scope, the priorities, and the main results of their audit, focusing in particular on the key audit matters and the audit procedures performed. The auditor was available to answer questions and provide the Audit Committee and the full Supervisory Board with supplementary information. The auditor also examined the early warning system for risks pursuant to section 91 of the German Stock Corporation Act (AktG) and determined that the system complies with legal requirements. No risks were identified that could jeopardize the Company's going concern status.

Furthermore, at its meeting on March 1, 2019, and taking account of the Audit Committee's recommendation, the Supervisory Board adopted the resolution proposal to be made to the 2019 Annual General Meeting regarding the selection of the auditor. This was based on the declaration of the Audit Committee that its recommendation was not improperly influenced by third parties and that no clause restricting selection had been imposed upon it within the meaning of article 16 (6) of the EU Auditors' Regulation.

The Supervisory Board concurs with the results of the audit. Based on the final result reached by the Audit Committee and our own examination, there are no objections to the annual financial statements of Siltronic AG, the consolidated financial statements for the Siltronic Group, the combined management report, and the auditor's reports. We therefore approve the separate financial statements of Siltronic AG prepared by the Executive Board and the consolidated financial statements for the year ending December 31, 2018. The annual financial statements of Siltronic AG are therefore adopted. The Executive Board proposes the use of Siltronic AG's unappropriated profit to pay a dividend of EUR 5.00 per share entitled to receive dividend and to carry forward the remainder. The Supervisory Board concurs with this proposal.

Separate non-financial report

At its meeting on September 13, 2018, the Supervisory Board also commissioned the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, to audit limited collateral requirements for the combined non-financial (Group) report. KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified opinion. The summarized non-financial (consolidated) report and the audit opinion of KPMG AG Wirtschaftsprüfungsgesellschaft were forwarded to the members of the Supervisory Board in a timely manner. The combined non-financial (Group) report was discussed, examined and approved in detail by the Audit Committee at its meeting on February 21, 2019 and by the Supervisory Board at its meeting on March 1, 2019. There are no indications of any objections to the combined non-financial (Group) report or the assessment of the audit result by KPMG AG Wirtschaftsprüfungsgesellschaft.

Changes to the Executive Board and Supervisory Board

No changes were made to the composition of the Executive Board during the reporting year.

At the end of the Annual General Meeting on April 19, 2018, Dr. Franz Richter and Angela Wörl on the shareholder representatives' side and Maximilian Baumgartner and Karin Gottschalk on the employee representative side retired from the Supervisory Board, their terms of office having expired. We would like to thank these former Supervisory Board members for their trustful collaboration and valuable contribution to the Supervisory Board.

The Annual General Meeting elected Prof. Dr. Gabi Dreo and Michael Hankel to the Supervisory Board as shareholder representatives on April 19, 2018. The current Supervisory Board members Dr. Tobias Ohler, Sieglinde Feist, Dr. Hermann Gerlinger and Bernd Jonas were re-elected as Supervisory Board members for the shareholders for a full period of office of five years.

Beginning of March 2018, in accordance with the provisions under the German Co-Determination Act, Mandy Breyer and Klaus-Peter Estermaier were newly elected as employee representatives to the Supervisory Board, effective as of the end of the Annual General Meeting on April 19, 2018, along with the current employee representatives on the Supervisory Board, Johann Hautz, Gebhard Fraunhofer, Gertraud Lauber and Harald Sikorski.

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

Munich, March 1, 2019
The Supervisory Board

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

Siltronic on the stock exchange

Global equity markets on a downward trend in 2018

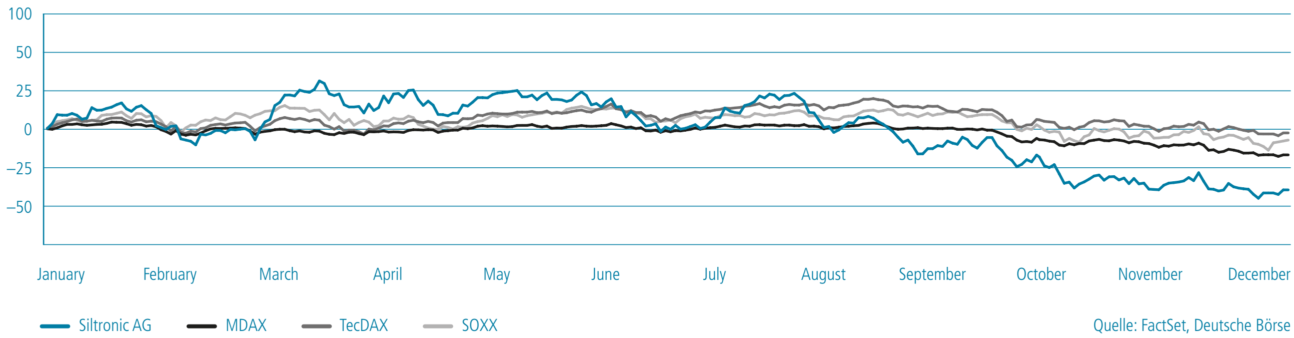
The stock markets were only able to continue the positive development of the previous year at the beginning of 2018. The largest German indices also recorded new highs at this time. These included the DAX, Germany's leading index, which rose to 13,559 points on 23 January, 2018. However, this development could not be continued in the further course of the year and turned into a continuous downward trend with high volatility at the same time. The main causes were the uncertainty surrounding the expiry of the Brexit, the trade war between the USA and China, and weaker forecasts for global economic growth. Further reasons for the worldwide weak share price development towards the end of the year included the budget dispute in the USA, the lower oil price as well as profit warnings from some well-known international corporations.

Siltronic share burdened by negative market influences

Siltronic's share price was unable to escape the negative effects of the market in 2018, which unfortunately did not reflect the very pleasing business result. While our share also made a very positive start to 2018 with a price of EUR 122.30 per share and reached a new high of EUR 159.85 per share on March 21, our share price then moved sideways, initially holding steady until the summer. Subsequently, however, our share price adjusted to the general trend on the international stock markets and also recorded significant losses. Based on the closing price of the Siltronic share in Xetra trading of EUR 121.30 on 29 December, 2017 and a closing price of EUR 72.20 on 28 December, 2018 (last trading day), the loss was 40.5 percent. Market capitalization on December 28, 2018, based on the Xetra closing price, was just under EUR 2.2 billion.

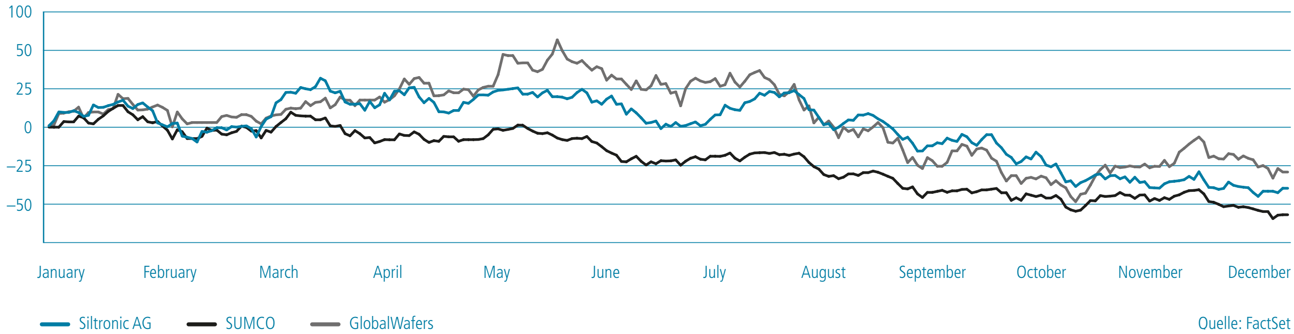
Performance of Siltronic shares vs. indices 2018

in %



Performance of Siltronic shares vs. competitors 2018

in %

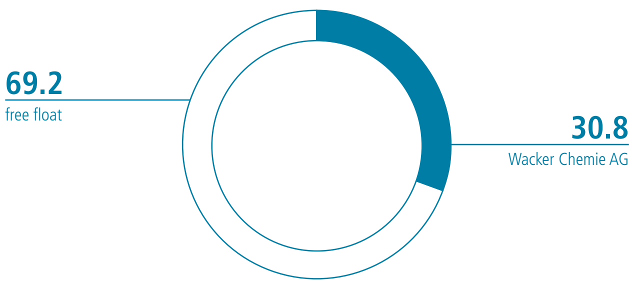


In line with these developments, the MDAX and TecDAX benchmark indices, which are important for Siltronic, also rec-orded partly strong losses of 17.6 and 3.1 percent respectively over the year. The international benchmark index Phila-delphia Semiconductor Sector Index also fell by 7.6 percent in the same period of the previous year.

Regionally diversified shareholder structure

Wacker Chemie AG continues to be Siltronic AG's largest shareholder, holding 30.8 percent of the voting rights. The free float remains at 69.2 percent. As of December 31, 2018, the largest institutional investors with more than 3 percent of the voting rights were BlackRock with 3.79 percent, the state of Norway with 3.11 percent and JPMorgan with 3.27 percent. Within the free float, as of January 2019, a large portion, 26 percent each, is in the hands of institutional investors in the USA and the United Kingdom, followed by Germany with 19 percent.

Shareholder structure of Siltronic AG
in %



As of December 31, 2018, the Executive Board and Supervisory Board held less than 1 percent of the shares.

Ongoing investor relations activities

Since our IPO in 2015, our investor relations work has raised Siltronic AG's profile worldwide. In the future, we want to further enhance the perception of the share as an attractive value again. Through continuous, open and reliable communication on Siltronic's development and strategic orientation, we want to strengthen investor confidence in the share and achieve a realistic and fair valuation of the share.

In 2018, the Executive Board and the Investor Relations team held various roadshows in the financial centers of Europe, the United States and Asia and also participated in international investor conferences. In addition, numerous one-on-one meetings and telephone conferences were held to provide information on current business developments and market trends.

During the year 2018, Siltronic was accompanied by ten analysts from various banks. As of December 31, 2018, five of these analysts had issued a buy recommendation. Five other analysts had advised holding the share. There was no recommendation to sell. The average price target of the banks was EUR 114.00 at the end of December.

Current data and information are published on the Siltronic website *www.siltronic.com* under Investor Relations.

Key share data

First trading day	June 11, 2015
Stock exchange	Frankfurt
Market segment	Regulated Market
Transparency standard	Prime Standard
Index	TecDAX
ISIN	DE000WAF3001
Ticker symbol	WAF300
Free float in %	69.2
Number of shares	30,000,000
High of 20178[1]	EUR 159.85
Low of 2018[1]	EUR 65.30
2018 closing price[1]	EUR 72.20
Market capitalization as of December 31, 2018	EUR 2.2 bn

[1] Xetra closing price

Report and declaration on corporate governance

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

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

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

Throughout the 2018 fiscal year, the Executive Board and the Supervisory Board dealt intensively with the Company's corporate governance and the recommendations contained in the version of the German Corporate Governance Code dated February 7, 2017. On September 13, 2018, the Executive Board and the Supervisory Board issued the following Declaration of Conformity, which is permanently available to the public on the Siltronic website (*https://www.siltronic.com/de/investoren/corporate-governance.html*):

The Executive Board and the Supervisory Board of Siltronic AG declare the following with regard to the recommendations of the "Commission German Corporate Govern-ance Code" (the "Code"):

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

a) D&O Insurance Deductible for the Supervisory Board Members (Article 3.8 para. 3 of the Code)
The Code recommends that if the company takes out a D&O insurance policy for the Supervisory Board, a deductible similar to the statutory deduct-ible for the Executive Board of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation shall be agreed upon. The German law and the company's Articles of Association set clear limits for the Supervisory Board's capacity to exert influence on the business activities of a stock corporation. Pursuant to Section 76 para. 1 of the German Stock Corporation Act, the Executive Board is responsible for independently managing the company. The Supervisory Board determines the main principles of corporate strategy. However, beyond this contribution, the Supervisory Board has limited scope of influence on the implementation of the corporate strategy or on business operations. The same applies to measures to prevent or mitigate harm or damage to the company. Since the Supervisory Board members receive a relatively low fixed compensation when compared to the Executive Board members' compensation which consists of fixed and variable components, we consider the agreement of a deductible for members of the Supervisory Board as not reasonable.

b) Maximum Limits for the Remuneration of Executive Board Members (Article 4.2.3 para. 2 sentence 6 of the Code) and Determination of a Targeted Pension Level (Article 4.2.3 para. 3 of the Code)
Pursuant to the Code, the remuneration of Executive Board members shall be capped, both in the aggregate and for individual remuneration components. The contracts of Executive Board members foresee maximum amounts for fixed and variable remuneration components. Therefore, the recommendation of the Code is fulfilled with regard to the major part of the remuneration. Regarding the pension benefits, the remuneration system pursuant to which the gross amount of the monthly pension payments (Pension Cap) payable after the pension becomes due is capped to an amount equal to 50% of the employer-funded share of the monthly rate paid by the company based on the annual base salary. However, the overall cap for the pension benefits will not be limited to an amount as especially the annual base salary might be adapted in the future. As a result, no maximum amount can be fixed for the overall remuneration of the Executive Board. For that same reason, as a precaution, a deviation from the recommendation that the Supervisory Board shall establish a target level of pen-sion benefits is declared.

2. Past-related declaration
Since the last declaration of conformity dated 14 September 2017, Siltronic AG has complied with the recommendations of the Code in the version of 7 February 2017 with the deviations mentioned and explained above under section 1 a) and b) as well as with a one-time deviation to section 4.2.3 paragraph 2 sentence 8 of the Code, pursuant to which subsequent amendments to the perfor-mance targets or comparison parameters shall be excluded. This is due to the fact, that in fiscal year 2017 the remuneration system of the Executive Board was amended retroactively to increase the share of the multi-year stock-based remuneration.

Munich, September 13, 2018
Siltronic AG

The Executive Board The Supervisory Board"

Relevant descriptions of corporate governance practice

The Company complies with the statutory requirements relating to corporate governance. With the exceptions mentioned in the Declaration of Conformity, Siltronic follows all the recommendations of the German Corporate Governance Code.

Principles of the compliance management system

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

The Group's compliance management system is designed to prevent, identify, and sanction violations within the Company. It is examined and improved on a regular basis under the responsibility of Siltronic's compliance organization. The Company has appointed compliance officers in Germany, the USA, Korea, China, Japan, Singapore, and Taiwan. They coordinate compliance activities within the Group, provide advice on the issue of compliance, and can be contacted regarding any queries as well as for training.

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

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

As a protected reporting channel, Siltronic also appointed an external ombudsman to whom both our employees and third parties can anonymously report any violations of statutory regulations. The ombudsman's contact details are published on our website. A key focus of compliance work during the reporting year was the conducting of a compliance risk analysis based on compliance workshops.

Code of Conduct

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

Furthermore, as a supplier to the electronics industry, Siltronic observes the Code of Conduct set out by the Responsible Business Alliance (formerly known as the Electronic Industry Citizenship Coalition), which leading companies in the electronics industry leverage to promote social and ecological responsibility as well as ethical business practices on a worldwide basis. More information on the initiative and its Code of Conduct is available online at *http://www.responsiblebusiness.org*.

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

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

Siltronic is also a signatory to the "Diversity Charter". As such, Siltronic undertakes to actively implement and promote equal opportunity and diversity. Information on the Charter is available online at *https://www.charta-der-vielfalt.de/en/diversity-charter-association/about-the-diversity-charter/*.

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

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

Executive Board

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

The members of the Executive Board bear joint responsibility for the executive management of the Company and are also independently responsible for managing the internal areas assigned to them. The Executive Board holds regular meetings which are convened and chaired by the CEO. Executive Board meetings must take place whenever the interests of the Company require it. The Executive Board generally passes its resolutions by a simple majority. As long as the Executive Board consists of only two persons, resolutions can only be passed unanimously; the CEO of the Executive Board does not have a casting vote.

Close collaboration between the Executive Board and the Supervisory Board

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

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

Supervisory Board

The Articles of Association specify that the Supervisory Board must comprise twelve members. In accordance with the German Co-Determination Act (MitbestG), it is composed of equal numbers of shareholder representatives and employee representatives. Members generally hold office for a period of five years. They can be re-elected. An overview of the members of the Supervisory Board in office during the reporting year and their other mandates on supervisory boards or comparable bodies required to be formed by law is available on 163. The regular term of office of the current Supervisory Board members will expire at the end of the Annual General Meeting in 2023. The Supervisory Board appoints, monitors, and advises the Executive Board and is directly involved in decisions of material importance to the Company. Fundamental decisions regarding the further development of the Company require the approval of the Supervisory Board. The Supervisory Board has established itself rules of procedure that comply with the requirements of the German Corporate Governance Code.

If necessary, the Supervisory Board convenes without the Executive Board.

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

The Supervisory Board passed a new resolution in 2017 on the objectives for its composition, including a competence profile for the entire Supervisory Board:

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

I. Objectives for the composition

1. **International expertise**
   In view of the Company's international strategy, at least one member of the Supervisory Board should have relevant experience.

2. **Independence and potential conflicts of interest**
   At least three shareholder representatives should be independent within the meaning of article 5.4.2 of the German Corporate Governance Code. The rules of procedure set out by the Supervisory Board for dealing with conflicts of interest must be observed. Major conflicts of interest not only of a temporary nature, such as those involving board functions or advisory tasks at major competitors of the Company, must be avoided.

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

4. **Diversity**
   With regard to diversity, the Supervisory Board strives to ensure that its composition takes into account a wide range of professional experience, educational backgrounds and, in particular, the appropriate participation of both genders. Pursuant to section 96 (2) of the German Stock Corporation Act, the Supervisory Board must be composed of at least 30 percent women and at least 30 percent men. The shareholder and employee representatives on the Supervisory Board objected to the complete fulfillment of the gender quota. For this reason, the Supervisory Board of the Company must be composed of at least two women and two men on both the shareholder and the employee side.

II. Competence profile

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

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

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

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

The Supervisory Board and the Supervisory Board's Nomination Committee took account of the objectives for the composition and the competence profile in the context of the selection process and the nomination of candidates for the Supervisory Board and latterly when proposing suitable candidates for shareholder representatives to the Annual General Meeting 2018. Prior to the Annual General Meeting, the curricula vitae of the candidates, including their pertinent knowledge, skills and experience, were posted on Siltronic's website. In its own view, the Supervisory Board meets all of the above-mentioned objectives with regard to composition and covers the competence profile in its current composition. The Supervisory Board members have all the qualifications deemed necessary. The members of the Supervisory Board are in their entirety familiar with the sector in which the Company operates, i.e. the semiconductor industry, and have the skills, experience, and knowledge relevant to Siltronic's activities. Several members of the Supervisory Board have relevant experience with regard to the international strategy of the Company. Allowance is made for the age limit rule as well as the standard limit of three full terms (15 years) for membership of the Supervisory Board. Diversity is appropriately taken into account by the Supervisory Board. In the 2018 fiscal year, the Supervisory Board had four female members, two of whom were shareholder representatives and two employee representatives. The statutory minimum quota is therefore fulfilled. In the opinion of the Supervisory Board, at least four shareholder representatives are currently independent within the meaning of article 5.4.2 of the German Corporate Governance Code, namely Prof. Dr. Gabi Dreo, Dr. Hermann Gerlinger, Michael Hankel and Bernd Jonas.

Committees enhance Supervisory Board efficiency

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

Executive Committee

Chair:
Dr. Tobias Ohler

Members:
Dr. Hermann Gerlinger
Johann Hautz

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

Nomination Committee

Chair:
Dr. Tobias Ohler

Member:
Dr. Hermann Gerlinger

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

Audit Committee

Chair:
Bernd Jonas

Members:
Dr. Tobias Ohler
Harald Sikorski (until April 19, 2018)
Gebhard Fraunhofer (since April 19, 2018)

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

The Chairman of the Audit Committee has specialized knowledge and experience in the areas of financial reporting and auditing.

Conciliation Committee

Chair:
Dr. Tobias Ohler

Members:
Gebhard Fraunhofer
Johann Hautz
Angela Wörl (until April 19, 2018)
Sieglinde Feist (since April 19, 2018)

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

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

Siltronic AG is legally required to set targets for the proportion of women on the Executive Board and at the two management levels below the Executive Board. New targets to be achieved by June 30, 2020, were set in the 2017 fiscal year:

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

Description of the diversity concept and its objectives

In 2017, the Supervisory Board adopted the following diversity concept for the Executive Board and the Supervisory Board.

“1. Executive Board (authorized body)
The Executive Board of Siltronic AG currently consists of two people.

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

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

	Status quo on June 30, 2017	New target to be met by June 30, 2020
Supervisory Board	Statutory 30 % quota, therefore no target required	
Executive Board	0% (0/2)	0% (0/2)
1st management level	11.76% (2/17)	min. 17.64% (3/17)
2nd management level	5.56% (2/36)	min. 8.33% (3/36)

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

c. Age

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

2. Supervisory Board

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

a. Gender

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

b. Professional experience and educational background

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

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

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

c. Age

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

3. Objectives

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

Method of implementing the diversity concept and the results achieved in the reporting year

The implementation of the diversity concept for the Executive Board was carried out in the context of the procedure for appointing Executive Board members. In selecting candidates and appointing Executive Board members, the Supervisory Board and/or the Supervisory Board's Executive Committee duly considers the requirements set out in the diversity concept.

No changes took place in the composition of the Executive Board in the reporting year. In its current composition, the Executive Board fulfills all the requirements of the diversity concept.

The Supervisory Board and/or the Supervisory Board's Nomination Committee takes account of the diversity concept when proposing suitable candidates for the Supervisory Board's election proposals for shareholder representatives to the Annual General Meeting. The Supervisory Board latterly followed this procedure in its election proposals for the Annual General Meeting 2018. The Supervisory Board fulfills the objectives with regard to composition and covers the competence profile and the diversity concept in its current composition.

Further information on corporate governance

Transparent information for shareholders and the general public

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

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

Annual General Meeting

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

Reportable managers' transactions

Pursuant to article 19 of the EU Market Abuse Regulation (MAR) No. 596/2014, the members of Siltronic AG's Executive Board and Supervisory Board, as well as persons closely associated with them, are required to report to Siltronic AG and the German Federal Financial Supervisory Authority (BaFin) any transactions they undertake in shares or debt instruments issued by Siltronic AG, or any derivatives or other financial instruments associated with it. In 2018, Siltronic AG was not notified of any transactions to be reported in accordance with article 19 of the MAR. Any transactions reported are published on Siltronic AG's website.

Information on share-based incentive schemes

Of the performance-related bonus of the members of the Executive Board, 51 percent is granted as a share-based, long-term incentive (LTI) in the form of virtual shares, also known as phantom stocks. The virtual shares are held for a period of two years from the end of the compensation year. The LTI is settled in cash. The amount of the cash settlement is calculated according to the average weighted market price of the Siltronic share on the last 30 trading days of the second financial year following the compensation year. Details are available in the compensation report on 76. Siltronic does not currently operate any other securities-based incentive systems, such as for the benefit of employees.

Responsible approach to opportunities and risks

The responsible handling of risks by the Company is a key component of good corporate governance. Siltronic uses a systematic opportunity and risk management approach to identify and monitor significant risks and opportunities on a regular basis. The aim is to identify risks at an early stage and mitigate them through rigorous risk management. The Executive Board regularly informs the Supervisory Board on existing risks and their development. The Audit Committee regularly addresses the financial reporting process and the effectiveness of the internal control, risk management, and audit system. The opportunity and risk management system is continuously enhanced and adjusted in line with changing circumstances. Details are available in the Risk and Opportunity Report on 63.

Financial reporting and auditing of financial statements

Siltronic's consolidated financial statements for the year 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the European Union. Siltronic AG's 2018 annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (HGB). The financial accounting for 2018 has been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board has agreed with the auditor that the Chairman of the Supervisory Board will be informed without delay of any grounds for exclusion or partiality arising during the audit. Furthermore, the auditor also reports immediately on any significant findings or circumstances that affect the responsibilities of the Supervisory Board. Should the auditor identify any facts during the audit of the financial statements that indicate an inaccuracy in the Declaration of Conformity with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG) issued by the Executive Board and the Supervisory Board, the auditor will inform the Supervisory Board accordingly and note the finding in the audit report.

D&O insurance and criminal law insurance coverage

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

Conflicts of interest

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

Individualized disclosure of attendance of Supervisory Board shareholder representatives at meetings in 2018

Shareholder representatives of the Supervisory Board	Number of meetings and its committees	Participation	Attendance
Dr. Tobias Ohler (Chairman)	14	14	100 %
Prof. Dr. Gabi Dreo (since April 19, 2018)	4	4	100 %
Sieglinde Feist	5	5	100 %
Dr. Hermann Gerlinger	10	10	100 %
Michael Hankel (since April 19, 2018)	4	4	100 %
Bernd Jonas	9	9	100 %
Dr. Franz Richter (until April 19, 2018)	1	1	100 %
Angela Wörl (until April 19, 2018)	1	1	100 %

Combined management report

Business and economic conditions

Group structure and business activities

Leading international supplier of hyperpure silicon wafers

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

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

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

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

Legal structure of the Group

Siltronic has had the legal form of a stock corporation (Aktiengesellschaft) subject to German law since 1996, although at that time it was called Wacker Siltronic Gesellschaft für Halbleitermaterialien AG. In 2004, the Company was renamed Siltronic AG. It is headquartered in Munich, Germany. At the end of 2018, the Company had direct or indirect equity investments in seven companies and one special fund.

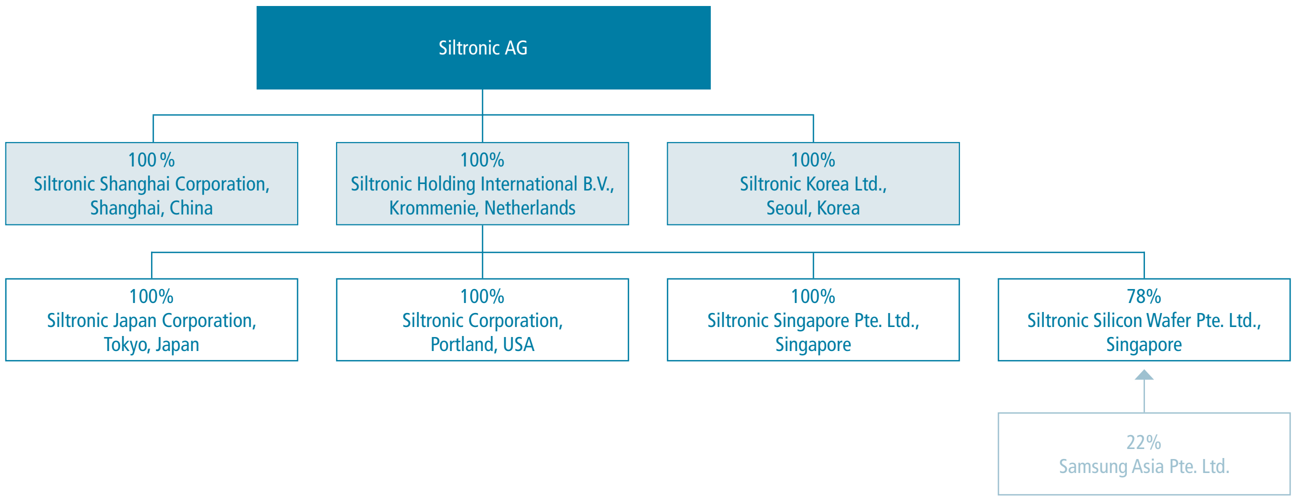
Management and control

As required by the German Stock Corporation Act (AktG), Siltronic AG has a two-tier governance structure consisting of the Executive Board and Supervisory Board. The Executive Board has two members; its composition did not change in fiscal year 2018. The Supervisory Board consists of twelve members. Information on the Executive Board and Supervisory Board and how their responsibilities are allocated can be found in the corporate governance report on 🗋 25.

Allocation of responsibilities on the Executive Board

Dr. Christoph von Plotho	Rainer Irle
• Chief Executive Officer • Application Technology • Corporate Development • Engineering • Investor Relations & Communications • Legal & Compliance • Production • Quality Management & Sustainability • Sales & Marketing • Site Management, Burghausen & Freiberg • Supply Chain Management • Technology • Siltronic Japan • Siltronic Singapore	• Chief Financial Officer • Labor director • Controlling & Finance • Accounting & Tax • Human Resources • IT • Procurement • Risk Management & Audit • Siltronic USA

Structure of the Siltronic Group



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

Remuneration of the Executive Board and Supervisory Board
The Executive Board's remuneration consists of fixed and variable elements. The main features of the remuneration system for the Executive Board and Supervisory Board are described in the remuneration report on 🗋 76 of the combined management report.

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

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

Important products, business processes, and markets

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

We act as a strategic development partner for our industrial customers, to whom we supply solutions tailored specifically to their requirements. In doing so, we draw on our technical expertise and deep understanding of what our customers need. Our four production facilities and nine sales offices in Europe, the USA, and Asia serve our customers worldwide. In 2018, our five largest customers were (in alphabetical order) Infineon Technologies, Intel, Micron Technology, Samsung Electronics and Taiwan Semiconductor Manufacturing Company (TSMC). Our local sales approach enables us to offer high-quality customer service.

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

Competitive situation

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

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

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

Economic and legal influences

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

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

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

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

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

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

Risks for our business arising from the economic and legal situation are presented in the risk report on 63.

Corporate strategy and corporate management

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

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

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

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

Synergies from best-in-class production processes

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

Our success factors: a global presence and innovative strength

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

The products required in our target markets are highly sophisticated. Examples of applications for silicon wafers are computers, tablets, smartphones, solid-state drives, assistance and control systems in the automotive industry, or wearables. We provide our customers worldwide with specified, high-quality products. Apart from the Czochralski process we use the float zone technology for growing ingots to produce wafers with a diameter of up to 200 mm (see the chapter on production on 60). We continuously improve our innovative strength and attach a high priority to research and development (R&D).

Ongoing optimization of our production processes and cost structures

Our strategic objectives are to improve profitability and strengthen cash flow. We support and steer our efforts to achieve these objectives in a variety of ways. These include cost discipline and continuous improvement of processes in all functions and regions.

Securing sustainable profitable growth

We invest in new equipment to meet the highest demands of our customers and to participate in market growth.

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

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

The most important financial KPIs in 2018 were the EBITDA margin, net cash flow and ROCE (return on capital employed).

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

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

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

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

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

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

Non-financial key performance indicators relate primarily to the efficient use of silicon and energy, the use of returnable packaging in outgoing packaging, the number of accidents at work, and accidents involving chemicals. Furthermore, there are also indicators relating to product quality and innovation. We do not use any of these indicators consistently to manage the Company. For further information, please refer to the non-financial report (see 87).

Business report

Macroeconomic situation and industry trends

According to estimates by the International Monetary Fund (IMF), the global economy stayed on a stable growth path in 2018. According to the most recent forecast from January 2019, the global gross domestic product grew by 3.7 percent in 2018 (2017: 3.8 percent).

At 1.8 percent, growth in the euro zone in 2018 was somewhat weaker than in the previous year (2017: 2.4 percent). Despite the continued moderate oil price and the loose monetary policy of the European Central Bank, however, the development of the entire economic area was still burdened by the slow decline in unemployment and the debt crisis in some countries.

The German economy grew somewhat more slowly in 2018. According to the International Monetary Fund, growth for the year as a whole was 1.5 percent (2017: 2.5 percent).

The US economy grew by 2.9 percent in 2018, significantly more than in the previous year (2017: 2.2 percent). The USA, like Japan, benefited from persistently low unemployment.

The Japanese economy continued to develop moderately in 2018 with growth of 0.9 percent, weaker than in the previous year (2017: 1.9 percent). China's gross domestic product continued to grow by 6.6 percent in 2018 – somewhat weaker than in the previous year (2017: 6.9 percent).

The market for silicon wafers for the semiconductor industry – measured by total wafer area sold worldwide – grew by 7.8 percent in 2018 (2017: 10 percent). Demand was very high throughout the year.

Sources:
IMF (World Economic Outlook, January 2019, press release from January 7, 2019)
SEMI SMG (press release from January 30, 2019)

Significant events affecting our business performance

There were no significant events which affected our business performance in 2018.

Comparison of actual and forecast business performance

Business development in 2018 was positive in all four quarters. Due to the high demand for wafers of all diameters, we were able to successively increase average selling prices. Due to the once again pleasing price development, we have raised our forecast for revenue and EBITDA margin in the course of the year in the half-year report and the release for the third quarter of 2018 and most recently expected revenue of sligthly above EUR 1.4 billion and an EBITDA margin of around 40 percent.

With sales of EUR 1,456.7 million, we have successfully concluded the 2018 financial year and have significantly exceeded the original sales forecast of March 2018 (Sales: clearly above EUR 1.3 billion) and slightly exceeded the adjusted sales forecast of October. The same applies to our profitability. At 40.5 percent, the EBITDA margin was slightly above the March forecast (close to 40 percent) and in line with expectations of the adjusted October 2018 forecast (approximately 40 percent).

At 58.1 percent, ROCE was, as forecast, well above the previous year's figure (2017: 31.3 percent) and well above the cost of capital. At EUR 240.4 million, net cash flow was also significantly higher than in the previous year (2017: EUR 124.8 million) and thus in line with our expectations.

We also adjusted our expectations during the year with regard to the level of our investments (capex). As of the 2018 half-year report, we had slightly raised our investment forecast from initially EUR 240 million to EUR 260 million to EUR 260 million to EUR 280 million. This increase was due to advance payments to suppliers for the expansion of our capacities. With investments of EUR 256.9 million, we are slightly below the forecast.

Comparison of actual and forecast business performance

	2017 actual	Forecast Annual Report 2017 (March 2018)	Forecast Q1 2018 Interim Statement (April 2018)	Forecast Q2 2018 Interim Report (July 2018)	Forecast Q3 2018 Interim Statement (October 2018)	**2018 actual**
Sales in EUR million	1,177.3	Clearly above EUR 1.3 billion, depending on exchange rate effects	Clearly above EUR 1.3 billion, depending on exchange rate effects	Just under EUR 1.4 billion, depending on exchange rate effects	Slightly above EUR 1.4 billion, depending on exchange rate effects	1,456.7
EBITDA margin in %	30.0	Close to 40 percent	Close to 40 percent	Approximately 40 percent	Approximately 40 percent	40.5
ROCE in %	31.3	Clearly higher than the previous year	Clearly higher than the previous year	Clearly higher than the previous year	Clearly higher than the previous year	58.1
Net cash flow in EUR million	124.8	Clearly higher than the previous year	Clearly higher than the previous year	Clearly higher than the previous year	Clearly higher than the previous year	240.4
R&D ratio in %	5.8	Approx. 5 percent of sales	Approx. 5 percent of sales	Approx. 5 percent of sales	Approx. 5 percent of sales	4,7
Cost items in EUR million	15	Opposite effect on the savings potential through wage and salary increases as well as inflation	Opposite effect on the savings potential through wage and salary increases as well as inflation	Opposite effect on the savings potential through wage and salary increases as well as inflation	Opposite effect on the savings potential through wage and salary increases as well as inflation	0
Depreciation in EUR million	117.4	around EUR 90 million	around EUR 90 million	around EUR 90 million	around EUR 90 million	91.6
Tax rate in %	15	Between 15 percent and 20 percent	Between 15 percent and 20 percent	Between 15 percent and 20 percent	Between 15 percent and 20 percent	18
Financial result in EUR million	−8.5	Roughly stable	Roughly stable	Roughly stable	Roughly stable	−9.3
Investments in EUR million	123.2	Around EUR 240 million to EUR 260 million	Around EUR 240 million to EUR 260 million	Around EUR 260 million to EUR 280 million	Around EUR 260 million to EUR 280 million	256.9
Earnings per share in EUR	6.18	Significant rise compared to 2017	Significant rise compared to 2017	Significant rise compared to 2017	Significant rise compared to 2017	12.44

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

The Management Board is very satisfied with the course of business in 2018

2018 was consistently positive for us. We achieved further price increases due to the high global demand for silicon wafers. This had a very positive effect on our sales and earnings development.

We closed 2018 with consolidated revenue of EUR 1,456.7 million. The average selling price of our wafers (ASP) again increased strongly compared to the previous year and has risen every quarter during the year. We more than doubled our result for the period to EUR 400.6 million.

Our net cash flow also developed very well, almost doubling year-on-year to EUR 240.4 million in 2018. As a result, we were able to increase our net financial assets to EUR 691.3 million as of December 31, 2018.

Very well positioned for the future

In 2018, we invested EUR 256.9 million in property, plant and equipment and intangible assets. In addition to the basic investments of around EUR 90 million, this includes investments for the capacity expansion in 300 mm wafer and for our new chrystal pulling hall in Singapore. We also made initial advance payments for the production equipment for the next capacity expansion in 2020, the entire output of which has already been sold under long-term contracts.

Growth trend for silicon area still intact

We regard Siltronic's economic situation as stable. This assessment is based on the results of the consolidated financial statements and the individual financial statements for 2018 and takes into account the business development up to the time of the preparation of the combined management report for 2018. However, due to macroeconomic and political uncertainties at the beginning of the 2019 financial year, the outlook for the semiconductor segment is more muted than before, especially in the storage and foundry segments. However, logic and power applications as well as image sensors are showing signs of an ongoing strength.

Financial position and financial performance

Sales and financial performance

Sales increase of almost 24 percent driven by price increases

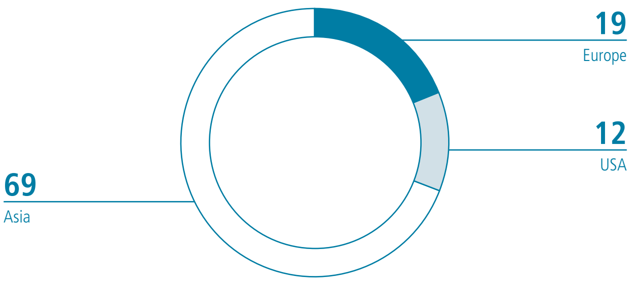
In EUR million	Q4 2018	Q3 2018	Change Amount	Change %	Q1 – Q4 2018	Q1 – Q4 2017	Change Amount	Change %
Sales	388.1	379.8	8.3	2.2	1,456.7	1,177.3	279.4	23.7

We successfully closed the 2018 financial year with consolidated sales of EUR 1,456.7 million, up EUR 279.4 million or 23.7 percent on the previous year's figure of EUR 1,177.3 million. Price increases were the most important driver for the sales increase. The average selling price of wafers (ASP), expressed in Euro, increased strongly compared to the previous year. The sold wafer area also increased, but its influence on the sales increase was subordinate in comparison to the influence of the ASP.

Siltronic generates most of its sales in US dollars. Between January and December 2018, the U.S. dollar averaged 1.18, compared with 1.13 in the same period of the previous year.

The regional distribution of sales in percentage between the three major regions of Europe, Asia and the USA has hardly changed compared to the previous year. The largest region Asia accounted for 69 percent of sales revenue (previous year: 67 percent), followed by Europe with 19 percent (as in the previous year). Sales in the USA accounted for 12 percent (previous year: 14 percent).

Sales by region
in %



In 2018, revenues increased from quarter to quarter: First quarter revenues amounted to EUR 327.4 million, followed by EUR 361.3 million in the second quarter and EUR 379.8 million in the third quarter. In the fourth quarter, Siltronic generated sales of EUR 388.1 million. Also, in the previous year, each quarter's sales exceeded the previous quarter.

Cost of sales increased less compared to sales

In EUR million	Q4 2018	Q3 2018	Change Amount	Change %	Q1 – Q4 2018	Q1 – Q4 2017	Change Amount	Change %
Cost of sales	208.1	204.8	3.3	1.6	824.8	807.0	17.8	2.2
Gross profit	180.0	175.0	5.0	2.9	631.9	370.3	261.6	70.6
Gross margin in %	46.4	46.1			43.4	31.5		

The absolute increase in cost of sales of EUR 17.8 million compared to the previous year resulted primarily from a larger wafer area sold.

The cost of sales, however, increased less compared to the wafer area sold, as the cost of sales per wafer area sold decreased. The improvement of the cost of sales per wafer area sold was driven by a higher utilization of our facilities and declining depreciation and amortisation. There were no noteworthy exchange rate influences on the production costs, as approximately 60 percent of the production costs are incurred in euros.

Gross margin strongly improved mainly due to increased ASP
Gross profit improved by EUR 261.6 million to EUR 631.9 million. This corresponds to an increase of 70.6 percent. The gross margin rose from 31.5 percent in the previous year to 43.4 percent in 2018.

The main reason for the strongly increased gross margin is the increase of the ASP. The improved capacity utilization supported the positive development of the gross margin. The gross margin improved from quarter to quarter in 2018. It amounted to 38.1 percent in the first quarter, followed by 42.1 percent in the second quarter and 46.1 percent in the third quarter. In the fourth quarter, the gross margin reached 46.4 percent.

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

In EUR million	Q4 2018	Q3 2018	Change Amount	Change %	Q1 – Q4 2018	Q1 – Q4 2017	Change Amount	Change %
Selling expenses	9.0	8.7	0.3	3.4	35.0	37.1	−2.1	−5.7
Research & development expenses (R&D expenses)	17.9	16.7	1.2	7.2	68.1	68.3	−0.2	−0.3
General administration expenses	7.4	6.4	1.0	15.6	27.5	25.6	1.9	7.4
Total	**34.4**	**31.7**	**2.5**	**7.9**	**130.6**	**131.0**	**−0.4**	**−0.3**
as a percentage of sales	8.8	8.4			9.0	11.1		

Total selling expenses, research & development (R&D) and general administration espenses were virtually unchanged from the previous year despite the increase in wafer area sold.

As sales have risen sharply, the percentage of selling expenses, research and development (R&D) and general administration expenses in sales is 9.0 percent, thus lower than in the previous year (11.1 percent).

Currency hedges dominate other operating income and expenses

In EUR million	Q4 2018	Q3 2018	Change Amount	Change %	Q1 – Q4 2018	Q1 – Q4 2017	Change Amount	Change %
Other operating income	13.8	10.2	3.6	35.3	74.7	59.7	15.0	25.1
Other operating expenses	−20.6	−15.4	−5.2	−33.8	−78.3	−63.3	−15.0	−23.7
Other operating income and expenses, net	**−6.8**	**−5.2**	**−1.6**	**−30.8**	**−3.6**	**−3.6**	**0.0**	**0**
thereof *exchange rate effects*	−4.8	−1.6	−3.2		*0.7*	*−3.0*	*3.7*	

At EUR −3.6 million, the balance of other operating income and expenses in 2018 was identical to the previous year. As in 2017, other operating income and expenses largely reflect exchange rate gains and losses, in particular from currency hedging measures. The currency hedges relate to the US dollar and the Japanese yen.

While the balance of other operating income and expenses in 2017 almost exclusively reflects net exchange rate effects, expenses in 2018 exceeded income by EUR 4.3 million. This is primarily attributable to expenses for the recognition of a provision for environmental protection measures.

EBITDA increased to record level due to improved gross profit

In EUR million	Q4 2018	Q3 2018	Change Amount	Change %	Q1 – Q4 2018	Q1 – Q4 2017	Change Amount	Change %
EBIT	138.9	138.0	0.9	0.7	497.7	235.7	262.0	>100
EBIT margin in %	35.8	36.3			34.2	20.0		
Depreciation, amortization and impairment less reversals thereof	−21.9	− 22.2	0.3	−1.4	−91.6	117.4	−25.8	−22.0
EBITDA	**160.8**	**160.2**	**0.6**	**0.4**	**589.3**	**353.1**	**236.2**	**66.9**
EBITDA margin in %	**41.4**	**42.2**			**40.5**	**30.0**		

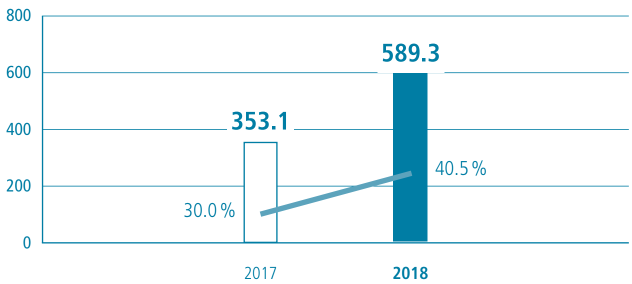
EBITDA amounted to EUR 589.3 million in 2018, up EUR 236.2 million or 66.9 percent above the previous year (EUR 353.1 million). The main reason for this development was the gross profit, which increased by EUR 261.6 million.

The EBITDA margin amounted to 40.5 percent in 2018 (previous year: 30.0 percent). We achieved an EBITDA margin of 37.4 percent in the first quarter of 2018, 40.4 percent in the second quarter, 42.2 percent in the third quarter and 41.4 percent in the fourth quarter.

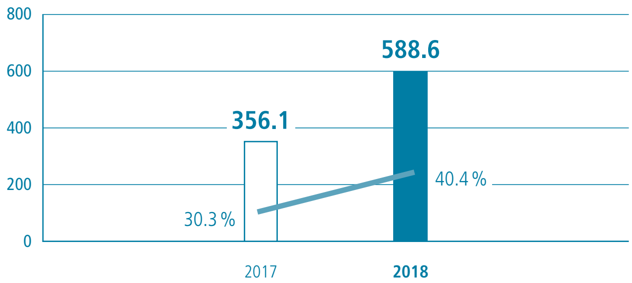
The most important reasons for the very positive development were the increasing ASP and the increase of the wafer area sold with pleasing cost developments in production, selling, R&D and general administration.

The EBIT of EUR 497.7 million in 2018 was EUR 262.0 million higher than in the previous year. As with EBITDA, the increase was driven by the improvement in gross profit.

EBITDA and EBITDA margin
In EUR million



EBITDA and EBITDA margin (without exchange rate effect)[1)]
In EUR million



1) Excluding the exchange rate effects in the amount of EUR 0.7 million (previous year: EUR –3.0 million), included in the other operating income and expenses, which were mainly attributable to hedging transactions.

Financial result characterized by interest expenses for pensions

In EUR million	Q4 2018	Q3 2018	Change Amount	Change %	Q1 – Q4 2018	Q1 – Q4 2017	Change Amount	Change %
Interest expenses for pension provisions	–1.9	– 2.0	0.1	5.0	–8.0	– 8.1	0.1	1.2
Other financial result, net	–1.9	0.7	–2.5		–1.3	–0.4	–0.9	
Financial result	**–3.8**	**–1.3**	**–2.4**		**–9.3**	**– 8.5**	**–0.8**	**–9.4**

The other financial result includes interest expenses from long-term liabilities as well as income and expenses from financial investments and derivatives (used for currency hedging).

Net income and earnings per share doubled

In EUR million	Q4 2018	Q3 2018	Change Amount	Change %	Q1 – Q4 2018	Q1 – Q4 2017	Change Amount	Change %
Result before income tax	135.1	136.7	−1.6	−1.1	488.4	227.2	261.2	>100
Expense of income taxes	−29.1	−22.1	−7.0	31.7	−87.8	−35.0	−52.8	>100
Net income for the period	106.0	114.6	−8.6	−7.5	400.6	192.2	208.4	>100
Earnings per share	3.25	3.53	−0.28	−7.9	12.44	6.18	6.26	>100
Tax rate	**21.6**	**16.2**			**18.0**	**15.4**		

In 2018, income taxes amounted to EUR 87.8 million (previous year: EUR 35.0 million). Income tax expenses mainly related to effective taxes incurred in Germany, Singapore and the USA. In the reporting period, deferred taxes had an effect of EUR 17.3 million on earnings.

In 2018, the Group tax rate, i.e. the ratio of income taxes to earnings before taxes, was 18.0 percent (previous year: 15.4 percent).

We more than doubled our net profit for the period from EUR 192.2 million in 2017 to EUR 400.6 million in 2018. EUR 373.2 million (previous year: EUR 185.3 million) are attributable to Siltronic shareholders.

Earnings per share amounted to EUR 12.44 after EUR 6.18 in the previous year.

Assets and liabilities

The Group's total assets increased from EUR 1,252.4 million at the previous year's reporting date to EUR 1,818.2 million on December 31, 2018.

Non-current assets increased due to investments

In EUR million	Dec. 31, 2018	Dec. 31, 2017	Change
Intangible assets	22.2	24.0	−1.8
Property, plant and equipment	683.9	513.3	170.6
Other assets	56.7	9.3	47.4
Non-current assets	**762.8**	**546.6**	**216.2**

Non-current assets amounted to EUR 762.8 million at the end of 2018, or around 42 percent of total assets (previous year: 44 percent). They increased by EUR 216.2 million compared to the end of 2017 (EUR 546.6 million), which is attributable to high investments in machinery and buildings.

Planned depreciation amounted to EUR 93.4 million (previous year: EUR 117.4 million). Capital expenditure (additions to property, plant and equipment and non-current intangible assets) amounted to EUR 256.9 million (previous year: EUR 123.2 million) and mainly related to capacity expansions in 2019, a new chrystal pulling hall in Singapore and further automation of production.

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

As of December 31, 2018, intangible assets include in particular goodwill arising on the gradual acquisition of Siltronic Silicon Wafer Pte. Ltd. 2014. Goodwill, of EUR 20.5 million, is not affected by amortization.

Other non-current assets include mainly fixed-term deposits and securities of EUR 31.3 million and deferred taxes of EUR 25.3 million.

Positive free cash flow increased current assets

In EUR million	Dec. 31, 2018	Dec. 31, 2017	Change
Inventories	148.6	149.9	−1.3
Trade receivables	175.7	159.9	15.8
Other assets	69.8	53.9	15.9
Cash and cash equivalents and fixed-term deposits	661.3	342.1	319.2
Current assets	**1,055.4**	**705.8**	**349.6**

Current assets amounted to EUR 1,055.4 million as of December 31, 2018 and were thus EUR 349.6 million higher than in the previous year (EUR 705.8 million). The share of total assets was approximately 58 percent (previous year: approximately 56 percent).

Trade receivables and contract assets increased because contract assets had to be recognized for the first time in 2018 (EUR 19.4 million) due to the new accounting standard IFRS 15. Prior to application of IFRS 15, the equivalent value was reported under inventories, but at cost and not at selling price.

Other current assets increased compared with December 31, 2017 due to a compensation claim against insurances. Since the compensation transfers economic obligations to Siltronic, Siltronic's non-current other liabilities have increased. In addition to this compensation claim, other current assets primarily include receivables in connection with sales taxes as well as income taxes and the fair values of derivatives.

The net current assets consisting of inventories, trade receivables and contract assets less trade payables amounted to EUR 227.1 million (previous year: EUR 242.7 million).

Net income for the year increased equity

In EUR million	Dec. 31, 2018	Dec. 31, 2017	Change
Equity	915.7	637.9	277.8
Pension provision	362.3	367.2	−4.9
Customer preprepayment	175.2	42.9	132.3
Other liabilities	97.9	52.2	45.7
Non-current liabilities	**635.4**	**462.3**	**173.1**

Equity amounted to EUR 915.7 million as of December 31, 2018. (previous year: EUR 637.9 million). The equity ratio thus amounted to 50.4 percent compared to 50.9 percent as of December 31, 2017.

The increase in equity by EUR 277.8 million is mainly attributable to the net profit for the year of EUR 400.6 million, less the distribution dividend payment for 2017 in the amount of EUR 75.0 million. Actuarial losses in the calculation of the pension provisions reduced equity by EUR 49.4 million.

Non-current liabilities as of December 31, 2018 amounted to EUR 635.4 million (previous year: EUR 462.3 million) and were thus around 35 percent (previous year: approx. 37 percent) of the balance sheet total. The increase by EUR 173.1 million is the result of the strong increase in the customer prepayments received of EUR 132.3 million.

In addition to service cost and interest expense, new mortality tables in Germany as well as the falling discount rate in Germany have increased pension obligations. This effect was almost offset by payments into plan assets in Germany and the USA and the provision-reducing effect of interest rate developments in the USA. In the USA, the interest rate for pensions rose from 3.45 percent at the end of 2017 to 4.08 percent at the end of 2018. The pension provision in Germany was discounted at 1.98 percent at the end of December 2018 compared with 2.10 percent at the end of December 2017.

Other non-current liabilities increased due to the economic obligations for environmental protection, for which Siltronic received a compensation claim from insurances. The compensation claim is included in other current assets. Other long-term obligations also include provisions for anniversaries, partial retirement and taxes.

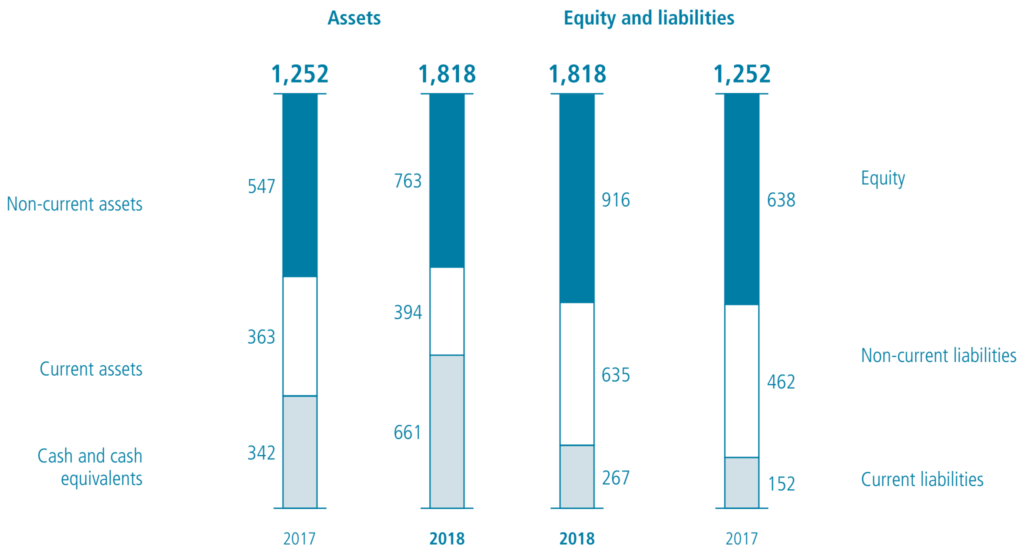
Current liabilities primarily increased due to investments and customer prepayments

In EUR million	Dec. 31, 2018	Dec. 31, 2017	Change
Trade liabilities	96.6	67.1	29.5
Customer prepayments	56.4	26.9	29.5
Other provisions and liabilities	114.0	58.2	55.8
Current liabilities	**267.1**	**152.2**	**114.9**

Current liabilities amounted to EUR 267.1 million as of December 31, 2018. They were EUR 114.9 million higher than the previous year (December 31, 2017: EUR 152.2 million). Current liabilities accounted for around 15 percent of the balance sheet total (previous year: around 12 percent).

Trade payables increased because investment activities in the months prior to the balance sheet date were higher than in the same period of 2017. The increase in short-term customer prepayments reflects the overall higher level of customer prepayments received. The main reason for the increase in other current liabilities was higher liabilities due to income taxes and the fair value of derivatives. Other current liabilities also include current personnel liabilities, primarily vacation, overtime, other employee-related payables and performance-related remuneration.

Structure of assets and equity and liabilities
in EUR million



Influence of exchange rate fluctuations and acquisitions on balance sheet items was not significant

The impact of exchange rate fluctuations on the change in the carrying amounts of assets and liabilities from December 31, 2017 to December 31, 2018 is not significant. There was no acquisition of any company or business.

Unrecognized intangible assets

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

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

Cash flow developed very positive

In EUR million	Q1 – Q4 2018	Q1 – Q4 2017	Change
Cash flow from operating activities	651.9	298.9	353.0
Proceeds/payments for capital expenditure including intangible assets	−235.5	−129.3	−106.2
Free cash flow	**416.4**	**169.6**	**246.8**
Increase/decrease of prepayments received (customer prepayments)	−176.0	−44.8	−131.2
Net cash flow	**240.4**	**124.8**	**115.6**
Proceeds/payments for capital expenditure including tangible assets	−235.5	−129.3	−106.2
Proceeds/payments from fixed-term deposits	−315.1	−42.3	−272.8
Cash flow from investing activities	**−550.6**	**−171.6**	**−379.0**

In 2018, we doubled the cash inflow from operating activities to EUR 651.9 million compared to EUR 298.9 million in 2017. The increase of EUR 353.0 million was influenced by prepayments from customers: In 2018, prepayments of EUR 217.2 million were received (previous year: EUR 68.8 million) and EUR 41.2 million were repaid (previous year: EUR 24.0 million). Cash flow from operating activities in 2018 was positively influenced by the balance of the increase and decrease in prepayments received from customers of EUR 176.0 million (previous year: EUR 44.8 million).

Free cash flow is the cash flow from operating activities after deduction of proceeds/payments for capital expenditure including intangible assets.

Cash outflow for capex including intangible assets increased from EUR 129.3 million in 2017 to EUR 235.5 million in 2018. Free cash flow also more than doubled from EUR 169.6 million to EUR 416.4 million despite the significant increase in capex including intangible assets

Net cash flow almost doubled to EUR 240.4 million
Siltronic's management uses net cash flow as an internal control parameter for its operating business. Net cash flow helps to assess the extent to which a company can sustainably finance its investments in capex including intangible assets through its operating business because, unlike free cash flow, it eliminates the time shifts in inflows and outflows caused by customer prepayments. Due to the amount and irregularity of the inflows, such shifts impair the meaningfulness of the free cash flow.

Net cash flow exceeded our expectations. It can be seen from the net cash flow that, even neglecting the high positive contribution of customer prepayments and despite higher payments for capex including intangible assets, the cash inflow in 2018 almost doubled compared with the previous year. Whereas in the previous year there was a net cash inflow of EUR 124.8 million, in 2018 there was a net cash inflow of EUR 240.4 million.

Cash outflows for time deposits and securities
In addition to cash outflows for capex including intangible assets, cash outflows for fixed-term deposits and securities are included in cash flow from investing activities. Net cash outflows for investments in fixed-term deposits and securities amounted to EUR 315.1 million in 2018, compared with EUR 42.3 million in the previous year. Of these investments, EUR 30.0 million have a term of more than one year. The remaining financial assets will be available before December 31, 2019.

Financial management

Principles and objectives

The aim of financial management at Siltronic is to optimize cashflows and ensure that currency effects are hedged in accordance with our policy. Derivatives are used exclusively to hedge cash inflows and outflows resulting from receivables and liabilities.

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

Off-balance sheet financing instruments
Siltronic only uses off-balance sheet financing sources in negligible amounts.

Net financial assets

In EUR million	Dec. 31, 2018	Dec. 31, 2017	Change
Cash and cash equivalents in the short term	661.3	342.1	319.2
Cash and cash equivalents in the long term	30.0	0.0	30.0
Net financial assets	**691.3**	**342.1**	**349.2**

Net financial assets reach EUR 691.3 million
Due to the positive free cash flow of EUR 416.4 million achieved in 2018, net financial assets increased again. Siltronic's net financial assets amounted to EUR 691.3 million as of December 31, 2018 (December 31, 2017: EUR 342.1 million).

The financial investments have a term until January 2020.

ROCE at 58.1 percent

ROCE for 2018 is based on EBIT of EUR 497.7 million (previous year: EUR 235.7 million) and capital employed of EUR 856.9 million (previous year: EUR 751.9 million).

The improvement in ROCE, which rose from 31.3 percent to 58.1 percent, was dominated by the substantial improvement in EBIT. The increase in capital employed is primarily due to the increase in property, plant and equipment.

Liquidity management

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

Summary of financial position

In 2018, the high free cash flow enabled us to further improve our financial position. Net financial assets of EUR 691.3 million provide a solid foundation for our growth strategy.

Limitation of financial risk

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

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

Analysis of capital expenditure

The funds from operating cash flow are mainly invested in existing plants in order to automate or optimize production and increase yields. In 2018, we invested mainly in capacity expansions for 2019, the new chrystal pulling hall in Singapore and further automation of production.

Siltronic AG

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

As the parent company of the Siltronic Group, Siltronic AG is responsible for overall strategic management, financing and communication with the capital market and shareholders.

Siltronic AG is an operating company with production sites in Burghausen and Freiberg and permanent establishments in Taiwan and France.

Wafers and intermediate products are manufactured at the production sites. Intermediate products are sold to subsidiaries and wafers are sold to end customers if (a) they are located in Europe or (b) in Taiwan or if (c) the customer explicitly wishes the customer explicitly wishes to purchase from Siltronic AG. Wafers are sold to other customers by foreign subsidiaries.

In addition to wafers and intermediate products produced by Siltronic AG itself, Siltronic AG also sells wafers that its subsidiaries have produced and that are delivered to customers in (a) Europe or (b) Taiwan or (c) that a customer explicitly wishes to purchase from Siltronic AG. In these cases Siltronic AG acts as a dealer.

Results of operations of Siltronic AG in accordance with the HGB

			Change	
In EUR million	2018	2017	Amount	in %
Sales	**1,066.0**	**866.8**	**199.2**	**23.0**
Changes in inventories and other own work capitalized	−1.6	3.5	−5.1	>100
Total operating output	**1.064.4**	**870.3**	**194.1**	**22.3**
Cost of materials	−421.3	−359.6	−61.7	17.2
Labor costs	−226.9	−212.1	−14.8	7.0
Depreciation, amortization, and impairment	−53.1	−50.4	−2.7	5.4
Other net operating expenses and income	−149.9	−137,4	−12.5	9.1
EBIT	**213.2**	**110.8**	**102.4**	**92.4**
EBITDA	**264.6**	**161.2**	**103.4**	**64.1**
Interest income/expenses	−15.9	−11.1	−4.8	43.2
Investment income	37.0	50.0	−13.0	−26.0
Result before income taxes	**234.3**	**149.7**	**84.6**	**56.5**
Income taxes	−64.8	−11.6	−53.2	>100
Retained earnings	**169.5**	**138.1**	**31.4**	

The increase in revenue by EUR 199.2 million in the financial year 2018 is primarily attributable to higher prices for wafers produced in-house, followed by an increase in trading business. However, the larger area of wafers produced in-house and a slight increase in the volume of intermediate products also contributed to the positive sales trend.

Sales are broken down by region as follows: Asia 59 percent (previous year: 60 percent), Europe 26 percent (previous year: 24 percent), the Americas 13 percent (previous year: 14 percent), rest of the world 2 percent (previous year: 2 percent).

The most important reason for the increase in the cost of materials is the increased trading business. In the trading business, the cost of materials does not result from production costs but from the procurement costs for purchased wafers. The purchase price is only slightly below the selling price, as the company is only entitled to a trading margin in accordance with the limited business risk of a trader.

The cost of material associated with the company's own production, above all for raw materials and supplies, for energy, for packaging, for spare parts and for technical material, increased only slightly.

Personnel expenses rose by EUR 14.8 million, or 7.0 percent, compared to the previous year, because the average number of employees increased and collective pay increases became effective.

The slight increase in depreciation resulted from the start of depreciation of additions to property plant and equipment. There were no unscheduled write-downs neither in the year under review nor in the previous year.

The increase in other operating income and expenses (net) by EUR 12.5 million was caused in particular by higher expenses for temporary employees.

The very pleasing increase of EBIT and EBITDA by EUR 102.4 million and EUR 103.4 million, respectively, is attributable to higher wafer prices realized in the sale of wafers produced in-house.

The financial result is characterized by interest expenses for personnel-related balance sheet items, in particular the provision for pensions.

The investment result results from a distribution by Siltronic Holding International B.V., Netherlands (SHI).

Income tax expense increased compared with the previous year due to improved earnings before taxes. In addition, tax loss carry-forwards could only be used to a limited extent in the year under review in contrast to the previous year.

Net assets of Siltronic AG in accordance with HGB

Assets, in EUR million	Dec. 31, 2018	Dec. 31, 2017	Change Amount	Change in %
Fixed assets				
Intangible Assets	1.4	1.4	0.0	0.0
Property, plant and equipment	329.9	283.3	46.6	16.4
Investments in affiliated companies	129.7	129.4	0.3	0.2
Financial assets	110.0	0.0	110.0	–
	571.0	**414.1**	**156.9**	**37.9**
Current assets				
Inventories	247.2	94.8	152.4	>100
Trade receivables from third parties	94.9	64.1	30.8	48.0
Receivables from affiliated companies	107.8	213.7	–105.9	–49.6
Other assets, excluding time deposits	42.3	29.7	12.6	42.4
Cash and cash equivalents, including time deposits	287.7	257.0	30.7	11.9
	779.9	**659.3**	**120.6**	**18.3**
Total assets	**1,350.9**	**1,073.4**	**277.5**	**25.9**

As capex including intangible assets exceeded depreciation and amortisation, the carrying amount increased by EUR 46.6 million. In 2018, capex including intangible assets amounted to EUR 108.1 million, while depreciation and amortization was significantly lower at EUR 53.1 million.

Investments in affiliated companies relate almost exclusively to the subsidiary Siltronic Holding International (SHI).

Due to the very good development of free cash flow, Siltronic AG was able to significantly increase the volume of financial investments compared to December 31, 2017.

EUR 110.0 million was invested in fixed-term deposits and fund shares, which are to be held for the long term. Despite this investment, short-term cash and cash equivalents including time depositsalso increased by EUR 30.7 million.

Advance payments reported under inventories increased by EUR 156.1 million in 2018. The company made the advance payments to a manufacturing subsidiary whose wafers Siltronic AG sells as a dealer. No borrowing was necessary to finance the advance payment because Siltronic AG itself received an advance payment in the same amount from a customer.

Trade receivables from third parties increased by EUR 30.8 million, as sales increased strongly in the relevant period compared to the previous year.

Receivables from affiliated companies decreased because two subsidiaries repaid loans totalling EUR 90.1 million.

The increase in other assets resulted from an advance payment to the pension fund of Wacker Chemie VVaG.

Financial position of Siltronic AG in accordance with HGB

Equity and liabilities, in EUR million	Dec. 31, 2018	Dec. 31, 2017	Change Amount	Change in %
Equity	**735.6**	**641.1**	**94.5**	**14.7**
Provisions				
Pension provisions	107.6	121.2	−13.6	−11.2
Other provisions	140.3	107.8	32.5	30.1
	247.9	**229.0**	**18.9**	**8.3**
Liabilities				
– Trade payables to third parties	33.7	28.6	5.1	17.8
– To affiliated companies	80.1	103.1	−23.0	−22.3
Other liabilities	253.6	71.6	182.0	>100
	367.4	**203.3**	**164.1**	**80.7**
Total equity and liabilities	**1,350.9**	**1,073.4**	**277.5**	**25.9**

As of the balance sheet date, 54 percent of the assets were financed through equity and 46 percent through debt.

Other provisions were higher than at the end of 2017 because the provision for outstanding invoices increased in the few months prior to the balance sheet date against the backdrop of more extensive investment activity and because the tax provision increased.

The main reason for the decrease of EUR 23.0 million in liabilities to affiliated companies is that the total of financial settlement accounts with subsidiaries decreased.

The increase in other liabilities by EUR 182.0 million is almost entirely attributable to advance prepayments, which Siltronic AG has received from customers outside the group and relate to future deliveries of wafers.

Net financial assets as of December 31, 2018 amounted to EUR 259.6 million after EUR 282.1 million in the previous year.

Siltronic AG's cash flow from operating activities amounted to EUR 247.9 million in 2018 after EUR 227.7 million in the previous year. Payments for capex including intangible assets amounted to EUR 90.6 million in 2018, compared to EUR 99.4 million in the previous year.

Chances and risks

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

Outlook

The expectation for the further business development of Siltronic AG in 2019 is essentially identical to the outlook of Siltronic Group, which is described in detail in the forecast report of the Group.

Non-financial performance indicators

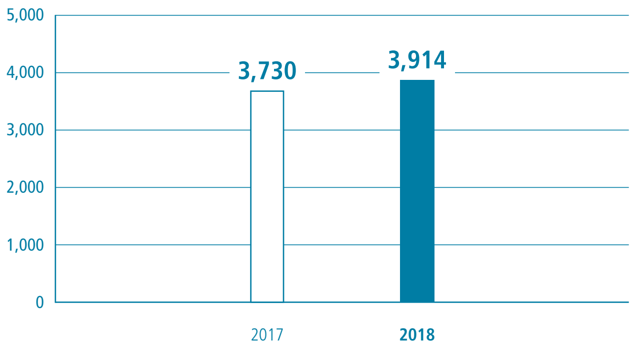
Employees

The work of our employees, who contribute their skills and passion for silicon wafers on a daily basis, forms the basis for our company's success.

As of December 31, 2018, Siltronic had 3,914 employees. Compared to the previous year (3,730 employees), the number of employees thus increased by 184 or just under 5 percent. In addition, 715 temporary employees were employed worldwide as of December 31, 2018 (previous year: 709).

As a manufacturing company, we have a high proportion of direct personnel. In 2018, this figure was around 65 percent.

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



Global personnel strategy and decentralized organization of personnel management
Our human resources management is organized on a decentralized basis to meet the different needs of employees at the individual locations and in the regions. The guidelines of our global human resources strategy, such as executive development and talent management, the performance-related design of our compensation system and the internationally oriented organization form the cross-site framework. In general, the strategic corporate guidelines and in particular the compliance guidelines must be observed.

Data protection
The personal protection of every employee in a company is a prerequisite for trustful cooperation. Siltronic has extended its measures to protect personal data in the wake of the new European Data Protection Ordinance (GDPR), which came into force on May 25, 2018. For example, a guideline on data protection for the company was formulated and a new compulsory training course on data protection was created. The aim is to treat personal data in accordance with the principles of legality, good faith, transparency, purpose limitation, data minimization, accuracy, storage limitation, integrity and confidentiality and accountability. This is what Siltronic is committed to.

Diversity is an important topic
One focus of our efforts is to take advantage of the existing diversity of modern society. In Germany and at Siltronic AG, our striving for diversity can be seen in the following examples, among others:

All employees at the German sites are obliged to familiarise themselves with the General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – AGG) through e-learning training. The training is binding for all hierarchy levels, from the Board of Management to employees covered by collective bargaining agreements. Every new employee must also complete this training.

We take the issue of the advancement of women very seriously. Special attention is paid to the number of applications from women in order to successively increase the quota of women in the company.

We support and encourage severely disabled people. Supervisors, employees, the human resources department, representatives of severly disabled and the health service work closely together so that employees with impaired health can stay at their workplace or change to a suitable position. This enables us to retain skilled personnel and retain many years of valuable knowledge at Siltronic. In Germany, an average of 216 severely disabled and equal people worked in 2018 (2017: 216), which corresponds to an employment rate of around 8 percent.

We also cooperate with workshops for the disabled. At our Burghausen site, for example, Siltronic purchases packaging from the Ruperti workshops.

We are committed to childcare and the return to work after a baby break. In Burghausen and Freiberg there are kindergarten and day nursery places available close to the factory. At its Munich location, a service provider offers childcare places in kindergartens and crèches.

We support our employees in the costs of childcare with a one-off subsidy. In addition, our employees can apply for family leave for their children up to the age of 8, which allows up to 5 days of additional leave. Since 2017, one-week childcare has been offered during the summer holidays.

We also offer support with leave options or part-time models in the event of illness or when caring for a relative becomes necessary.

We reward the performance of our workforce

Our employees develop innovations, successfully implement strategies and give the company an unmistakable identity. A common vision and actively lived company values stand for a feeling of unity and offer orientation in our daily work and actions.

We want to reward our employees' contribution to the company's success with variable remuneration systems. We review remuneration through regular benchmarks. In this way, we ensure that we offer our employees a salary that is in line with the market and related to performance and responsibility.

In addition to the fixed basic salary with vacation and Christmas bonuses, employees usually receive a variable remuneration based on the success of the company. This benefit is paid to employees covered by collective wage agreements and those not covered by collective wage agreements. At our German sites, we have collective agreements and company-related collective agreements with the German Mining, Chemical and Energy Industrial Union (IG BCE). Our constructive and trusting cooperation with the works councils at the German sites and the IG BCE is the basis for a targeted social partnership. This is reflected not least in the fact that there have been no strikes or work stoppages at our German sites in recent years.

In 2018, IG BCE and the employers in the chemical industry agreed on collective bargaining agreements with a term of 15 months, which provide for a wage increase of 3.6 percent. The holiday bonus will also be almost doubled from 2019 (EUR 1,200/year for full-time employees).

On the occasion of our 50th anniversary, our employees received a one-time anniversary payment of up to EUR 1,200, depending on the length of service.

Employee development has high priority

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

Employee Survey "Your Opinion Counts"

Three years after the last survey in Germany, we conducted another employee survey in 2018 as an instrument for actively shaping change processes. The participation rate was an impressive 69 percent. The results were presented in various workshops and group meetings and appropriate measures were derived. The focal points in this follow-up process are the more intensive use of ideas from the workforce, an increased appreciation of the employees as well as the improvement of the departmental and cross-location cooperation.

Personnel marketing concept for the recruitment of new employees

Since 2017, we have been represented at various recruiting fairs with our own stand to present Siltronic as an employer brand and to advertise our vacancies. As part of the modernization of our Internet presence, the career page was also adapted to present all the important information for applicants in a bundled format. The cooperation with social media providers also enables us to attract a wider public to our varied workplaces.

Training as a contribution to ensuring sustainable skilled manpower in Germany

Since 2017, we have been training in technical and commercial professions in cooperation with the Berufsbildungswerk Burghausen and the Bildungswerkstatt Chemnitz. The vacant training positions for 2019 have already been filled successfully in 2018.

Health management offers employees various services in Germany
In order to remain innovative and competitive, our employees have the opportunity to make use of various services via our health management. We want to prevent back and cardiovascular diseases in our workforce, strengthen mental resilience, enable age-appropriate work and provide suitable jobs for employees with limited health. All employees at our German sites have the opportunity to take part in preventive medical check-ups at regular intervals.

In 2014, Siltronic, in cooperation with Deutsche Rentenversicherung (German Pension Insurance), launched a measure to maintain health, initially specifically for shift employees. Since then, more than 200 employees have successfully completed the health program. The target groups were continuously adjusted and in 2019 this offer will also be extended to all employees covered by collective bargaining agreements. The prevention program is suitable for employees who have no or few health problems, who want to maintain their resilience in the long term and get in better shape. In addition, a health week has been offered since 2018, which is designed as a prevention program aimed at employees over the age of 40 and financed by the company.

We also offer all employees a health check, which is carried out free of charge every 3 years.

Research & development

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

Key figures for R&D

	2018	2017	2016	2015
R&D expenditure (EUR million)	68.1	68.3	66.4	64.4
R&D expenditure as a percentage of sales	4.7	5.8	7.1	6.9
R&D grants and subsidies received (EUR million)	0.5	0.8	0.6	0.6

Intensive development activities are therefore essential in order to keep pace with the rapid rate of development in the semiconductor market and to maintain our position as a technology leader. Worldwide, we employ more than 400 engineers in process engineering, metrology, IP and innovations. They are based at all of our sites. The Burghausen site is Siltronic's central development center. Tasks range from product quality assurance and testing and assessment of new technologies and equipment modifications to continuous improvements, line integration, and the qualification of wafers for our customers' latest technologies.

Intellectual property including 1,770 registered patents and patent applications in 331 patent families underlines our great innovative strength and secures our leading technological position in the global market.

Our expenses for research and development (R&D) amounted to EUR 68.1 million in 2018 (2017: EUR 68.3 million). Funding for R&D was not significant.

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

Production and supply chain management

Production

Our production plants are strategically located close to our customers and offer us good access to a very well-trained workforce. We can make optimum use of the respective strengths at our locations. We benefit from the innovative strength of excellently trained scientists and engineers in Germany and from the advantageous labor costs in Asia.

We process silicon crystals produced using the Czochralski process into polished wafers. A part of the production is further refined with the application of a so-called epitaxial layer.

Siltronic also produces wafers from crystals which are grown using the floatzone process and which are used in particular in power electronics. These wafers have different surface properties and diameters of up to 200 mm.

We use standardized processes to reliably supply our customers from different locations. Through the transfer of know-how between production sites, we implement process improvements quickly and easily and simplify qualification by our customers. In addition, we operate our German 300 mm wafer lines in Freiberg and Burghausen in a close production network as a so-called "virtual factory" with a joint, cross-location management.

We continuously optimize our production processes and thus our process capability as well as our cost position. Changes are tested, evaluated and efficiently introduced into the production lines via consistent change management. In doing so, we pay particular attention to ensuring the quality of our products and the cost-effectiveness of our lines. State-of-the-art technologies are an integral part of our factories and enable us to respond flexibly to the requirements of our customers.

Projects 2018

In 2018, we started individual projects for debottlenecking our lines. We are consistently continuing our automation projects to improve our cost position. The 2018 projects mainly comprised the capacity expansion in 2019, the construction of the new chrystal pulling hall in Singapore and the improvement of our capabilities.

Supply Chain Management

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

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

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

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

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

Purchasing and supplier management

Our goal is to optimize our procurement costs, delivery times and the quality of our suppliers, to ensure the supply of our production at all times and to eliminate procurement risks as well as to quickly develop additional supply potentials. Specialized teams control purchasing processes from raw materials and supplies for our products to gas and electricity as well as technical materials and specific services to supply our international locations. In 2018, we continuously worked on a competitive expansion of our supplier base in the global procurement markets. For example, we identified and developed new suppliers in product areas that are important to us and gradually introduced them to series production. This enables us to secure internationally competitive material costs, continuous improvement of quality and service in deliveries and adequate security of supply.

Systematic risk and performance monitoring is an important tool for Siltronic to correctly evaluate supplier relationships, assess risks and take appropriate measures. This involves using analyses from rating agencies, our own supplier evaluations and, increasingly, direct contact with our partners. Through our purchase team, we continuously evaluate and assess the performance of over 100 suppliers.

Due to higher capacity utilization, the order volume of EUR 727 million in 2018 was significantly higher than in the previous year (2017: around EUR 571 million). The agreed delivery qualities, quantities and dates were realized by our suppliers at a very high level. Worldwide, Siltronic placed more than 61,300 purchase orders. In the area of procurement and logistics, 8 percent of our suppliers account for around 90 percent of our procurement volume.

E-procurement is very important to us. We can look at the entire purchasing process, from sending an inquiry to a supplier to paying the invoice. A key metric is the number of purchase orders created automatically. More than 111,400 different purchase order items were requested worldwide in 2018 (2017: around 99,000 items). At our German sites, around 74 percent of the total number for 2018 were created automatically and thereof around 37 percent via eCatalog.

Variation in material price movements
In 2018, the price trend for our most important materials and raw materials was again slightly lower. In the area of specific input materials, further reductions were achieved through various measures. Currency effects also had a significant positive impact on procurement in 2018.

Security from long-term agreements
We have secured Wacker Chemie AG's supply of polysilicon to our German sites with a long-term supply contract until 2022. A specific contract between Wacker and our Singapore site will ensure a stable supply of polysilicon to Siltronic Singapore until 2022. Overall, primarily Wacker supplies the Siltronic Group with polysilicon. On an annual basis the polysilicon price is negotiated between Siltronic and Wacker within a determined price corridor on the basis of the prior year's price. As part of our multiple supplier strategy, we can also use alternative sources of supply.

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

We work with over 3,800 suppliers worldwide (2017: 3,450). Asian suppliers continue to account for about 20 percent.

Our suppliers make a significant contribution to Siltronic's ability to produce wafers with improved processes and high innovation in the quality demanded by customers. In 2019, at our two-year Suppliers' Day, we will again honor suppliers for their outstanding performance in 2018.

Sales and marketing

We strive for close and long-term collaboration with our customers. Overall, we supply customers in more than 40 countries. We also run joint development projects with many of our customers, details of which can be found in the chapter on R&D starting on 🗋 59.

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

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

The contracts with our customers have different terms, ranging from around three months to more than one year. In 2018, we signed several multi-year contracts with customers for 300 mm as well as 200 mm and smaller diameter wafer delivery.

We permanently evaluate market information, which enables us to continuously sharpen our focus on our customers and their requirements, optimize use of our resources, and stay on top of market developments.

With the majority of our customers, we share long-standing partnership built on trust and cooperation. This is also reflected by the multiple awards which we have received from our customers. In 2018, for example, we received the Preferred Quality Supplier Award from Intel for the eighth time in a row.

Corporate social responsibility (CSR)

We believe one of our core responsibilities is to bring the impact of our business activities towards our employees, environment and society into line with the expectations and needs of our relevant stakeholder groups.

That is why we are guided in our business decision-making by principles of responsible corporate governance and sustainable business practice.

Further information on this topic "Corporate Responsibility" is stipulated in our non-financial report, which follows the Reporting Standards of the Global Reporting Initiative (GRI) and the United Nations "Sustainable Development Goals".

Risk and opportunity report

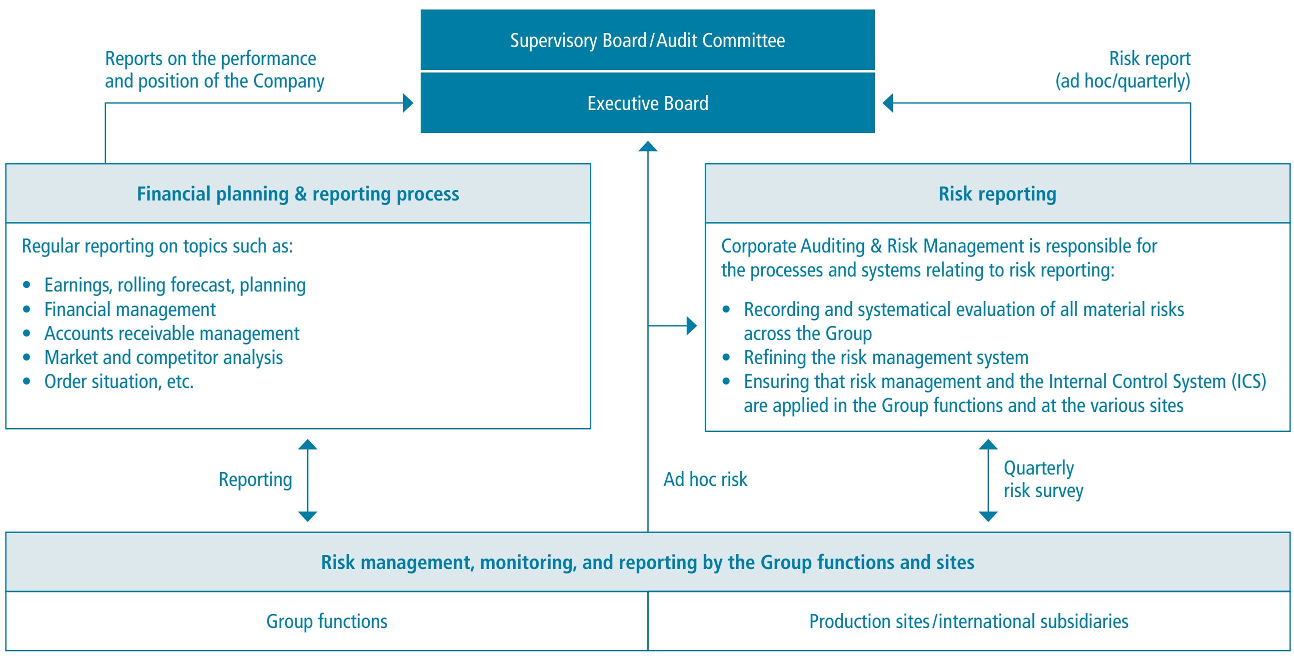
Risk strategy and risk policy

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

Risk management system

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

Risk reporting



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

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

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

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

Based on the risks recorded quarterly or ad hoc, suitable measures are taken to avoid the identified risks or to reduce their probability of occurrence or possible economic damage. The measures derived to limit risks and any relevant early warning indicators, as well as the residual risks derived from them, are regularly updated and centrally documented.

Internal control system in the consolidated accounting process

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

With the internal control system relating to the accounting process, we pursue the goal of uniformly implementing the accounting and valuation rules of the International Financial Reporting Standards (IFRS) and of complying with supplementary statutory regulations relevant to accounting. This avoids misstatements in Group accounting and in external reporting. The control system is designed to ensure that all business transactions are accounted for in a timely, uniform and accurate manner and that reliable data on the Group's net assets, financial position and results of operations are available on an ongoing basis. The organizational responsibility and the process flow of topics relevant to accounting are regulated in internal instructions. Compliance with reporting obligations is monitored centrally by the Group function "Accounting". Once approved by the local management team, the reporting packages of the individual companies are posted to a centralized consolidation system. This data is automatically validated by the system and checked using reports and analyses, thereby ensuring the integrity of the data and adherence to the reporting logic. System-based checks are also built into the consolidation process. Finally, we analyze the Group's statement of profit or loss and statement of financial position in order to identify trends and anomalies. We keep abreast of changes to financial reporting standards and train the employees who work in this area. For particularly complex aspects of accounting, such as pensions, we bring in external specialists. Our financial systems are protected against misuse by suitable authorization concepts, approval concepts, and access restrictions. We minimize the risk of data loss and of the failure of accounting-relevant IT systems by performing regular system back-ups and maintenance.

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

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

Material risks

The following summary contains our assessment of the probability of occurrence of material risks. The statements refer mainly to the period covered by the outlook, i.e. the whole of the 2019 financial year. The evaluation of the risks in the overview is based on the so-called net principle, i.e. taking into account the control and safeguarding measures.

Overall environment

Global economic downturn

Our business is particularly dependent on the development of the global economy. Global economic growth could be adversely affected by short-term trade and customs disputes, among other things. An unexpected slowdown in economic development both globally and in regions that are important for the electronics industry could lead to a situation in which our sales revenues do not develop as expected. The demand for silicon wafers could be reduced due to a lack of demand or we could be forced to lower our prices due to stronger competitive pressure. If production capacity utilization is lower, specific manufacturing costs may increase and additionally burden our earnings.

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

External risk

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

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

Industry and market risks

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

The wafer industry is characterized by phases of imbalance between supply and demand, which can regularly have an impact on prices. The forecasts for sales volumes and prices are subject to a high degree of uncertainty due to the fluctuations in demand that can often be observed. Competitors could expand production capacities earlier or more than expected. We may be forced to reduce our sales volumes and prices without being able to reduce our costs accordingly. Our top 10 customers already account for more than two thirds of our sales, and we expect their share of sales to increase further. Should major customers significantly reduce or even terminate their orders with us, this could have a significant negative impact on our net assets, financial position and results of operations.

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

Adaptation of our production facilities to customer requirements and demand

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

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

Additional costs from closing production lines

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

Product development risk

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

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

Procurement market risk

Raw materials, energy, other secondary materials, machinery and spare parts are only offered by a limited number of suppliers. Due to general cost pressure and complexity, cooperation will become increasingly intensive and interdependencies will increase. The strong order situation in most industries and thus high capacity utilization at suppliers increases delivery times and failure risks, as well as price pressure in the supply chain. Quality defects, supplier failures or delays in delivery and unexpected price increases can have negative effects on production, sales and earnings, and the necessary qualification of new suppliers can take a long time.

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

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

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

Production risk and product liability risk

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

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

Legal and regulatory risk

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

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

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

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

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

Siltronic Corp., USA, has been a party to several administrative proceedings with the local environmental authority DEQ (Department of Environmental Quality) in Oregon and the national environmental authority EPA (US Environmental Protection Agency) for several years. The proceedings concern two environmental issues. The first is a soil survey of the Siltronic Corp. property in Portland and the second is a survey to determine whether the Company is jointly responsible for the contamination of the Willamette River sediments adjacent to the property. The costs incurred to date for the two environmental issues have been borne by two insurance policies with which Siltronic has taken out policies. In addition, both insurers have provided Siltronic Corp. with a mid double-digit million USD amount for future costs. In addition, policies covering environmental damage are in place with other insurance companies. The risk resulting from the environmental issues in Portland is considered to be low, given the many years of experience with this issue and the communication with the parties involved, in particular DEQ and EPA.

Regulatory risks
The regulatory environment in the energy sector is characterized by repeated legislative adjustments. We believe it is possible that there may be further burdens in the future, for example on grid usage fees. The impact of such changes on earnings would probably be low in 2019.

Security of the IT systems; data security

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

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

IT carve cut Siltronic

In 2019, we will transfer key IT services from Wacker Chemie to new service providers. This also includes a technical separation of the systems. The risk of an interruption of the IT systems is reduced with proven methods. The know-how transfer is controlled, system separations and new workstation systems are implemented step by step.

HR risk

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

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

Pension risk

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

In Germany, a large part of the company pension commitments is covered by the Wacker Chemie VVaG pension fund. In addition, we have set up a trust fund to proportionately secure the pension obligations from direct commitments, deferred compensation as well as the pension adjustment from the basic provision. We paid EUR 30 million in cash into this trust fund in 2018. In the USA, a hedge is provided by pension funds. The investment portfolio is diversified to ensure a sufficient return on assets and to limit investment risks. As one of the sponsoring companies of the pension fund, Siltronic makes demand-oriented financial contributions to the pension fund. In future, the return on capital employed will probably not be sufficient to meet pension obligations in the long term.

Financial risk

Credit risk

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

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

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

We use financial instruments to address and manage the financial requirements and risks that are a necessary part of our operating activities. Hedging is based both on operating activities that have already been posted and on future cash flows. Having production facilities outside the eurozone also helps us to counter currency risk. Translation risk, i.e. valuation risk resulting from the translation of line items in foreign currency on the statement of financial position, is not hedged. An overview of the derivatives in existence as of the reporting date and further information regarding the management of financial risks can be found in the notes to the financial statements under note 15.

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

Opportunity report

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

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

Macroeconomic and industry-specific opportunities

Securing high profitability
Siltronic aims to secure its earning power in the long term and to continue to grow. The focus region for us remains Asia. Increasing prosperity in Asia and in emerging markets in other regions is driving demand for higher-value products in which semiconductors are used. The focus is particularly on automotive, industrial applications, smartphones, tablets and consumer electronics. We want to accompany this growth with innovative products. In addition to increasing prosperity, rising data volumes and the ever more complex and versatile requirements placed on electronic components and the resulting increase in space requirements per component are key growth drivers in our market environment.

Since the end of 2016, our capacities have been fully utilized and we have been able to implement further price increases on the market. We expect prices to stabilize at a high level because of rising demand and high investment costs to build new capacities.

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

Presence at all wafer consumers

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

Strategic and business-performance opportunities

Sound financial position

The good financial situation enables us to react flexibly and quickly to strategic options as they arise in the event of market and industry developments. The investment focus is on systems for the production of wafers with higher requirements, further automation and market-oriented capacity expansion. Our goal is to participate in market growth.

Maintain technology leadership

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

Continuous improvement to cost structures

Due to the strong global economic growth, we are feeling a general pressure of increased costs. Siltronic is therefore investing more heavily in the automation of existing plants and processes in order to further improve its cost position.

The Executive Board's assessment of overall risk

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

Risk assessment for 2019

	Probability of occurrence				Financial and economic impact			
Risk	Unlikely	Possible	Likely	Change from AR 2017[1]	Low	Moderate	High	Change from AR 2017[1]
Overall environment								
Economic downturn		•		→			•	→
External risk	•			→		•		→
Industry and market risk								
Competition, demand controlled by customers, threat of substitute products, cyclicality of the wafer market		•		→			•	→
Adaptation of production facilities		•		→		•		→
Additional costs from closures	•			→		•		→
Product development risk		•		→		•		→
Procurement market risk		•		→		•		→
Production risk and product liability risk		•		↑		•		→
Legal and regulatory risk								
General legal risk		•		→		•		→
Risk relating to environmental laws	•			→		•		→
Regulatory risk	•			→	•			→
Security of IT systems and data		•		→		•		→
HR risk	•			→	•			→
Pension risk	•			↓		•		→
Financial risk								
Credit risk financial institutions	•			→		•		→
Credit risk customers	•			→	•			→
Market risk/currency risk		•		→			•	→
Liquidity risk	•			→	•			→

[1] AR: Annual Report → unchanged ↑ increased ↓ decreased

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

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

Outlook

Expected macroeconomic trends

The International Monetary Fund's (IMF) forecast for global growth in 2019 is close to the 2018 figure (2018: 3.7 percent expected, 2019: 3.5 percent forecast) despite uncertainties due to new political developments. The outlook for emerging and developing countries has remained relatively stable. Nevertheless, the IMF also points out that there are risks and uncertainties for the further development of the global economy.

In the euro zone, the signs continue to point to moderate growth of 1.6 percent for 2019 (2018: 1.8 percent expected).

For Germany, the IMF forecasts sustained stable growth of 1.3 percent for 2019 (2018: 1.5 percent expected). According to the IMF, the US economy is expected to grow by 2.5 percent in 2019 (2018: 2.9 percent expected). For Japan, on the other hand, the IMF predicts stable economic growth of 1.1 percent in 2019 compared with the previous year (2018: 0.9 percent expected). For China, the IMF is forecasting weaker growth of 6.2 percent.

Siltronic assumes that the wafer area sold in the semiconductor industry during the first half of 2019 will be lower than in the second half of 2018. However, the market environment is expected to recover in the second half of 2019.

Sources:
IMF (World Economic Outlook, January 2019, Release January 7th, 2019)

Siltronic's future performance

Siltronic does not plan any significant changes in its corporate goals and strategy. We will continue to focus on expanding our technology leadership, maintaining our quality leadership and continuing our program of operational excellence and cost reduction, as well as high profitability and stable cash flows in the short and long term.

There will be a change in the key financial performance indicators for the Siltronic Group in 2019. Since capital employed has fallen unusually sharply due to the low level of capital expenditure in the past decade and ROCE at almost 60 percent no longer seems meaningful, EBIT is much better suited as a key performance indicator. EBIT will therefore replace ROCE as a measure of earnings.

As of 2019, the most important financial performance indicators will be:

- EBITDA margin
- EBIT
- Net cash flow

From today's perspective, the most important key financials will develop in 2019 for the group as follows:

EBITDA margin to be slightly below last year's level
We expect that our EBITDA margin in 2019 will be slightly below the previous year's level.

The forecast for the EBITDA margin is based on the following assumptions concerning other financial performance indicators:

Sales in 2019 will be in the region of the previous year
From today's perspective, for 2019 Siltronic's Executive Board expects that the wafer area sold in the first half of 2019 will be below that of the second half of 2018. We currently expect the market environment to recover in the second half of 2019.

We were able to realize further price increases in 2018. We expect average selling prices in 2019 to be slightly higher than in 2018.

With a EUR/USD exchange rate of 1.18 and a EUR/JPY exchange rate of 130, the currency effects on sales and EBITDA are negligible in 2019.

Based on the above assumptions, sales for the full year are expected to be in the region of the previous year.

Research and development (R&D) approximately 5 percent of sales
To maintain our innovation and competitiveness in the long term, we aim to continue to invest approximately 5 percent of sales in R&D.

Further optimization of cost items
We intend to continue our cost-cutting programs, which have been in place for years, and plan to continuously review and optimize our key cost items in the future as well. In 2019, we expect a negative effect from tariff increases and around EUR 20 million from rising electricity costs.

Depreciation above previous year
We expect depreciation to increase by around EUR 20 million in 2019 as a result of increased capital expenditure.

EBIT below previous year
Since we expect business to develop moderately in the first half of 2019 and EBIT will be burdened by higher depreciation of around EUR 20 million and higher electricity costs in Germany of around EUR 20 million, we expect EBIT in 2019 to be a good 10 percent below the previous year's figure.

Tax rate
The tax rate is expected to be between 15 percent and 20 percent.

Financial result unchanged
Interest expense mainly results from the discounting of pensions and is expected to remain approximately stable compared to 2018.

Investments in capacity, automation and capabilities above previous year
Due to the pleasing price development and on the basis of long-term contracts signed with customers we will increase the 300 mm capacity by 70,000 wafers per month in 2019 and in 2020 in a further expansion step. In addition, we started construction of a new crystal pulling hall in Singapore in 2018 and will start installing the crystal pulling equipment after completion of the construction phase. We are also investing in additional epitaxial reactors. We will continue with automation projects already underway and investments in our capabilities. We are planning investments of around EUR 350 million for the 2019 financial year. The projects already started will thus be completed on schedule. In 2020, the investments will decline significantly.

Clearly positive net cash flow
In 2019, we expect net cash flow to be clearly positive. Due to the higher investments, however, it will decrease by approximately EUR 100 million compared to 2018. In 2020, the net cash flow will rise significantly again.

Earnings per share to decline slightly
Earnings per share will decline slightly in the financial year 2019.

The actual development of the Group may deviate, either positively or negatively, from our assumptions.

Overall statement by the Executive Board on expected performance

At the time of preparing the combined management report for 2018, the Executive Board expects Siltronic to continue to operate successfully in the market in 2019.

We expect 2019 to start at a slower pace than in the last two years. The beginning of 2019 is marked by political and macroeconomic uncertainties and a more cautious business outlook from our customers. We are, however, convinced by the underlying long-term growth trend in the wafer business due to the diverse end-use applications.

Forecast for 2019

EBITDA margin	Slightly below the previous year
Sales	In the region of the previous year
FX effects	Assuming a EUR/USD exchange rate of 1.18 and a EUR/JPY exchange rate of 130, currency effects on sales and EBITDA are negligible compared to 2018
R&D	Approximately 5 percent of sales
Cost positions	Negative effect on savings potential due to wage and salary increases and EUR 20 million higher electricity costs in Germany
Depreciation and amortization	Around EUR 110 million
EBIT	Due to the moderate business development in the first half of 2019 and increased depreciation as well as higher electricity costs a good 10 percent below the previous year
Tax rate	Between 15 percent and 20 percent
Financial result	On the previous year’s level
Capital expenditure	Around EUR 350 million in capacity, automation and capabilities
Net cash flow	Clearly positive, but due to increased investments approx. EUR 100 million below the previous year
Earnings per share	Slightly below the previous year

Remuneration report

The following remuneration report forms part of the combined management report and the consolidated financial statements.

Executive Board compensation system

Both the compensation system itself and the amount of compensation received by the members of the Executive Board are determined by the full Supervisory Board at the proposal of the Executive Committee and regularly reviewed for suitability.

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

Non-performance-related components

Fixed annual basic salary

The members of the Executive Board receive a fixed annual basic salary, which is paid in twelve equal installments at the end of each month. (Dr. Christoph von Plotho: EUR 550,000; Rainer Irle EUR 360,000).

Fringe benefits

Fringe benefits include the cost of non-cash benefits and other fringe benefits such as, amongst others, the provision of a company car, attorneys' fees to be reimbursed, to health and long-term care insurance contributions and the establishment of a private pension scheme as well as costs connected with medical check-ups and other insurance policies and, if applicable, their pecuniary advantage.

Performance-related components

Members of the Executive Board are entitled to a performance-related bonus consisting of a cash-based mid-term incentive (MTI) with a two-year assessment period (one year retrospectively and one year forward-looking) and a share-based long-term incentive (LTI) with a four-year assessment period (one year retrospectively and three years forward-looking). The basis for granting both the MTI and the LTI is the achievement of the performance targets, which are set by the Supervisory Board for each fiscal year and determined by the Supervisory Board in advance. Unless otherwise specified, performance targets relate to the following performance categories: ROCE (30 percent), plan EBITDA (30 percent), EBITDA margin (20 percent), and plan net cash flow (20 percent). The ROCE and EBITDA margin performance indicators represent longer-term targets to be achieved on average over the entire economic cycle, whereas planned EBITDA and planned net cash flow are redefined each year.

Starting in the financial year 2019, the benefit categories will be realigned and will in future comprise planned net cash flow (25 percent), normalized for non-operating effects, planned EBIT (25 percent) and EBITDA margin (50 percent). A positive net cash flow is particularly important in a cyclical industry. The main factors influencing this performance category are cost performance, good working capital management and an appropriate investment policy. On the other hand, factors of a non-operating nature, such as the inflow and outflow of customer prepayments and changes in non-operating current assets (e.g. due to insurance benefits) are not taken into account in the benefit category. The planned EBIT replaces the previous benefit category ROCE, as the capital employed has fallen sharply over the past decade as a result of low capital expenditure in the past decade and the informative value of the previous KPI has thus declined. The importance of the longer-term EBITDA margin target is set to increase in the future. The target set by the Supervisory Board for this performance category is based on the average margin level of the most important wafer manufacturers over a period of several years.

The aim is to ensure that the company achieves a demanding performance compared with other companies in the industry. The Supervisory Board is entitled to determine other or further suitable performance categories and targets for future assessment periods. These may also include personal targets for each individual member of the Executive Board. The Supervisory Board determines a target value, a minimum value, and a maximum value for each performance category. The target value corresponds to a target achievement of 100 percent, i.e. a target achievement factor of 1. The annual total target achievement factor corresponds to the weighted total of the target achievement factors in the performance categories.

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

MTI cash components

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

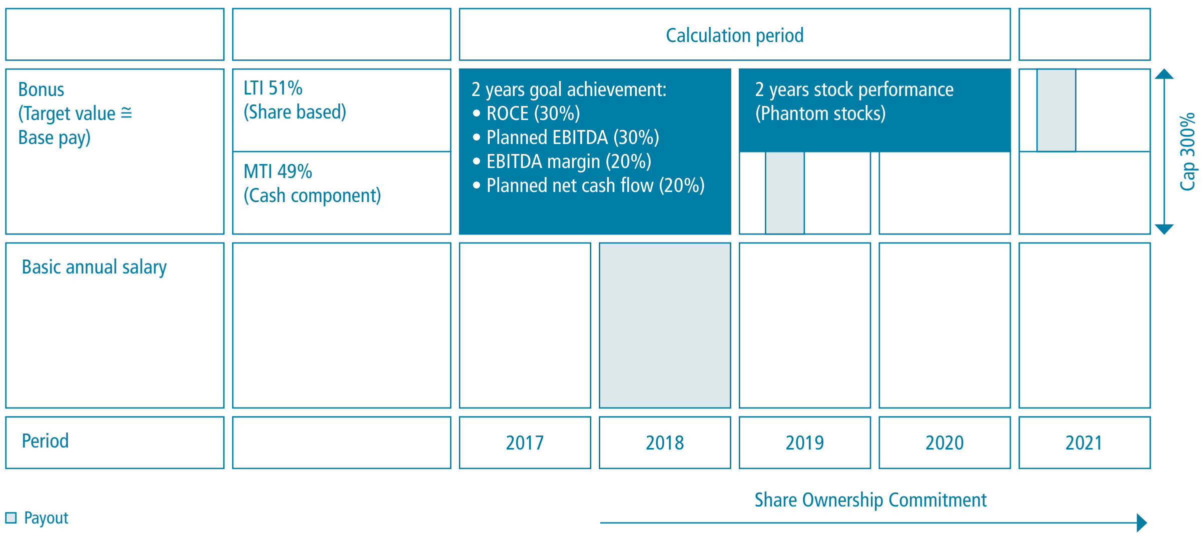
Long-term share-based components: LTI

51 percent of the bonus basis is initially converted into phantom stocks as an LTI, based on the average weighted Xetra closing price of the Company's shares on the Frankfurt Stock Exchange on the last 30 trading days of the compensation year. The phantom stocks are held for a period of two years from the end of the compensation year. The LTI is settled in cash. The amount of the cash settlement is calculated according to the average weighted Xetra closing price of the Company's shares on the Frankfurt Stock Exchange on the last 30 trading days of the second fiscal year following the compensation year. Dividend paid out during the holding period for real shares will be added to the cash settlement. The amount of the LTI is determined by the Supervisory Board within the first three months of the following financial year. The LTI is payable with the fixed salary for the month following the month of detection.

Maximum amounts of compensation

In addition to the maximum amounts for the bonus basis of 260 percent of the respective average annual basic salary (if the discretionary adjustment option of the Supervisory Board is fully utilized), a maximum amount for the bonus of 300 percent of the relevant average annual basic fixed salary was agreed upon. The resulting maximum amount of compensation for the compensation year 2018 is EUR 2,200,000 for Dr. Christoph von Plotho and EUR 1,440,000 for Rainer Irle, in each case plus pension expense and fringe benefits.

System of Management Board remuneration



Further regulations of the compensation system

Share ownership commitment

A further key component of the Executive Board compensation system is constituted by the obligation of the Executive Board to hold shares. Dr. von Plotho and Mr. Irle are obliged to continously hold at least 5,000 or 3,500 shares respectively during their periods of service as members of the Executive Board. On the day when the Executive Board member service agreements which form the basis of the obligation to hold shares were signed, the value of the shares acquired from taxed income and of the shares subject to the holding obligation amounted to EUR 442,950 and EUR 310,065 respectively. Along with the high proportion of share-based compensation in the context of LTI, an additional incentive for the sustainable development of the company's value has been established that goes beyond the assessment period.

D&O insurance and criminal law insurance coverage

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

Pension commitments

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

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

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

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

Loans and advances

No loans or advances were granted to members of the Executive Board during the year under review.

Commitments in conjunction with termination of employment of the members of the Executive Board

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

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

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

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

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

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

Ratification of the remuneration system by the 2018 Annual General Meeting

The Executive Board remuneration system that has been applied to the members of the Executive Board since the fiscal year 2017 was ratified by the regular Annual General Meeting on April 19, 2018. From the standpoint of the corporate bodies, the approval rate of 64.2 percent was unsatisfactory. A number of institutional investors and consultants on share voting rights voiced the criticism, for instance, that the discretionary factor of the Supervisory Board described above in assessing the bonus basis of 0.7–1.3 is too great, the performance period of virtual shares of two years too short, and that no clawback provision had been agreed. In response, the Supervisory Board has issued the following statement:

– The discretionary factor allows the Supervisory Board to take into account, at its dutiful discretion, extraordinary developments outside the sphere of influence of the Executive Board and the reaction of management to dynamic changes in the business environment that were not foreseeable at the time the targets were set. The Supervisory Board intends to make sparing use of the discretionary factor.
– The holding period of virtual shares of two years follows a two-year assessment basis so that, in total, incentivization is ensured over a period of more than four years. Compensation by way of virtual shares is also flanked by the aforementioned obligation to hold shares, which establishes an additional incentive for a sustainable increase in value that goes beyond the assessment basis.
– With certain types of clawback provisions, a legally incontestable form has not yet been ensured. Clawback provisions for remuneration components paid out constitute an intervention in the contractual equivalence ("earned is earned"). Furthermore, German stock corporation law fundamentally provides for unlimited liability in the event of dereliction of duty so that a need for contractual clawback would appear redundant. In order to take account of investor requirements on the one hand and legal uncertainty on the other, Siltronic has chosen a middle path with a clawback mechanism anchored in the remuneration system. The entitlement to variable compensation expires if the employment contract of the Executive Board member expires due to termination by the Company for good cause before the end of the compensation year or before the number of phantom stocks has been determined by the Supervisory Board for the compensation year.
– Moreover, additional legal requirements in implementing the European Shareholder Rights Directive can be expected in the near future. The intention is to present the Annual General Meeting with an adjusted remuneration policy for approval once these statutory regulations have been enacted.

Total compensation of Executive Board members for the 2018 fiscal year

The relevant average of the total target achievement factors for the performance categories of the compensation year and of the previous fiscal year was set at 2.0 percent and 200 percent (average based on the total target achievement in 2018 amounting to 2.0 percent and the 2017 total target achievement of 2.0 percent) as the bonus basis by the Supervisory Board in its meeting on March 1, 2019. Moreover, at its reasonable discretion, the Supervisory Board has decided, in due consideration of all the circumstances, not to carry out a discretionary adjustment in relation to the bonus basis for the Executive Board members for the compensation year.

The following compensation was paid to the members of the Executive Board for the 2018 fiscal year. The table below shows the value of benefits granted for the 2018 fiscal year. Due to rounding it is possible that individual numbers do not add up exactly to the given sum.

Value of benefits granted for the 2018 fiscal year

	Dr. Christoph von Plotho Chief Executive Officer				Rainer Irle Member of the Executive Board			
EUR	2017	**2018**	**2018 Minimum**	**2018 Maximum**	2017	**2018**	**2018 Minimum**	**2018 Maximum**
Fixed components								
Fixed compensation (annual basic salary)	437,500	550,000	550,000	550,000	300,000	360,000	360,000	360,000
Fringe benefits	42,341	73,331	73,331	73,331	37,486	37,686	37,686	37,686
Total	**479,841**	**623,331**	**623,331**	**623,331**	**337,486**	**397,686**	**397,686**	**397,686**
Performance-related components								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentive components								
Multi-year variable compensation non-share based: MTI [1]	205,800	471,625	188,650	700,700	141,120	308,700	123,480	458,640
Multi-year variable compensation share based: LTI	416,059	490,875	0	949,300	285,298	321,300	0	621,360
Total	**1,101,700**	**1,585,831**	**811,981**	**2,273,331**	**763,903**	**1,027,686**	**521,166**	**1,477,686**
Pension expense (service costs) [2]	67,761	68,122	68,122	68,122	130,608	147,481	147,481	147,481
Total compensation (DCGI)	**1,169,461**	**1,653,953**	**880,103**	**2,341,453**	**894,511**	**1,175,167**	**668,647**	**1,625,167**
Transition [3]	133,323	−747			7,278	−103,381		
Total compensation according to DRS 17	**1,302,784**	**1,653,206**			**901,789**	**1,071,786**		

[1] The multi-year nature of the MTI relates to the two-year basis for assessment (2018 and 2017). Apart from this, the MTI is not influenced by later developments. The multi-year assessment basis is intended to have a long-term incentive effect, but does not comprise a share-based component. For the calculation of the minimum and maximum values, the actual target achievement of the previous financial year 2017 and for 2018 a minimum value of 0% as well as a discretionary factor of 0.7 or a maximum value of 200% and a discretionary factor of 1.3 were used.
[2] Service costs in accordance with IAS 19 from commitments for pensions and other benefits.
[3] The total remuneration of all members of the Executive Board for the 2018 financial year amounts to EUR 2,724,992 in accordance with the applicable accounting principles. The disbursement amount of MTI is to be recognized in this amount and the pension expense not to be included.

The following table shows the inflow for the 2018 fiscal year consisting of fixed compensation, fringe benefits, variable compensation, and pension expense. Due to rounding it is possible that individual numbers do not add up exactly to the given sum.

Inflow for the reporting year

	Dr. Christoph von Plotho Chief Executive Officer		Rainer Irle Member of the Executive Board	
EUR	**2018**	2017	**2018**	2017
Fixed components				
Fixed compensation (annual basic salary)	550,000	437,500	360,000	300,000
Fringe benefits	73,331	42,341	37,686	37,486
Total	**623,331**	**479,841**	**397,686**	**337,486**
Performance-related components				
One-year variable compensation	–	–	–	–
Long-term incentive components				
Multi-year variable compensation, non-share-based (MTI) – amount paid [1)]	539,000	406,884	352,800	279,006
Multi-year variable compensation, share-based (LTI)	–	–	–	–
Total	**1,162,331**	**886,725**	**750,486**	**616,492**
Pension expense [2)]	68,122	67,761	147,481	130,608
Total compensation (DCGI)	**1,230,453**	**954,486**	**897,967**	**747,100**

1) The multi-year nature of the MTI relates to the two-year basis for assessment (2018 and 2017). Apart from this, the MTI is not influenced by subsequent developments. This component is intended to have a long-term incentive effect. It does not contain any share-based components.
2) Service costs in accordance with IAS 19 from commitments for pensions and other benefits. This is not an inflow in the fiscal year.

Additional information on share-based compensation instruments in the 2018 fiscal year

As described above, the LTI attributable to the members of the Executive Board is granted in the form of phantom stocks. The weighted average Xetra price of the Siltronic share on the last 30 trading days of the 2018 financial year relevant for determining the number of virtual shares was EUR 74.91 (previous year: EUR 123.45).

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

	Tranche	Calculated LTI based on actual goals achieved in EUR	Xetra average price in EUR	Quantity	**Value on the reporting date of December 28, 2018 in EUR**
Dr. Christoph von Plotho	Tranche (2016/2017–2019)	423,491	123.45	3,430	256,221
	Tranche (2017/2018–2020)	561,000	74.91	7,489	540,706
Rainer Irle	Tranche (2016/2017–2019)	290,394	123.45	2,352	175,694
	Tranche (2017/2018–2020)	367,200	74.91	4,902	353,924

Pension commitments

The following table shows the pension expense and the benefit obligations for the 2018 fiscal year.

	Benefit obligations		Pension expense	
	2018	2017	2018	2017
Dr. Christoph von Plotho	2,099,262	1,983,471	68,122	67,761
Rainer Irle	2,265,353	2,090,081	147,481	130,608

As of December 31, 2018, the pension obligations for active Executive Board members amounted to EUR 4,364,615 (previous year: EUR 4,073,552) and the pension obligations for former Executive Board members and their surviving dependents to EUR 6,756,980 (previous year: EUR 7,205,291).

Other Information

In the reporting year, the remuneration of former Executive Board members and their surviving dependents amounted to EUR 217,617 (previous year: EUR 213,317).

Compensation of Supervisory Board members

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

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

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

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

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

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

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

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

Compensation of Supervisory Board members in the 2018 fiscal year

The compensation paid to Supervisory Board members for the 2018 fiscal year comprises the following:

Supervisory Board member	**Annual remuneration 2018 in EUR (multiplied by the applicable factor for special functions)**	**Attendance fee 2018 in EUR**	**Total remuneration 2018 in EUR**	Annual remuneration 2017 in EUR (multiplied by the applicable factor for special functions)	Attendance fee 2017 in EUR	**Total remuneration 2017 in EUR**
Maximilian Baumgartner [1)]	8,959	2,500	11,459	30,000	10,000	40,000
Mandy Breyer [3)]	21,123	10,000	31,123	–	–	–
Prof. Dr. Gabi Dreo	21,123	10,000	31,123	–	–	–
Klaus-Peter Estermaier [1)]	21,123	10,000	31,123	–	–	–
Sieglinde Feist [2)]	30,000	12,500	42,500	10,000	5,000	15,000
Gebhard Fraunhofer [3)]	40,562	20,000	60,562	30,000	10,000	40,000
Dr. Hermann Gerlinger	45,000	17,500	62,500	45,000	10,000	55,000
Karin Gottschalk [3)]	8,959	2,500	11,459	30,000	7,500	37,500
Johann Hautz [3)]	60,000	11,250	71,250	60,000	20,000	80,000
Michael Hankel	21,123	10,000	31,123	–	–	–
Bernd Jonas	60,000	22,500	82,500	60,000	17,500	77,500
Gertraud Lauber [3)]	30,000	12,500	42,500	30,000	10,000	40,000
Dr. Tobias Ohler [2)]	90,000	28,750	118,750	30,000	10,000	40,000
Dr. Franz Richter	8,959	0	8,959	30,000	10,000	40,000
Harald Sikorski [3)]	34,479	15,000	49,479	45,000	20,000	65,000
Angela Wörl [2)]	8,959	2,500	11,459	10,000	5,000	15,000

1) The representative of the executive employees of the Supervisory Board is subject to the discharge regulations of the Association of Employees and Chief Executives of the Chemical Industry e. V. (VAA).
2) Waiver of Supervisory Board compensation as Executive Board member or employee of Wacker Chemie AG for the period from January 1, 2017 to August 30, 2017.
3) These employee representatives on the Supervisory Board and the representatives of the trade unions on the Supervisory Board have declared their willingness to transfer their compensation to the Hans Boeckler Foundation, in accordance with the guidelines of the Confederation of German Trade Unions (DGB).

Disclosures relevant to acquisitions

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

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

The subscribed capital of Siltronic AG amounts to EUR 120 million and is divided into 30 million no-par-value shares, each with an imputed share of the capital amounting to EUR 4. The shares are registered shares. All the shares are of the same type; each share has the same rights attached to it and allows one vote at the Annual General Meeting.

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

In accordance with the applicable remuneration system for Executive Board and the Executive Board's service contracts, the members of the Executive Board Dr. Christoph von Plotho and Rainer Irle are obliged to hold at least 5,000 and 3,500 shares respectively for the duration of their appointment as Executive Board members. The members of the Executive Board continue to have the right to vote and receive dividends during the holding period. Further details can be found in the remuneration report.

We are not aware of any other contractual restrictions relating to voting rights or the transfer of shares.

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

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

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

- Wacker-Chemie AG: 30.83 percent
- Dr. Alexander Wacker Familiengesellschaft mit beschränkter Haftung: 30.83 percent (allocated via Wacker Chemie AG)

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

Shares with special rights conferring control powers were not issued.

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

In case employees hold shares in Siltronic AG, they exercise their resulting control rights directly in accordance with the statutory provisions and the Articles of Association.

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

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

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

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

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

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

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

- in order to remove fractional amounts from the pre-emption right;
- where the issue price of new shares issued for cash during a capital increase is not significantly below the market price of the shares in the Company that are already publicly listed at the time the definitive issue price is set (section 186 (3) sentence 4 AktG states that pre-emption rights can be excluded provided the capital increase is no more than 10 percent of the share capital);
- where necessary in order to grant new shares in the Company to holders/beneficial owners of bonds that have been issued or are to be issued by the Company or its subordinate Group companies, when conversion rights or warrants are exercised or to meet conversion obligations, and where necessary to grant holders of conversions rights/warrants or beneficial owners of convertible bonds with conversion obligations a pre-emption right to the same quantity of new shares to which they would have been entitled after exercising their warrants or conversion rights or meeting conversion obligations as shareholders;
- in the event of a capital increase for non-cash contributions; and
- to implement a scrip dividend.

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

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

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

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

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

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

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

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

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

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

Non-financial report issued by Siltronic AG, Munich

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

Foreword

GRI 102-14

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

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

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

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

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

Dr. Christoph von Plotho
CEO

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

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

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

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

This report is the summarized, separate non-financial report for the financial year 2018 and applies to both the Siltronic Group and Siltronic AG. Information that applies only to Siltronic AG, is indicated in the text. The non-financial report has been issued and was made available to the public on *https://www.siltronic.com/en/our-company/sustainability.html*.

Information included in this report was prepared based on the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and is aligned to the Sustainable Development Goals of the United Nations. Moreover, this report provides information regarding sustainability to the degree relevant for reporting the 'Communication on Progress' of the United Nations Global Compact. The reported period corresponds to that of the consolidated financial statements and all Group entities were included. We intend to prepare the sustainability report on an annual basis, as in the past. **GRI 102-50, -52**

This non-financial report was subject to an audit by the Supervisory Board of Siltronic AG. Hence, the Supervisory Board has asked an audit firm to execute a corresponding audit. KPMG AG Wirtschaftsprüfungsgesellschaft has performed an audit using ISAE 3000 to obtain a limited assurance regarding the information required in accordance with Sections 315b, 315e in conjunction with 289b to 289e of the German Commercial Code. **GRI 102-56**

2. The Siltronic business model and our ethical principles

Section 289c para. 1 of the German Commercial Code

The Siltronic business model

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

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

The production equipment largely consists of machines for pulling crystals, furnaces, measurement equipment, cleaning systems, and machines for the mechanical and chemical treatment of the wafer surfaces. Most of the wafer manufacturing process takes place in cleanrooms. From our four production sites we dispatch our wafers directly to our customers' chip factories, which are located (in alphabetical order) in Israel, Japan, Korea, Malaysia, Singapore, Taiwan and (mainland) China, the USA, and Western Europe. At each of our four largest sites we run a production, administration and sales department. In addition, we operate small sales or administration units in six countries. **GRI 102-4, -6, -9**

We produced some 28.2 million wafers in the reporting year (2017: 27.6 million). **GRI 102-7**

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

Corporate ethics at Siltronic

In order to achieve economic success, companies need to be trusted by society. In our efforts to ensure that Siltronic's business is conducted responsibly and compliant to all statutory regulations, we have developed various guidelines, including: **GRI 102-16**

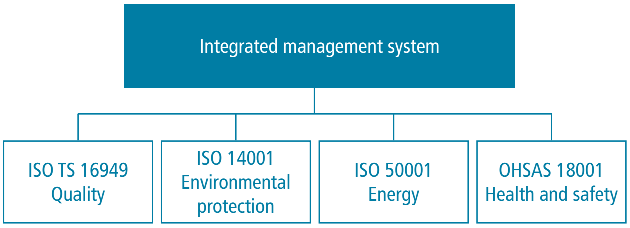
- Code of Conduct: We have drawn up a Code of Conduct for our Group that sets out binding rules for responsible and law-abiding conduct, which all Siltronic employees are required to observe. The Code of Conduct deals in particular with the topics of behavior towards one another, leadership as an example, dealings with business partners, handling information, separation of private and corporate interests, quality, safety, health and environment, and social responsibility. **GRI 102-17**
- Voluntary commitments: Siltronic implements the ten principles of the United Nations' Global Compact initiative for the protection of human rights, social and environmental standards, and the fight against corruption. Siltronic adheres to the principles of the chemical industry's Responsible Care® initiative. Siltronic has also become a signatory to the 'Diversity Charter'. By signing, Siltronic undertakes to actively implement and promote equal opportunity and diversity. As a supplier to the electronics industry, Siltronic observes the Code of Conduct set out by the Responsible Business Alliance RBA which leading companies in the electronics industry use to promote social and ecological responsibility as well as ethical business practices worldwide. **GRI 102-12, -13**
- Strategy handbook: This handbook sets out Siltronic's highest aims and defines our mission statement. Our mission statement consists of aspiring to create added value for our stakeholders. We want to achieve this aim by offering wafers of outstanding quality at competitive cost.

The impact of ethical principles on the organization of Siltronic

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

We control operational processes via our Integrated Management System (IMS). The IMS outlines processes and responsibilities and defines group-wide standards, including those relating to quality, energy, occupational health and safety, environmental protection, and plant process safety. The standards are based on national and international standards, laws, customer requirements, and our own principles. Selected management systems are certified by a globally operating service provider. The certifications include ISO 14001 for environmental protection, OHSAS 18001 for occupational health and safety, ISO 50001 for energy management at our sites in Germany, and ISO 9001 and ISO TS 16949 for quality systems.

Group management system



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

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

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

Non-financial performance indicators within our organization

The management of the Siltronic organization is based on financial performance indicators. The most important of these are recorded monthly on a local and Group basis and entered in reporting systems, where they are compared with previously determined targets. The most important financial performance indicators in 2018 were EBITDA margin, ROCE and net cash flow.

Apart from these financial performance indicators we use non-financial performance indicators as guidance. However, none of these indicators is used to manage the Company.

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

- The efficient use of silicon (raw materials management)
- The efficient use of energy (energy management)
- The avoidance of waste (waste management)
- The number of work accidents per 1 million working hours (safety)
- Work accidents per year involving chemicals (safety)

In view of the high relevance of water in our production, we will be introducing a performance indicator to measure the efficiency of using water as from 2019.

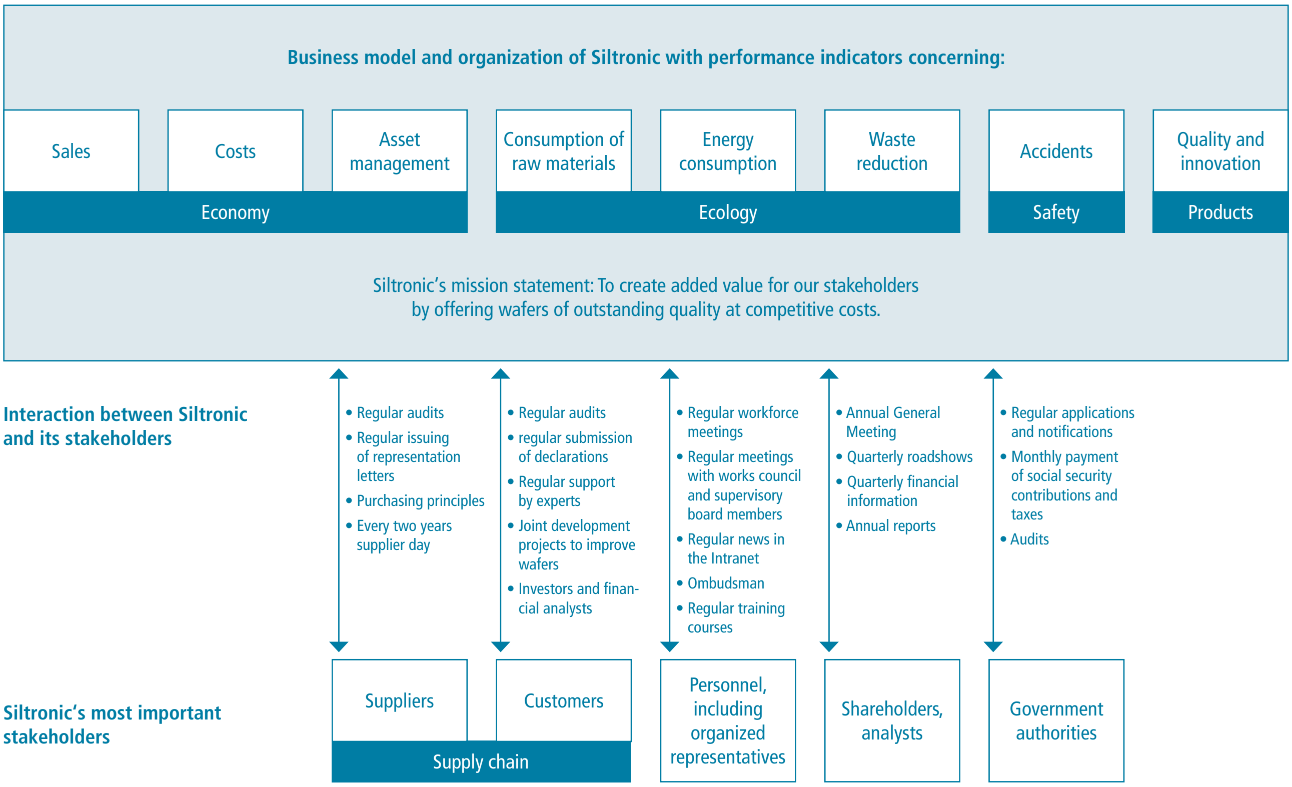
Non-financial performance indicators are reviewed during the year and in case of negative variances the cause for the development is analyzed in order to introduce improvement measures.

3. Determining the contents of this report

Siltronic's most important stakeholders

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

The following diagram shows the most important interactions and their frequency of exchange. **GRI 102-40, -43**



Determining the contents of the report

In order to identify the topics important for this report – environmental topics, personnel aspects, supply chain (including human rights), social responsibility and social aspects (including fight against corruption and bribery) –, we determined various sustainability aspects as a first step. The identification of sustainability topics is based on the following considerations:

- Specifics of the company
- The ten principles of the United Nations' Global Compact project and the Sustainable Development Goals formulated by the United Nations
- Discussions with customers
- Specifics of our industry
- Result of external rating agencies that have conducted an assessment using last year's non-financial report and other documents

The second step entailed prioritizing the topics according to materiality, which also involved a risk assessment. Each topic was then allocated to a general group.

In a fourth step, the result was subject to a validation process, which was carried out in consultation with internal experts and by comparing it with the corporate strategy. This resulted in the following list: **GRI 102-46, -47**

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

The analyses did not reveal any reportable risk.

4. Environmental aspects

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

Management of raw materials and supplies

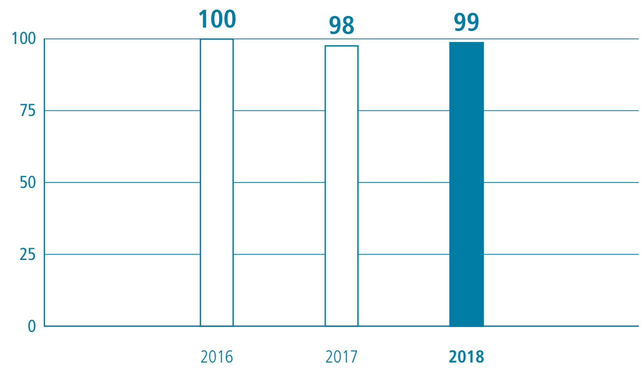
As wafers consist almost entirely of hyperpure silicon, silicon is by far the most important raw material for Siltronic. After oxygen, silicon is the second-most frequently found element in the Earth's crust and non-toxic. For this reason, we regard silicon wafers as an unrivaled raw material for manufacturing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

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

The following table illustrates how the efficient use of silicon has developed, whereby 2016 was selected as the basis for comparison:

Development of the efficient use of silicon

in %



The specific target for the reporting year was to avoid a deterioration of two percentage points measured against the previous year. The fact that no year-on-year improvement was set as a target for 2018 is due to the product mix our customers ordered. Furthermore, our customers ask for wafers showing more sophisticated technical specifications. With such wafers our customers can produce chips which consume less electricity (with the chip having a higher performance at the same time) but the specific consumption of silicon increases before the chip production starts. The specific goal for the entire year 2018 was slightly missed since the efficiency was below expectation at the beginning of the year. In the course of the financial year the efficiency improved and in the fourth quarter the target was exceeded.

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

Management of energy (consumption of energy within Siltronic)

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

In 2018, energy consumption totaled 719 GWh. Consumption includes production, research and development, and administration. Sales offices are not included in the total, as their overall energy consumption is insignificant. Electricity is by far the most important source of energy.

Energy consumption

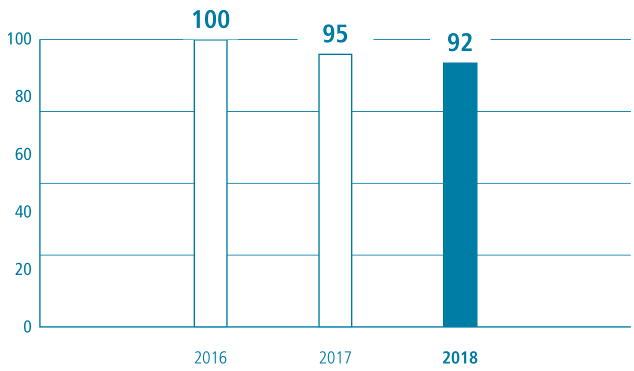
in GWh	2016	2017	2018
Electricity consumption	586	601	608
Natural gas	75	75	71
Steam, heat	42	39	35
Fuel oil	7	6	5
Total	**710**	**721**	**719**

Siltronic purchases electricity from the public grid. About 55 percent of the electricity is consumed in Germany. According to the Federal Association of the Energy and Water Industry (BDEW), 38 percent (previous year: 36 percent) of the electricity consumed in Germany from public grids has its origin in renewable sources, which mainly includes wind, biomass and solar.

Energy consumption per square centimeter of wafer manufactured describes the energy intensity of our products (the forms listed in the table 'Energy consumption' are used to calculate energy consumption). The following table illustrates that we were able to lower the eenergy intensity significantly since 2016.

Energy consumption per sq cm wafer surface

in %



In order to reduce energy intensity, projects are being initiated and executed to lower the specific electricity consumption. Sustainable changes were achieved in recent years especially through improvement projects in the areas of heat recovery, adjusting water temperatures for cooling and other process optimizations.

The 'efficient use of energy' performance indicator is reported to the Executive Board on a regular basis and ambitious targets are determined annually. Together with the production volume this is the basis for us to calculate absolute savings in MWh for sites and production lines.

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

Numerous energy efficiency measures have contributed to meeting the 2018 target, resulting in a total sustainable reduction in electricity consumption of 15.7 GWh per annum and an equivalent value of EUR 1.2 million. The annual target of 1.5 percent was met.

The Company's energy management system is certified in accordance with ISO 50.001 2011 at the Burghausen and Freiberg sites.

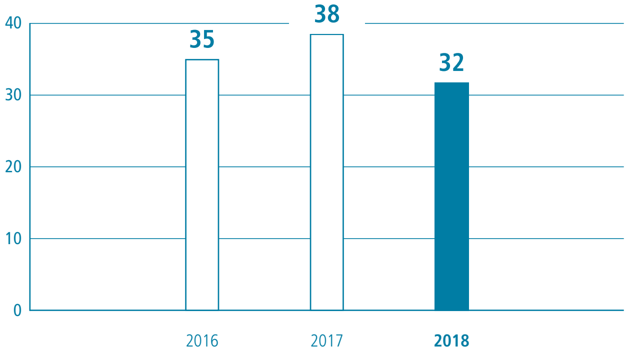
Management of waste

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

Over the years, we have nearly always been able to convince customers of the benefits of this form of packaging wherever the use of the Hybox was technically feasible. Through this reusage concept we reduced the transport of packaging by around 488 tons and the waste by about 977 tons in comparison with carton packaging.

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

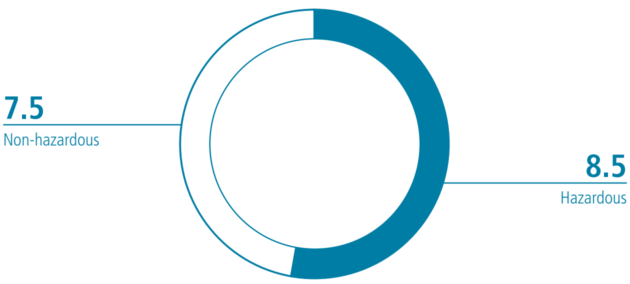
Share of wafer area in reusable packaging
in %



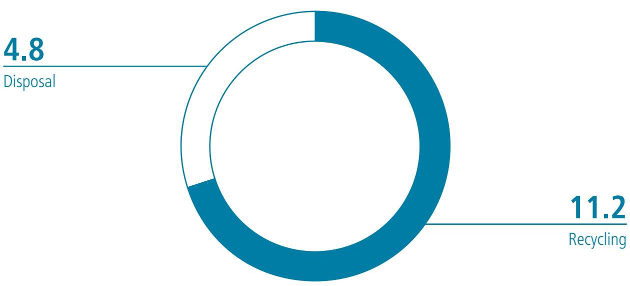
The target for 2018 was to achieve a percentage of 35 percent. This target was not met because the acceptance procedure to introduce a type of FOSB at one major customer was slower than expected.

With regard to waste, the disposal of hazardous material is also a significant factor. The composition of waste and the disposal channel were as follows in 2018:

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



Disposal type GRI 306-2
in 1,000 t



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

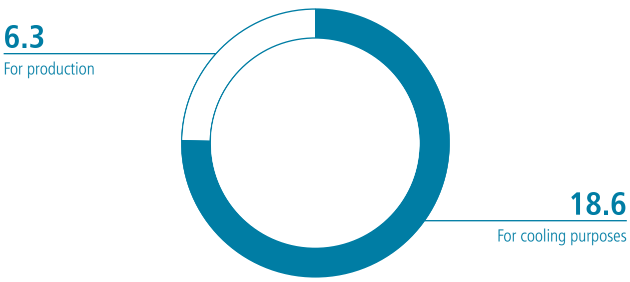
A total of 38 percent of the waste is caused by Siltronic AG.

Management of water

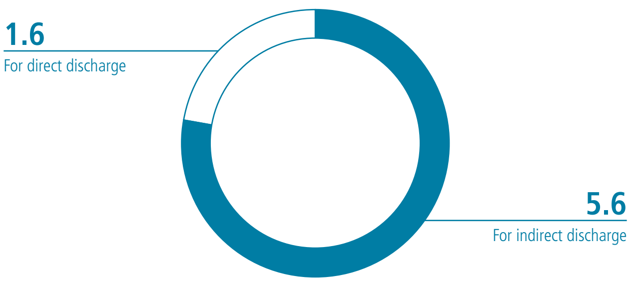
Water is primarily used in our manufacturing process for cleaning and cooling purposes. We endeavor to protect natural water resources and use them as sparingly as possible. The definition of the World Business Council for Sustainable Development and our risk assessment using the Global Water Tool® defines Singapore as a water shortage area. We are therefore under an obligation to use water especially carefully in our Singapore location. For that reason we operate our own water treatment plant in Singapore. In the year 2018 we were able to realize major improvements to the treatment of waste water and water retaining.

The water recycling rate in the group stood at 38.2 percent in 2018, following 35.5 percent the year before.

Use of water
in million m^3



Discharge of waste water (without cooling water)
in million m^3



Germany accounts for about 86 percent of water use and about 58 percent of waste water (excluding cooling water).

In order to use water more than once, we add water used in a production process to other processes as far as possible. In 2018, the volume of water recycled this way amounted to 2.4 million m^3, compared to 2.2 m^3 million the previous year.

Environmental protection measures

Environmental related investments totaled approximately EUR 4.6 million in 2018 (previous year: EUR 3.6 million). We allocate these investments according to typical environmental aspects, out of which EUR 1.9 million refer to water, EUR 1.5 million to air and EUR 1.2 million to climate protection.

Our site in Portland is located in an area that has been used by industry for around 100 years. Due to detected contamination in the soil and the adjacent river, authorities have imposed requirements for monitoring and eliminating environmental pollution. As the owner of a property that has been contaminated and borders the river, Siltronic has been subject to specific environmental regulations in Portland for many years. In order to fully meet these requirements, we employ an employee who is solely responsible for implementing the environmental regulations. This measure ensures that the necessary coordination with the authorities takes place, formalities are fulfilled, qualified service providers are assigned and the remediation is coordinated.

Emission of greenhouse gases

The groupwide carbon footprint is an essential instrument for improving climate protection. In addition to direct greenhouse gas emissions in accordance with Scope 1, we also determine indirect emissions from the purchase of energy in accordance with Scope 2 and report these emissions as part of the assessment by CDP. In 2018, we evaluated additional indirect emissions along the value chain for the first time and measured them for individual categories. We will continue to calculate the relevant Scope3 emissions in 2019 and thereafter report them.

Greenhouse gas emissions (in t CO_2 equivalents)

Description in accordance with the Greenhouse Gas Protocol, causes and main sources			2017	2018
Scope 1	Direct emission	Natural gas, fuel, climate-impacting gases	12,512	11,952
Scope 2	Indirect emission	Electricity, steam	268,528	268,208

The collection methodology complies with the guidelines of the GHG Protocol for the chemical industry. The calculation includes all Group entities. To calculate greenhouse gas emissions, we use current emission factors from DEFRA, EPA, UBA and the IPPC report AR5 for Scope 1 and from IEA for Scope 2.

Other greenhouse gases besides CO_2 make up a marginal part of Scope 1 emissions. Nevertheless, we are continuously working on more effective use and substitution with gases,
which have a lower greenhouse effect.

Our activities to reduce Scope 2 emissions focus on increasing the efficiency of energy use.

As a result of our measures to increase the efficiency of energy use in particular, CO_2 emissions per wafer area produced, Scope 1 and 2, have fallen by a medium single-digit percentage compared with the previous year.

In addition, we motivate our employees to leave their cars at home. At the Burghausen site, we have been using commuter buses for shift workers for more than ten years. At our site in Portland, Oregon, USA, we grant our employees subsidies for public transport tickets, and in Singapore Siltronic offers shuttle buses from the plant to various city districts.

Other air emissions

NO_x emissions amounted to 104 tons in 2018 and NMVOC to 57 tons. Ozone-depleting substances are used negligibly in production. Emissions of SO_x, POP (persistent organic pollutants) and PM (particulate matter) are irrelevant as to their quantities.

Influence of climate change

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

5. Personnel aspects

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

Headcount and personnel planning strategy

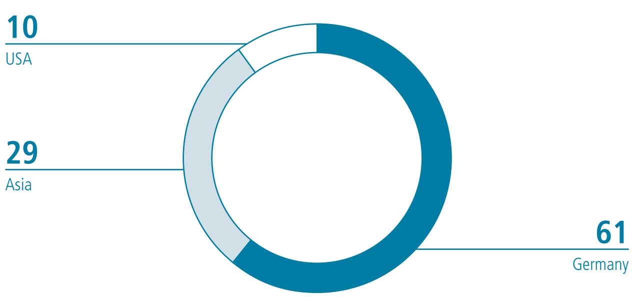
On December 31, 2018, Siltronic Group employed 3,914 people, 61 percent of whom were employed by Siltronic AG in Germany, 29 percent in Asia, and 10 percent in the USA.

Headcount as at December 31, 2018 GRI 102-8

	Men	Women	Total	Employees in the Group
Germany	**1,889**	**482**	**2,371**	**61%**
Of which on permanent contracts	1,888	480	2,368	
Of which on temporary contracts	1	2	3	
Singapore and other Asian countries	**801**	**329**	**1,130**	**29%**
Of which on permanent contracts	801	323	1,124	
Of which on temporary contracts	0	6	6	
USA	**292**	**121**	**413**	**10%**
Of which on permanent contracts	292	120	412	
Of which on temporary contracts	0	1	1	
Employees in the Group	**2,982**	**932**	**3,914**	**100%**

3,502 worked full-time and 412 part-time. Of the part-time workers, 54 percent were women, and 100 percent of the part-time workers were in permanent employment. GRI 102-8

Breakdown of employees by region (excluding temporary employees)
in %



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

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

On December 31, 2018, Siltronic employed a total of 715 temporary workers (534 men and 181 women). The last time Siltronic needed to reduce working hours was in 2012. GRI 102-8

Relationship with employee representatives and employees' rights

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

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

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

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

In addition to remuneration and working time, essential employee rights in Germany include the right to parental leave or maternity leave. Naturally, German Siltronic employees make use of this right: As of December 31, 2018, 12 women and one man were either on maternity or parental leave.

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

Diversity and equal opportunity

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

One focus of our efforts is to leverage the existing diversity of modern society and, with this in mind, Siltronic AG has appointed a woman as Diversity Officer. The diversity of the workforce and its wide range of skills and talents also provides an opportunity for innovative and creative solutions. Among other factors, diversity includes gender, nationality, ethnic origins, religion and disability. The combined management report comprises information to employees with disabilities.

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

All employees at the German locations are required to familiarize themselves with the General Equal Treatment Act (AGG) through e-learning training. The training course is applicable to all hierarchy levels.

Our long-term goal is to raise the level of diversity in Siltronic's workforce, also by increasing the percentage of women in management positions. At the end of 2018, two of 17 positions one level below the Executive Board and two of 36 positions in the second management level were represented by women. The Corporate Governance Report provides more information on the proportion of women.

The table below shows the percentage of men and women at management level at Siltronic AG:

Headcount as at December 31, 2018

	Men	Women	**Total**
Employees in the Group at management level	49	4	**53**
In percent	*92*	*8*	***100***
Of which first level below Executive Board	15	2	**17**
In percent	*88*	*12*	***100***
Of which second level below Executive Board	34	2	**36**
In percent	*94*	*6*	***100***

We have defined mid-term goals for the percentage of women for the first and second level below the Executive Board. Until the end of June 2020, the percentage of woman should be at least 18 percent in the first level of management and at least 8 percent in the second level.

Advanced training and demographic trends in Germany

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

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

At the end of 2018, the average age of the typical employee was 44 years. The following table shows the age structure of Siltronic employees worldwide.

Age structure as at December 31, 2018

	Male	Female	**Total**
Under 30 years of age	15 %	18 %	**16 %**
30 to 50 years of age	48 %	53 %	**49 %**
Over 50 years of age	37 %	29 %	**35 %**
Total	**100**	**100 %**	**100 %**

In 2018, some 20,000 e-learning courses were provided and around 1,900 employees attended seminars, further education or similar events.

Remuneration and equal pay

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

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

The notes to the group financial statements comprises information on personnel cost and retirement benefits.

Fluctuation can be seen as a sign of how well we succeed in retaining employees and being attractive to new employees. In 2018, 601 employees were hired, of whom 231 were in Germany and 370 abroad. These hires accounted for 15 percent of the workforce as of the balance sheet date. 291 employees left the company. This corresponds to 7 percent of the workforce as of the balance sheet date. Germany was affected in 40 cases and other countries in 251 cases. Fluctuation was low in Germany and the USA and regionally typical higher in Asia.

We regard it as important to treat temporary workers fairly. We pay at a minmum the wage defined under the collective agreement on industry surcharges for temporary employment in the chemical industry (TV BZ Chemie). In addition, there are workplace, shift, and other voluntary allowances, which can vary according to business and location. In addition, Siltronic meets the requirements for an equivalent wage in accordance with the German Temporary Employment Act (AÜG). Temporary workers have received a variable pay equal to the employees of Siltronic AG in Germany in 2018 for the year 2017. The payment was based on the financial performance of the company.

Occupational health and safety

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

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

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

Number of work accidents per 1 million working hours

	2016	2017	**2018**
Work accidents [1)]	3.3	1.9	1.9
Injuries involving chemicals	2	1	0

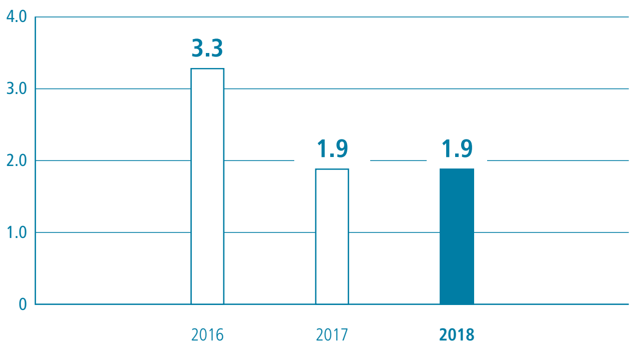
1) Accidents are counted in the statistics if the employee involved is unfit to work for at least one day. The statistics include work accidents involving temporary staff.

The targets for 2018 were 1.8 for occupational accidents per 1 million working hours and 0 for injuries involving chemicals. The number of occupational accidents exceeded the self-imposed target to a negligible extent, and the target for injuries with chemicals was reached. There have been no fatal or serious accidents at work in recent years.

The number of accidents has decreased in a comparison over a number of years but is still not satisfactory. As the accidents are essentially behavior-induced, we have launched initiatives that specifically address this cause.

Accidents at work [1)]

Number of accidents per million working hours



1) Loss of one or more working days

We also run awareness raising campaigns on the subject of stumbling, slipping and falling, a program for reporting safety-critical situations, and measures for onboarding new employees as our internal statistics show a higher accident risk in the first few months for this group. With this in mind, 2018 saw the launch of the new "GEFAHRRA^{D}T" safety concept.

Under the GEFAHRRA^{D}T concept, employees are made aware as far as possible of accidents that have actually happened at the very location, along with safety-critical situations and their causes of accident, as well as measures planned and implemented to avoid accidents in future. The overall concept is aimed at systematically improving our culture of safety.

Employee satisfaction

An employee survey was conducted in March 2018 at the German sites under the slogan of "Your Opinion Counts". Compared with the previous survey in 2015, participation rates increased by 10 percentage points to 69 points of employees. The findings of the survey were very positive overall. With a view to increasing employee satisfaction, we plan to concentrate primarily on the areas of idea management, feedback and management behavior.

6. Supply chain

UNGC, Sustainable Development Goals

Supplier relationships

In 2018, our purchasing volume totaled almost EUR 728 million. We cooperate with more than 3,800 suppliers worldwide, nearly 300 of whom constitute some 90 percent of our purchasing volume. The volume purchased in Europe accounts for around 64 percent, just under 28 percent is sourced from Asia, and North America accounts for 8 percent. The most important supplier is Wacker Chemie AG, which not only supplies us with the raw material polysilicon, but also provides a variety of on-site services at our plant in Burghausen under the terms of a service agreement. Furthermore, suppliers of electricity and equipment are particularly important. **GRI 102-9**

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

Our expectations of suppliers' careful and sensible treatment of their employees and the environment are also documented in our Code of Conduct.

Conflict minerals

Siltronic AG does not source any conflict materials (gold, tantalum, tungsten, tin) from mines in conflict areas (§1502 Dodd-Frank Act).

Siltronic limbers up to be "Fit for the NAP"

The Company is participating in the qualification offensive of the German network of Global Compact in the context of the Business and Human Rights National Action Plan (NAP).

Sustainability with regard to customers

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

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

In our dealings with customers, we commit ourselves to respecting the freedom of association, to the abolition of all forms of forced labor, the abolition of child labor and the avoidance of discrimination.

7. Social responsibility and social aspects

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

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

Combating legal violations, particularly corruption and bribery

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

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

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

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

Human rights

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

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

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

Non-profit purposes and corporate volunteering

Employees within Germany participate in the cent donation program organized by the Wacker Relief Fund in which employees consent to having their monthly salary rounded downwards to the next lower amount in euros. These remaining cent amounts are then donated. Every year, Siltronic employees at the Freiberg site take part in the Nepal run in the autumn. The charity run that is organized from a school close to Freiberg collects money to fund the construction of schools in the Gati region of Nepal. In addition, Siltronic AG has made a donation.

In 2018 in Singapore, Siltronic supported the building of reefs in the sea to create a coral habitat.

At at our Portland/USA location, our employees organized a charity campaign in 2018 to help those affected by the consequences of hurricane "Florence", with the Company doubling the funds donated by the employees.

Our employees have supported needy families in the region of Portland for more than 20 years.

In addition, Siltronic supports local schools and educational institutions.

Relationships with associations and with politics

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

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

Taxes

In the reporting year, Siltronic's effective income tax expense amounted to EUR 105.1 million.

In each tax jurisdiction where a subsidiary or a permanent establishment gave rise to a tax obligation, significant expenses were incurred for effective income tax (in relation to earnings before taxes).

Dialog at regional levels

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

Partnerships and membership in associations and initiatives

We have taken part in the following initiatives:

- CDP Climate change, Water Security (Investor, Supply chain)
- UN Global Compact (member since 2017), Peer-Learning Group Climate strategy, program "Fit for NAP - National Action Plan Economy und and human rights"
- Charta of Diversity
- Responsible Business Alliance

United Nations Global Compact

Siltronic is a member of the Global Compact and hereby reports on its progress. **GRI 102-12**

Principles	Relevant headings in this report	Measures implemented (key examples)
Human rights **Principle 1:** Support of human rights **Principle 2:** Exclusion of human rights abuses	• Corporate ethics at Siltronic • The impact of ethical principles on the organization of Siltronic • Human rights	Siltronic does not purchase materials, goods, or services from suppliers or service providers who do not undertake to uphold human rights. We implement this aim by requiring suppliers and service providers to accept our relevant purchasing principles. We train our employees at specific seminars to ensure compliance with internationally proclaimed human rights. In our Code of Conduct we explicitly commit ourselves to all ten principles of the Global Compact. In our dealings with customers, we commit to uphold human rights and exclude any abuses thereof. We participated in the qualification program Fit for NAP of the German Global Compact Network
Labor standards **Principle 3:** Uphold freedom of association **Principle 4:** Eliminate all forms of forced and compulsory labor **Principle 5:** Abolition of child labor **Principle 6:** Elimination of discrimination	• Corporate ethics at Siltronic • Relationship with employee representatives and employees' rights • Diversity and equal opportunity • Sustainability with regard to customers	We have taken steps to ensure that an employee can turn to authorities for information on violations of the Labor standards. Apart from their manager employees can report to compliance officers based at the various locations, the personnel department, and an external ombudsman. We will punish proven misconduct according to its degree of severity. Some 62 percent of employees work in units that have independent employee representation. As a supplier to the electronics industry, Siltronic observes the code of conduct set out by the Responsible Business Alliance RBA. In our dealings with customers, we commit ourselves to respecting the freedom of association, to the abolition of all forms of forced labor, the abolition of child labor and the avoidance of discrimination.
Environmental protection **Principle 7:** Precautionary environmental protection **Principle 8:** Initiatives for greater environmental responsibility **Principle 9:** Development and diffusion of environmentally friendly technologies	• Environmental protection measures • The impact of ethical principles on the organization of Siltronic • Dialog at regional levels • Influence of climate change	Worldwide certification of our environmental management system according to ISO 14001 and the energy management system at the German sites in accordance with ISO 50001. Implementation of defined non-financial performance indicators aimed at reducing the specific use of raw materials, specific energy consumption, and increasing the utilization rate of reusable packaging that can be reused to package wafers. Annual preparation of a sustainability report that is subject to an external audit (non-financial report). Our technologies form the basis for manufacturing smaller and more energy-efficient components in the modern world of electronics. That way, we contribute towards preserving precious resources and reducing carbon dioxide emissions worldwide.
Anti-corruption **Principle 10:** Measures to fight corruption	• Corporate ethics at Siltronic • Combating legal violations, particularly corruption and bribery	Regular training courses Setting up of a compliance In dealing with our customers, we are committed to taking measures designed to combat corruption. Appointing of an external ombudsman

Report of the independent auditor for the purpose of obtaining limited assurance regarding the separate non-financial report

To the Supervisory Board of Siltronic AG, Munich

We have performed an independent limited assurance engagement on the combined non-financial report („Report“) of Siltronic AG, Munich, (“Siltronic”) and the group according to §§ 315b and 315c in conjunction with 289b to 289e German Commercial Code (HGB) for the business year from January 1 to December 31, 2018.

Responsibility of the legal representatives
The legal representatives of Siltronic are responsible for the preparation of the Report in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Report in a way that is free of – intended or unintended – material misstatements

Independence and quality assurance on the part of the auditing firm
We are independent from the company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (“Institut der Wirtschaftsprüfer” or “IDW”) regarding quality assurance requirements in audit practice (IDW QS 1).

Responsibility of the auditor
Our responsibility is to express a conclusion on the Report based on our work performed within our limited assurance engagement.

We conducted our audit work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements other than Audits or Reviews of Historical Financial Information” published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Report of the entity for the business year [Kategorie] has not been prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB. We do not, however, provide a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor’s own judgement.

Within the scope of our engagement, we performed amongst others the following assurance procedures:

- Inquiries of personnel on corporate level, who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries of Siltronic
- A risk analysis, including a media search, to identify relevant information on Siltronic sustainability performance in the reporting period
- Reviewing the suitability of internally developed reporting criteria
- Evaluation of the design and implementation of the systems and processes for determining, processing and monitoring disclosures relating to environmental, employee and social matters, respect for human rights, and combating corruption and bribery, including the consolidation of the data
- Inquiries of personnel on corporate level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, for conducting internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documentation
- Analytical evaluation of data and trends of quantitative information which are reported by all sites for consolidation on corporate level
- Evaluation of local data collection, validation and reporting processes as well as the reliability of reported data based on a sample of the site in Singapore
- Assessment of the overall presentation of the disclosures

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Report of Siltronic for the business year from January 1 to December 31, 2018 is not prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

Restriction of Use/Clause on General Engagement Terms

This report is issued for purposes of the Supervisory Board of Siltronic AG, Munich, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Siltronic AG, Munich, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (*https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf*). By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Munich, March 1, 2019

KPMG AG Wirtschaftsprüfungsgesellschaft

Hell ppa. Graff

Consolidated financial statements

Consolidated statement of profit or loss

from January 1 to December 31, 2018

In EUR million	Note	2018	2017
Sales	01	1,456.7	1,177.3
Cost of sales	01	−824.8	−807.0
Gross profit		**631.9**	**370.3**
Selling expenses		−35.0	−37.1
Research and development expenses		−68.1	−68.3
General administration expenses		−27.5	−25.6
Other operating income	01	74.7	59.7
Other operating expenses	01	−78.3	−63.3
Operating result		**497.7**	**235.7**
Interest income	02	4.0	1.9
Interest expenses	02	−0.8	−1.2
Other financial result	02	−12.5	−9.2
Financial result		**−9.3**	**−8.5**
Result before income tax		488.4	227.2
Income taxes	03	−87.8	−35.0
Net profit for the year		**400.6**	**192.2**
of which			
attributable to Siltronic AG shareholders		*373.2*	*185.3*
attributable to non-controlling interests		*27.4*	*6.9*
Earnings per common share in EUR (basic/diluted)	13	12.44	6.18

Consolidated statement of financial position

as of December 31, 2018

In EUR million	Note	Dec. 31, 2018	Dec. 31, 2017
Intangible assets	04	22.2	24.0
Property, plant and equipment	05	683.9	513.3
Securities and fixed-term deposits	08	31.3	1.3
Other financial assets	07	0.1	1.5
Deferred tax assets	03	25.3	6.5
Non-current assets		**762.8**	**546.6**
Inventories	06	148.6	149.9
Trade receivables	07	156.3	159.9
Contract assets	07	19.4	–
Securities and fixed-term deposits	08	403.8	116.3
Other financial assets	07	46.8	21.3
Other non-financial assets	07	21.2	30.0
Income tax receivables	07	1.8	2.6
Cash and cash equivalents	08	257.5	225.8
Current assets		**1,055.4**	**705.8**
Total assets		**1,818.2**	**1,252.4**

In EUR million	Note	Dec. 31, 2018	Dec. 31, 2017
Subscribed capital		120.0	120.0
Capital reserves		974.6	974.6
Retained earnings and net Group result		33.4	−269.7
Other equity items		−240.8	−187.6
Equity attributable to Siltronic AG shareholders		**887.2**	**637.3**
Equity attributable to non-controlling interests		28.5	0.6
Equity	09	**915.7**	**637.9**
Provisions for pensions	10	362.3	367.2
Other provisions	11	82.0	48.8
Provisions for income taxes	11	14.0	0.7
Deferred tax liabilities	03	1.7	2.7
Customer prepayments	12	175.2	42.9
Other financial liabilities	12	0.2	0.0
Non-current liabilities		**635.4**	**462.3**
Other provisions	11	14.5	4,6
Provisions and liabilities for income tax	11/12	27.8	5.4
Trade liabilities	12	96.6	67.1
Customer prepayments	12	56.5	26.9
Other financial liabilities	12	16.9	1.2
Other non-financial liabilities	12	54.8	47.0
Current liabilities		**267.1**	**152.2**
Liabilities		902.5	614.5
Total equity and liabilities		**1,818.2**	**1,252.4**

Consolidated statement of cash flows

from January 1 to December 31, 2018

In EUR million	Note	2018	2017
Net profit for the year		400.6	192.2
Depreciation/amortization of non-current assets, including impairment losses and reversals thereof		91.6	117.4
Other non-cash expenses and income		12.7	−17.4
Result from disposal of non-current assets		1.4	1.6
Interest income		−3.2	−0.7
Interest paid		−0.3	−8.5
Interest received		2.7	2.0
Tax expense		87.8	35.0
Taxes paid		−73.4	−38.9
Changes in inventories		−7.5	−13.3
Changes in trade receivables		−4.3	−52.9
Changes in contract assets		−1.2	–
Changes in other assets		−32.1	−14.4
Changes in deferred taxes		–	−1.0
Changes in provisions		−9.7	18.7
Changes in trade liabilities		4.3	4.5
Changes in other liabilities		6.5	29.8
Changes in customer prepayments		176.0	44.8
Cash flow from operating activities		**651.9**	**298.9**
Payments for capital expenditures (including intangible assets)		−238.5	−129.3
Proceeds from the disposal of property, plant and equipment		3.0	0.0
Payments for the acquisition of fixed-term deposits		−593.1	−274.5
Proceeds from fixed-term deposits		278.0	232.2
Cash flow from investing activities		**−550.6**	**−171.6**
Dividends		−75.0	–
Payments for financial liabilities		–	−31.4
Cash flow from financing activities		**−75.0**	**−31.4**
Changes due to exchange-rate fluctuations		5.4	−6.5
Changes in cash and cash equivalents	08	**31.7**	**89.4**
at the beginning of the year		225.8	136.4
at the end of the year		**257.5**	**225.8**

Consolidated statement of comprehensive income

from January 1 to December 31, 2018

In EUR million	2018 Before tax	2018 After tax	2017 Before tax	2017 After tax
Net profit for the year		400.6		192.2
Item not reclassified to profit or loss: Remeasurement of defined benefit plans	−46.4	−49.4	19.5	22.4
Items reclassified to profit or loss:				
Difference from foreign currency translation	16.4	16.4	−9.7	−9.7
thereof recognized in profit or loss	–	–	–	–
Changes in market values of available-for-sale financial instruments	–	–	0.1	0.1
thereof recognized in profit or loss	–	–	–	–
Changes in market values of derivative financial instruments (cash flow hedge)	−26.5	−19.6	19.8	15.8
thereof recognized in profit or loss	*−7.8*	*−5.6*	*−3.8*	*−2.7*
Effects of net investments in foreign operations	–	–	−8.2	−8.2
thereof recognized in profit or loss	–	–	–	–
Sum of items reclassified to profit or loss	**−10.1**	−3.2	**2.0**	**−2.0**
Other comprehensive income/loss	−56.5	−52.6	21.5	20.4
Total comprehensive income/loss		**348.0**		**212.6**
of which				
attributable to Siltronic AG shareholders		*320.1*		*205.4*
attributable to non-controlling interests		*27.9*		*7.2*

Consolidated statement of changes in equity

as of December 31, 2018

In EUR million	Subscribed capital	Capital reserves	Difference from foreign currency translation	Effects of net investments in foreign operations	Changes in market values of available for sale financial instru-ments	Changes in market values of derivative financial instru-ments (cash flow hedge)	Remea-surement of defined benefit plans	Retained earnings/ net Group result	**Total**	Non-controlling interests	**Total equity**
Balance as of January 1, 2017	120.0	974.6	−0.3	1.1	–	−4.6	−203.9	−455.0	431.9	−6.6	425.3
Net profit for the year	–	–	–	–	–	–	–	185.3	185.3	6.9	192.2
Other comprehensive income	–	–	−10.0	−8.2	0.1	15.8	22.4	–	20.1	0.3	20.4
Total comprehensive income and loss	**–**	**–**	**−10.0**	**−8.2**	**0.1**	**15.8**	**22.4**	**185.3**	**205.4**	**7.2**	**212.6**
Balance as of December 31, 2017	**120.0**	**974.6**	**−10.3**	**−7.1**	**0.1**	**11.2**	**−181.5**	**−269.7**	**637.3**	**0.6**	**637.9**
Impact of IFRS 15 first-time adoption	–	–	–	–	–	–	–	4.8	4.8	–	4.8
Impact of IFRS 9 first-time adoption	–	–	–	–	−0.1	–	–	0.1	0.0	–	0.0
Balance as of January 1, 2018	120.0	974.6	−10.3	−7.1	–	11.2	−181.5	−264.8	642.1	0.6	642.7
Net profit for the year	–	–	–	–	–	–	–	373.2	373.2	27.4	400.6
Other comprehensive income	–	–	15.9	–	–	−19.6	−49.4	–	−53.1	0.5	−52.6
Total comprehensive income and loss	**–**	**–**	**15.9**	**–**	**–**	**−19.6**	**−49.4**	**373.2**	**320.1**	**27.9**	**348.0**
Dividends	–	–	–	–	–	–	–	−75.0	−75.0	–	−75.0
Balance as of December 31, 2018	**120.0**	**974.6**	**5.6**	**−7.1**	**–**	**−8.4**	**−230.9**	**33.4**	**887.2**	**28.5**	**915.7**

Notes to the consolidated financial statements of Siltronic AG and subsidiaries

General information to the consolidated financial statements

Nature of operations

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

The Company's shares are listed in the Prime Standard of the Frankfurt Stock Exchange and are included in the TecDAX and MDAX.

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

Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and related interpretations issued by the IFRS Interpretations Committee (IFRIC). The consolidated financial statements comply with IFRS as adopted by the EU. The Group has applied all standards and interpretations that were effective as of December 31, 2018 and endorsed by the EU.

The fiscal year corresponds to the calendar year. Assets and liabilities are reported in the statement of financial position in line with their maturities. The Group classifies assets and liabilities as current if it expects to realize or settle them within 12 months. The statement of profit or loss is prepared using the cost of sales method.

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

The Executive Board of Siltronic AG approved the consolidated financial statements on March 1, 2019.

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

Financial reporting principles applied for the first time in 2018

The application of the following new standards, interpretations, and changes to existing standards is mandatory for the period starting on January 1, 2018. The Group continuously evaluates new standards, interpretations, and changes to existing standards to determine their impact on the consolidated financial statements.

Financial reporting principles applied for the first time

Standard/amendment/interpretation		Effective date	Expected impact on Siltronic
IFRS 9	Financial Instruments	January 1, 2018	see explanatory notes below the table
IFRS 15	Revenue from Contracts with Customers (Including Clarifications to IFRS 15)	January 1, 2018	see explanatory notes below the table
IFRS 2	Amendments to IFRS 2 (Classification and Measurement of Share-based Payment Transactions)	January 1, 2018	none
IFRS 4	Amendments to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts)	January 1, 2018	none
IAS 40	Amendments to IAS 40 (Transfers of Investment Property)	January 1, 2018	none
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	none
IFRS 1 and IAS 28	Annual IFRS improvements 2014-2016-Amendments to IFRS 1 and IAS 28	January 1, 2018	none

IFRS 9 and IFRS 15

As of January 1, 2018, the Group applied IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" for the first time.

The total adjustment (after tax) of equity in the opening balance sheet of the Group as of January 1, 2018 amounts to EUR 4.8 million.

IFRS 9 "Financial Instruments"

IFRS 9 replaces the existing principles in IAS 39 Financial Instruments: Recognition and measurement. IFRS 9 contains amended requirements for the classification and measurement of financial instruments. It also adopts the guidelines on the recognition and derecognition of financial instruments from IAS 39. Due to the modified retrospective transition method chosen by the Group in applying this standard, the comparative information in these financial statements have not been restated to comply with the requirements of the new standard. Siltronic has also made use of the option to continue to apply the accounting policies set out in IAS 39 for hedge accounting. The impact of the first-time application of the standard are immaterial from the Group's perspective. Retained earnings as of January 1, 2018 changed by EUR 0.1 million.

In addition, IFRS 9 replaces the "losses incurred" model of the IAS 39 through a future-oriented "expected credit loss model". The new impairment model has to be applied to financial assets measured at amortised cost or at fair value with changes in other comprehensive income (FVOCI) and to contract assets. The application of the Expected Credit Loss Model (ECL) had no significant impact. Additional information on the determination of the Group's allowance is provided in Notes 07 and 08.

IFRS 9 contains three important categories for financial assets: measured at amortised cost (AC), measured at fair value through profit or loss (FVTPL) and measured at fair value through other comprehensive income (FVOCI). For financial liabilities, IFRS 9 largely retains the existing requirements for classification of IAS 39. The Group's assessment showed no material impact on the classification of financial assets and financial liabilities as of January 1, 2018. The following table shows the classification of financial assets and financial liabilities under IAS 39 compared to the new classification categories of IFRS 9 at the date of first-time application of the standard. Financial assets and financial liabilities for which hedge accounting is applied do not belong to any measurement category. The derivative financial instruments shown in the table below are mainly financial instruments denominated in foreign currencies.

In EUR million	Classification IAS 39	Classification IFRS 9	Dec. 31, 2017 Carrying amount	Jan. 01, 2018 Carrying amount
Securities	AfS [1]	FVTPL	1.3	1.3
Trade receivables	LaR [1]	AC	159.9	159.9
Fixed-term deposits	LaR [1]	AC	116.3	116.3
Other financial assets				
Derivatives for which hedge accounting is used	Hedge Acc. [2]	[2]	15.8	15.8
Derivatives for which hedge accounting is not used	HfT [1]	FVTPL	4.2	4.2
Others	LaR [1]	AC	2.8	2.8
Cash and cash equivalents	LaR [1]	AC	225.8	225.8
Trade liabilities	LaR [1]	AC	67.1	67.1
Other financial liabilities				
Derivatives for which hedge accounting is used	Hedge Acc. [2]	[2]	0.5	0.5
Derivatives for which hedge accounting is not used	HfT [1]	FVTPL	0.2	0.2
Others	LaR [1]	AC	0.5	0.5

[1] LaR = Loans and Receivables; AfS = Available for Sale; HfT = Held for Trading
[2] Exercise of the option to continue hedge accounting in accordance with IAS 39.

IFRS 15 'Revenue from Contracts with Customers'

The new standard establishes a comprehensive framework for determining whether, to what extent and at what point in time revenues are recognized. It replaces existing revenue recognition guidelines, including IAS 18 "Revenues", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes".

Siltronic applied the new standard for the first time for fiscal years beginning January 1, 2018. The standard was implemented using the modified retrospective method. The cumulative adjustment amounts were recognized as of January 1, 2018. Consequently, the comparative information for 2017 have not been adjusted.

The new standard had no material impact on the financial statements of Siltronic. Siltronic recognizes its revenues at a point in time. Retained earnings as of January 1, 2018 increased by EUR 4.8 million (after tax). This increase is based on changed requirements for revenue recognition for customers with whom Siltronic maintains a consignment warehouse. The timing of revenue recognition has shifted from the date on which a customer withdraws goods from a consignment stock to the date on which goods are transferred to it.

The following table summarizes the implementation impacts of IFRS 15 on the affected balance sheet items as of December 31, 2018.

In EUR million	Dec. 31, 2018 Without applying IFRS 15	Adjustments	Dec. 31, 2018 **As reported**
Deferred tax assets	26.7	−1.4	25.3
Inventories	159.4	−10.8	148.6
Contract assets	–	19.4	19.4
Total assets	**1,811.0**	**7.2**	**1,818.2**
Retained earnings and net Group result	26.2	7.2	33.4
Equity attributable to Siltronic AG shareholders	880.0	7.2	887.2
Total equity and liabilities	**1,811.0**	**7.2**	**1,818.2**

In the Profit and Loss Statement, revenues improved by EUR 1.2 million in fiscal year 2018 due to the application of IFRS 15, cost of sales fell by EUR 1.4 million and expenses for income taxes increased by EUR 0.4 million. The consolidated net profit for the financial year 2018 was consequently positively influenced by EUR 2.2 million.

Financial reporting standards and interpretations not yet applied

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

Standard/amendment/ interpretation Endorsed by EU		Effective date	Expected impact on Siltronic
IFRS 16	Leases	January 1, 2019	see explanatory notes below the table
IFRS 9	Amendments to IFRS 9 (Prepayment Features with Negative Compensation)	January 1, 2019	immaterial
IAS 28	Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures)	January 1, 2019	none
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	immaterial

Standard/amendment/ interpretation not yet endorsed by EU		Effective date	Expected impact on Siltronic
IFRS 17	Insurance Contracts	January 1, 2021	analysis not yet completed
IFRS 3	Amendments to IFRS 3 (Definition of a Business)	January 1, 2020	none
IAS 1 and IAS 8	Amendments to IAS 1 and IAS 8 (Definition of Material)	January 1, 2020	immaterial
IFRS 10 and IAS 28	Amendments to IFRS 10 and IAS 28 (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	still pending	none
IAS 19	Amendment to IAS 19 (Plan Amendment, Curtailment or Settlement)	January 1, 2019	immaterial
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual IFRS improvements 2015-2017- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	January 1, 2019	none
Framework	Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	fundamental importance

IFRS 16 'Leases'

IFRS 16, published in January 2016, replaces the previous classification of leases on the lessee side of operating and finance leases and replaces the existing guidelines on leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease" and SIC 15 and SIC 27.

IFRS 16 introduces a uniform accounting model under which leases must be recognised in the lessee's balance sheet. A lessee recognises a right-of-use-asset, which represents its right to use the underlying asset, and a Lease Liability, which represents its obligation to make lease payments. Exemption regulations apply for short-term leases (under 12 months) as well as for leases of low-value assets.

The new Standard is mandatory for annual periods beginning on or after January 1, 2019. Siltronic will recognize right-of-use assets and lease liabilities for its operating leases. The nature of the expenses related to these leases will change as depreciation for right-of-use-assets and interest expense on Lease Liabilities are recognized. This will also result in a slight weakening of the cash flow from financing activities and a slight improvement of the cash flow from operating activities.

Based on currently available information, the Group estimates that lease liabilities from former operating-lease agreements are expected to be recognized in the balance sheet in the amount of EUR 45 million as of January 1, 2019. As lessee, Siltronic will apply the modified retrospective method and exercise the option for short-term leases and leases of low-value assets. Comparative figures for prior periods will not be restated.

Scope of consolidation

The consolidated entities as of the reporting date comprised seven subsidiaries as well as one structured entity compared with six subsidiaries in the previous year. The higher number was due to the foundation of one subsidiary in Shanghai/China and the issuance of a special fund.

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

Structured entities are consolidated in the manner described in IFRS 10 if the economic substance of the relationship indicates the existence of control. Siltronic includes a special fund (fund SILA) as a structured entity in its consolidated financial statements. This fund was set up exclusively for Siltronic and all shares in the fund are held by Siltronic.

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

Composition of the Group

in %	Dec. 31, 2018	Dec. 31, 2017
Europe		
Siltronic Holding International B.V., Rotterdam/The Netherlands	100.0	100.0
Structured Entity: Special Fund, Frankfurt	100.0	–
North America		
Siltronic Corp., Portland, Oregon, US	100.0	100.0
Asia		
Siltronic Singapore Pte. Ltd., Singapore	100.0	100.0
Siltronic Silicon Wafer Pte. Ltd., Singapore	77.7	77.7
Siltronic Japan Corporation, Tokyo/Japan	100.0	100.0
Siltronic Korea Ltd., Seoul/Korea	100.0	100.0
Siltronic Shanghai Co. Ltd., Shanghai/China	100.0	–

Consolidation methods

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

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

Acquisitions

The Group accounts for its business combinations using the acquisition method when control is transferred to the Group. The consideration transferred is measured at fair value and allocated to the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit and loss immediately. Transaction costs are expensed as incurred. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for in equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit and loss.

Loss of control

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

Foreign currency translation

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

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

Exchange rates

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

		Spot rate December 31		Average rate for the year	
	ISO code	2018	2017	2018	2017
US dollar	USD	1.14	1.20	1.18	1.13
Japanese yen	JPY	126	135	130	126
Singapore dollar	SGD	1.56	1.60	1.59	1.56

Estimates and assumptions used in preparing the consolidated financial statements

The preparation of the consolidated financial statements in compliance with IFRS requires management to make assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and contingencies. These assumptions and estimates impact the carrying amount of assets and liabilities at period end and the amount of income and expenses for the period. The assumptions on which the estimates are based relate primarily to the uniform determination of useful lives throughout the Group, the recognition and measurement of provisions, the probability of realizing future tax benefits, and cash flow projections which were used for impairment testing. The actual results may differ from these assumptions and estimates. Changes in accounting estimates are recognized as soon as they become apparent and affect the net results for the period in which the estimates have changed and in any future periods affected.

Defined benefit obligations

The accounting of pensions and similar obligations is in accordance with actuarial valuations. These valuations are based on statistical and other factors in order to anticipate future events. The factors include the discount rate, expected salary and pension increases as well as the mortality rate. If market and economic conditions change, these assumptions could vary considerably from actual developments, consequently leading to major changes in pension and similar obligations as well as the associated future expenses.

The provision recorded for pension obligations is valued by discounting the Group-specific, expected future cash flows. The discount rate is derived from the yield curve of high-grade, fixed interest corporate bonds with maturities matching the pension obligations. The bonds are denominated in the same currency as their underlying pension obligations and have a rating of at least AA from one of the three major rating agencies. This is based on information as of the closing date and on a maturity that approximates the maturity of the pension obligation.

In October 2018, new "Richttafeln Heubeck 2018G" mortality tables were published in Germany. Siltronic switched from the "modified Heubeck Richttafeln 1998" to the "unmodified 2018G Richttafeln" mortality tables at the end of the fiscal year. As a result of this change in estimate, the pension provision increased by EUR 28.0 million.

The provision for pensions amounts to EUR 362.3 million as of December 31, 2018.

Provisions

Significant risks inherent in environmental protection provisions and onerous contracts include possible changes in future cost/benefit estimates, changes in the likelihood of their utilization, and enhanced statutory rules concerning the elimination and prevention of environmental damage. Changes in the discount rate also lead to adjustments when determining non-current provisions. The current environment of low interest rates leads to increases in the carrying amount of non-current provisions.

Tax provisions contain uncertain tax positions in case the amounts stated in the tax returns can eventually not be realized. These are determined on the basis of past experience of tax audits.

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, Siltronic 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.

Deferred tax assets

At the end of each period, the Group assesses whether the probability of future tax benefits is sufficient to recognize deferred taxes. Among other things, this requires that management evaluates the tax benefits resulting from currently available tax strategies and future taxable income, as well as taking additional positive and negative factors into account. In the case of entities that have reported a number of tax losses in the recent past, deferred tax assets are only recognized in exceptional cases if there is substantial evidence that they will be realized.

Deferred tax assets as of December 31, 2018 amount to EUR 25.3 million.

Accounting policies

The Company and its subsidiaries apply uniform methods for the recognition and valuation of assets, liabilities, income and expenses.

Assets and liabilities of the consolidated financial statements are reported based on their historical cost, with the exception of the items reported at fair value. In particular, derivative financial instruments and plan assets used to cover future pension obligations are recorded at fair value. The accounting policies have been applied consistently.

Intangible assets

Intangible assets acquired are measured at cost and, if their useful lives can be determined, are amortized on a straight-line basis. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. Amortization of intangible assets (apart from goodwill) is allocated to the functional areas that use the assets. Intangible assets with indefinite useful lives are subject to an annual impairment test. In the year 2014, a goodwill was recorded as a result of the step acquisition of Siltronic Silicon Wafer Pte. Ltd (SSW).

Internally generated intangible assets are capitalized if it is probable that a future economic benefit can be associated with the use of the asset and the costs of the asset can be determined reliably. Such assets are recognized at cost and amortized on a straight-line basis. Their stated useful lives correspond to those of the intangible assets acquired against payment. The capitalization of development costs does not play a role for the Group because development costs refer to existing products and processes respectively or because future cash inflows are too uncertain.

Property, plant and equipment

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over its expected economic life. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. In addition to the purchase price, acquisition costs include incidental acquisition costs as well as any obligation incurred for the demolition and removing of the asset from its location. Property, plant and equipment is not revalued on the basis of the regulations in IAS 16. Day-to-day maintenance and repair costs are expensed as incurred. Costs for replacing parts or carrying out major overhauls of property, plant and equipment are capitalized if future economic benefits are likely to accrue to the Group and if the costs can be measured reliably.

If property, plant and equipment is permanently shut down, sold or given up, the acquisition or production costs are derecognized, along with the corresponding accumulated depreciation. Any resulting gain or loss from the sale of an asset is recognized under other operating income or expenses.

Financing costs that were incurred in connection with particular qualifying assets and which can be attributed directly or indirectly to them are capitalized as part of acquisition or production costs until the assets are used for the first time. No borrowing costs were capitalized in the periods presented.

Depreciation and amortization

Depreciation and amortization are recognized using the straight-line method and based on the following useful lives:

Useful lives

	Years
Intangible assets	3 to 5
Production buildings	20 to 30
Other buildings	10 to 30
Machinery and equipment	6 to 12
Factory and office equipment	3 to 10

If, having been measured in accordance with the above principles, the carrying amounts of intangible assets or items of property, plant and equipment that were amortized or depreciated are higher than their recoverable amounts as of the reporting date, corresponding impairment losses are recognized as an expense.

The Group reviews regularly the residual value and the useful life of assets.

At the end of every reporting date, the Group checks whether there are triggering events for recognizing (or reversing) impairments. An impairment loss is then recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher amount of the fair value less costs to sell, and the value in use.

Government grants

Government grants that relate to the acquisition of an asset reduce acquisition and production costs and are recognized in profit and loss as the asset is depreciated or amortized. Unless otherwise indicated, these grants (investment incentives) are provided by government bodies.

Grants that are compensation for expenses or losses already incurred are recognized as separate assets if the company is of the opinion that all material obligations have been fulfilled and the necessary application form has been or will be submitted. Such grants are recognized as other operating income.

Inventories

Inventories are measured at cost using the average cost method. Lower net realizable values or prices are taken into account by means of write-downs to fair value less costs to sell. Cost of sales includes directly attributable costs as well as appropriate portions of indirect material and labor costs, administrative expenses, and depreciation. Due to the short-term production processes, financing costs are not included as part of acquisition or production costs. The overhead cost allocations are determined on the basis of a specific capacity utilization.

Write-downs are recognized for inventory risks resulting from obsolescence or reduced usability or to reflect other reductions in the recoverable amount.

Unfinished and finished goods are combined for disclosure purposes due to the nature of the wafer production process.

Financial instruments and derivatives

A financial instrument is a contract that gives rise to a financial asset at one party and a financial liability or equity instrument at another party. Financial instruments are recognized in the consolidated financial statements at the time that the Group becomes a contracting party to the financial instrument. Trade receivables are recognized at the time they arise. All other financial assets and liabilities are initially recognized on the trade date when the entity becomes party to the contract under the terms of the instrument.

A financial asset (other than a trade receivable) or financial liability is initially measured at fair value. For an item that is not measured at fair value through profit or loss, the transaction costs directly attributable to its acquisition or issue are added. Trade receivables without significant financing components are initially measured at the transaction price. The fair value of financial instruments corresponds to the amount that the Group would receive or pay if an exchange or settlement of the financial instruments took place. If available, quoted market values for financial instruments are used. Otherwise, the fair values are calculated on the basis of the market conditions prevailing on the valuation date, normally interest rates and exchange rates. The fair value is determined using financial mathematical methods, e.g. by discounting the future cash flows at the market interest rate or using generally accepted option pricing models.

The Group's financial assets comprise cash and cash equivalents, trade receivables, other receivables, fixed-term deposits, securities and primary and derivative financial assets. Financial assets must generally be settled in cash or for another asset. This includes trade liabilities and derivative financial liabilities.

Until January 1, 2018, a classification was made in accordance with IAS 39 in the subsequent measurement of financial assets and liabilities according to whether a financial instrument was held-for-trading or held-to-maturity, whether such a financial instrument was available-for-sale, or whether the financial assets concerned were loans and receivables granted by the Company. Loans and receivables were non-derivative financial assets that were not quoted in an active market. They were measured at amortized cost using the effective interest method. All other primary financial assets, which included equity instruments and debt instruments not held-to-maturity, were classified as available-for-sale and reported at fair value if their fair value could be determined reliably.

Derivative financial instruments were generally measured at fair value, irrespective of the purpose or intention for which they were concluded. Positive market values were recognized as a receivable and negative market values as a liability. Derivative financial instruments are mainly used for hedging purposes to reduce the Group's exposure to foreign currency exchange rates. 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.

Changes in the market value of derivatives used to hedge the risk of future cash flows denominated in a foreign currency (cash flow hedges) were recognized in other comprehensive income. The accumulated amount of other comprehensive income of the hedging instrument was not released to the statement of profit or loss until the hedged item was realized. If such a derivative was sold or the hedging relationship was discontinued, the change in its value continues to be reported under other equity items until the underlying transaction occured.

Effective January 1, 2018, the Company is required under IFRS 9 to make an assessment of the objectives of the business model in which the financial asset is held. This is done at a portfolio level as it best reflects the way the business is managed and information is given to management. According to the business model, financial assets are measured at amortised cost (AC), at fair value with changes in profit or loss (FVTPL) or at fair value with changes in other comprehensive income (FVOCI).

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets. In this case, all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is valued at amortized cost if it is not designated as FVTPL and is held as part of a business model whose objective is to hold financial assets for the collection of the contractual cash flows, and the contractual terms of the financial asset lead to cash flows at defined points in time that solely represent the repayment of principal and interest payments on outstanding amounts. Subsequent valuation is made using the effective interest method. Amortized costs are reduced through impairment losses. Interest income, foreign exchange gains and losses and impairment are reported through profit or loss. A gain or loss arising from the derecognition of an item is reported through profit or loss.

A debt instrument is designated as FVOCI if it is not designated as FVTPL and is held as part of a business model whose objective is to hold financial assets for the collection of the contractual cash flows as well as to sell financial assets, and the contractual terms lead to cash flows at set points in time that solely represent the repayment of principal and interest on the outstanding amount. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized through profit and loss. Other net gains or losses are reported under other comprehensive income. Upon derecognition, accumulated other comprehensive income is reclassified to profit or loss.

When an equity investment not held for trading is recognized for the first time, the Group can irrevocably choose to report subsequent changes in the fair value of the investment in other comprehensive income. This decision is taken for each investment on a case-by-case basis. Dividends are recognized as income in profit or loss. Other net gains or losses are reported in other comprehensive income and never reclassified to profit or loss.

All financial instruments not measured at amortized cost or as FVOCI are recognized as FVTPL. This also comprises all derivative financial assets. Net gains and losses, including any interest or dividend income, are recognized through profit and loss.

As Siltronic has made use of the option of continuing to apply the standards for hedge accounting under IAS 39, no changes have arisen for cash flow hedge arrangements compared with the approach applied to date.

Financial assets and financial liabilities are generally not offset, neither under IAS 39 nor IFRS 9. A net amount is presented only if the Group currently has a right to offset the recognized amounts and intends to settle on a net basis.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset have expired or the rights to collect the cash flows are assigned in a transaction in which all material risks and opportunities associated with ownership of the financial asset are transferred.

A financial liability is derecognized when the contractual obligations are fulfilled, canceled or have expired. For further information see Note 15 Financial Instruments.

Receivables and other assets, contract assets, fixed-term deposits and cash and cash equivalents

Trade receivables and other assets (including tax receivables) as well as contract assets, with the exception of financial derivatives, are generally recognized at cost. Risks are accounted for by appropriate write-downs, which are recorded as value adjustments. Please refer to Notes 07 and 08 for further information on the recognition of valuation allowances. Non-current receivables which are non-interest-bearing or low-interest-bearing are discounted.

Generally, cash and cash equivalents comprise cash in hand, demand deposits, and financial assets that can be converted into cash at any time and are only subject to an insignificant risk of changes in value.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for temporary differences between tax bases and carrying amounts. The deferred tax assets include existing loss carryforwards, the realization of which is assured with sufficient probability. Deferred taxes are determined on the basis of the tax rates which, under current law, are applicable or anticipated in the individual countries when they are realized. Deferred tax assets and liabilities are offset only to the extent possible under the same tax authority. The change of deferred tax assets and liabilities is recognized in the statement of profit or loss. In cases where profits or losses are recognized in other comprehensive income, the deferred tax effect is likewise posted under other comprehensive income.

Provision for pensions – defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contribution to the plan.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest income), and the effect of the asset ceiling (if any), are recognized immediately in other comprehensive income. Actuarial gains and losses are arising from the difference between the estimate at the start of the period and actual outcome at the end of the period in relation to mortality rates, pension and salary trends, and discount rates.

The Group determines net interest expenses on the net defined liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability applicable at that date, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expenses and other expenses to defined benefit plans are recognized in profit and loss.

If the present value of a defined benefit obligation changes due to a plan modification or curtailment, the Group recognizes the effect as a past service cost. This is immediately recognized in profit or loss when it occurs. The profits and losses resulting from settlement are also recognized immediately in the statement of profit or loss when settlement takes place. Administrative expenses that are not related to the management of plan assets are likewise recognized in profit or loss when incurred. The expense incurred in funding the pension provisions (service cost) is allocated to the costs of the functional areas concerned. The interest cost is reported under financial result, other finance cost, net.

Provision for pension – defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Provisions for early retirement and anniversaries

Provisions for early retirement and anniversaries are measured in accordance with actuarial appraisals and belong to other long-term employee benefits. The Group's net liability is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Provisions for early retirement are linked to the rendering of future service.

The provisions are recognized on a pro rata basis over the service period during the work phase. The part of the salary that employees forgo during the work phase is secured with plan assets against default. The provision for early retirement represents the Group's net liability, i.e. after the plan assets have been offset against the total obligation. The additional compensation granted is not completely earned until the required work has been rendered in full by the employees.

Other provisions

Provisions are recognized in the statement of financial position for present legal or constructive obligations toward third parties if an outflow of resources to settle these obligations is probable and its amount can be reliably estimated. The amounts recognized are based on what will be required to cover the Group's future payment obligations, identifiable risks and contingencies. As a rule, cost components that are capitalized under inventories are included in the measurement of other provisions. Significant future price increases are taken into account in the measurement.

Non-current provisions are measured at the discounted present value as of the reporting date. The discount rate applied is the current market interest rate for risk-free investments with terms corresponding to the residual term of the obligation to be settled. Expected refunds, provided that they are sufficiently certain or legally enforceable, are not offset against provisions. Instead, they are capitalized as separate assets.

Provisions for restructuring costs are recognized if a detailed formal plan for restructuring has been drawn up and conveyed to the affected parties. Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring.

Provisions for contingent losses arising from onerous contracts are recognized if the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the contractual obligations. Provisions for environmental protection are recognized if the future cash outflows for complying with environmental legislation or for cleanup measures are likely, the costs can be estimated with sufficient accuracy and no future acquired benefit can be expected from the measures.

If an amended estimate results in a reversal of a provision, the impact is presented in the same line item of the statement of profit or loss as the original estimate. If the original estimate has been presented in other operating expense the reversal would be presented in other operating income.

Liabilities and customer prepayments

Trade liabilities, customer prepayments and other liabilities (including tax liabilities) are measured at amortized cost using the effective interest method.

Sales recognition

In accordance with IAS 18 (effective until December 31, 2017), revenue from product sales was recognized when the products were delivered and the significant risks and rewards of ownership were transferred to the customer.

As of January 1, 2018, sales are recognized in accordance with IFRS 15. The decisive factor for the realization of sales is the date on which control is transferred to the customer. At which point-in-time control has passed to the customer is assessed on the basis of the following criteria:

– Transfer of risks and rewards to the customer
– Right to payment for Siltronic
– Acquisition of ownership by the customer

The changeover from IAS 18 to IFRS 15 had an impact on revenue recognition at Siltronic, mainly for deliveries into customer consignment stocks. Further information can be found in the Notes section General Information to the annual consolidated financial statements (see 🗋 114).

Revenue from services is recognized as soon as the service has been rendered.

Sales comprise the fair value of the consideration received for the sale of goods and services in the ordinary course of business. They are reported net of value-added tax and other taxes incurred in connection with sales.

Cost of sales

Cost of sales comprise the manufacturing costs for products, the purchase price for trade products, the costs incurred for services rendered to a customer. In addition to directly attributable costs such as raw materials and supplies, direct labor and energy costs, cost of sales includes depreciation/amortization, appropriate overhead costs allocated to manufacturing activities, and inventory write-downs.

Selling expenses, research and development costs, and general administration expenses

Selling expenses include costs incurred by the sales organization and the cost of market research, application support on customers' premises and commission expenses.

Research and development expenses cover costs incurred in the development of products and processes. Research costs in the narrow sense are recognized as expenses when they are incurred, i.e. not capitalized. Development costs are capitalized only if all the prescribed recognition criteria have been met, i.e. the research phase can be separated clearly from the development phase, and the costs incurred can be allocated to the individual project phases without any overlaps. Additionally, there must be sufficient certainty that future cash inflows will be realized.

General administration expenses include the pro rata payroll and material costs of corporate control functions, human resources, and accounting and information technology, unless they have been charged as an internal service to other functional areas.

Timing of recognition of income and expenses

Operating expenses are reported as expenses when the service is utilized and interest income is accrued using the effective interest rate.

Notes to the statement of profit or loss

01 Sales, cost of sales, other operating income, and other operating expenses

Revenues

In EUR million	2018	2017
Sales of contracts with customers (IFRS 15) 1)	1,456.7	–
Product sales	–	1,176.0
Other sales1)	0.0	1.3
Total	1,456.7	**1,177.3**
Cost of sales	**−824.8**	**−807.0**
thereof inventory valuation allowance	−7.9	*−2.7*
thereof reversal of valuation allowance	1.5	*6.7*
Other operating income		
Currency transactions	68.3	57.0
Government grants for research	0.6	0.8
Reversal of provisions and liabilities	0.2	0.2
Write-up of property, plant and equipment	1.8	–
Gains from disposal of property, plant and equipment	0.2	0.0
Reversal of valuation allowances for receivables	0.1	0.1
Other	3.5	1.6
Total	**74.7**	**59.7**
Other operating expenses		
Currency transactions	−67.6	−60.0
Impairment of property, plant and equipment	−0.1	0.0
Losses from disposal of property, plant and equipment	−1.6	−1.7
Other	−9.0	−1.6
Total	**−78.3**	**−63.3**

1) IFRS 15 was applied for the first time in fiscal year 2018. In 2018, other sales (not IFRS 15) amounted to less than EUR 0.1 million. In the previous year, other sales mainly related to other services.

Revenues are generated predominantly (EUR 1,455.5 million) by the sale of wafers and to a lesser extent by services and license fees. A breakdown of revenues by region can be found in Note 16 Segment reporting.

Depreciation and amortization expenses and personnel expenses and cost of sales

Depreciation and amortization expenses amount to EUR 93.4 million in 2018 (prior year: EUR 117.4 million).

Personnel expenses amount to EUR 321.2 million in 2018 (prior year: EUR 309.0 million), of which EUR 257.7 million was attributable to salaries (prior year: EUR 248.2 million), EUR 24.0 million to social security (prior year: EUR 23.2 million), and EUR 39.5 million to pensions (prior year: EUR 37.6 million). The cost of materials came to EUR 351.2 million (prior year: EUR 344.5 million).

02 Interest income and expenses/ other financial result

In EUR million	2018	2017
Net interest income		
Interest income	4.0	1.9
Interest expenses	−0.8	−1.2
Total	**3.2**	**0.7**
Other financial result		
Interest cost on provisions	−8.7	−8.4
Other financial income	0.8	0.0
Other financial expenses	−4.6	−0.8
Total	**−12.5**	**−9.2**

Interest income was generated exclusively by cash deposits and interest-bearing securities.

Other finance result

The interest cost on provisions mainly refers to pensions and includes net interest on the net defined benefit liability.

Other financial income and expenses mainly relate to the special fund.

03 Income taxes

Income taxes are calculated on the basis of applicable or anticipated tax rates according to the tax laws in the individual countries as of the realization date. These tax rates are generally based on the legal statutes valid or adopted as of the reporting date.

In Germany, prevailing tax rates include a corporate income tax, a solidarity surcharge on corporate income tax, and a trade income tax that varies depending on the municipality in which a company is located.

Tax rates in Germany

In %	2018	2017
Weighted average trade income tax rate	12.1	12.5
Corporate income tax rate	15.0	15.0
Solidarity surcharge on corporate income tax	5.5	5.5
Income tax rate for Siltronic AG in Germany	27.9	28.3

Profits generated by foreign subsidiaries are taxed in the respective countries at the relevant local and national tax rates. The income tax rates for the foreign subsidiaries are within a range of 0 percent to 31 percent.

Deferred taxes on undistributed profits of subsidiaries are recognized only if distribution is planned. The amount of EUR 404.5 million (prior year: EUR 164.4 million) is available for distribution.

The tax expenses reported for 2018 were EUR 87.8 million (prior year: EUR 35.0 million). Applying the German tax rate on the result before tax would result in tax expense of EUR 136.5 million (prior year: EUR 63.6 million). The differences between the expected tax expense and the actual tax expense of EUR 48.7 million (prior year: EUR 28.6 million) were primarily caused by variances in tax rates. In the previous year, the difference was also caused to a greater extent by the reduction in the impairment of deferred tax benefits at Siltronic AG, Siltronic Japan Corporation and Siltronic Corp.

Income tax comprises current tax income for prior years with an amount of EUR 5.3 million (prior year: EUR 0.7 million) and current tax expenses for prior years of EUR –1.5 million (prior year: EUR 0.0 million).

Tax expense

In EUR million	2018	2017
Current taxes, Germany	–64.1	–11.1
Current taxes, foreign	–41.0	–25.7
Total current taxes	**–105.1**	**–36.8**
Deferred taxes, Germany	8.2	0.8
Deferred taxes, foreign	9.1	1.0
Total deferred taxes	**17.3**	**1.8**
Total income taxes	**–87.8**	**–35.0**
Reconciliation of effective tax rate		
Result before taxes	488.4	227.2
Income tax rate for Siltronic AG in %	27.9	28.0
Expected tax expense (–)/benefit (+)	**–136.5**	**–63.6**
Variance in tax rate	47.5	13.3
Effect of non-deductible expenses	–3.0	–0.8
Effect of tax-free income	3.0	3.5
Taxes relating to other periods (current earnings)	3.8	0.7
Effect due to unrecognized deferred tax assets	8.3	16.0
Other variances	–10.9	–4.1
Total income taxes	**–87.8**	**–35.0**
Effective tax rate in %	**18.0**	**15.4**

Due to the utilization of previously unrecognized tax losses from prior periods, the actual income tax expense in the current fiscal year decreased by EUR 6.7 million (previous year: EUR 15.9 million).

Deferred tax assets are recognized only if it is assumed that the tax benefits will be realized. The following table shows the allocation of deferred taxes to the assets and liabilities:

Allocation of deferred taxes

	As of December 31, 2018		As of December 31, 2017	
In EUR million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0.1	–	–	–
Property, plant and equipment	2.4	2.3	3.0	2.3
Current assets	16.6	4.2	2.4	5.5
Provision for pensions	0.4	–	4.7	–
Other provisions	5.5	0.3	0.4	0.3
Liabilities	4.5	–	1.1	–
Loss carryforward	0.9	–	0.3	–
Total	**30.4**	**6.8**	**11.9**	**8.1**
Netting	−5.1	−5.1	−5.4	−5.4
Deferred taxes reported in the statement of financial position	**25.3**	**1.7**	**6.5**	**2.7**

A netting of deferred tax assets and deferred tax liabilities is performed only in the case that future benefits and obligations relate to the same taxable entity and to the same tax authority.

Changes in deferred tax assets and liabilities in the amount of EUR 17.3 million (prior year: EUR 1.8 million) were fully taken to profit or loss, while EUR 2.5 million (prior year: EUR – 1.1 million) were recognized directly in other comprehensive income. The changes in other comprehensive income relate to derivatives (cash flow hedges) and pension provisions.

Tax loss carryforwards not utilized amount to EUR 103.6 million (prior year: EUR 126.7 million). Thereof, the tax loss carryforwards expire in the following years as shown below:

Tax loss carryforwards

In EUR million	2018	2017
Within 1 year	–	12.1
Within 2 years	0.2	–
Within 3 years	38.6	0.2
Within 4 years	9.8	36.0
Within 5 years or later	55.0	60.4
Total	**103.6**	**108.7**

The expiring loss carryforwards relate to the subsidiary Siltronic Japan Corporation, Tokyo, Japan. The loss carryforwards can only be partially utilized, therefore only deferred tax assets of EUR 0.9 million were recognized as deferred tax assets on loss carryforwards. If deferred taxes had been recognized on the valuation allowances for loss carryforwards, the amount would have been EUR 31.1 million (previous year: EUR 38.4 million).

As of December 31, 2018, no deferred tax assets were recognized for tax-deductible temporary differences of EUR 417.2 million (prior year: EUR 355.6 million).

Notes to the statement of financial position

04 Development of intangible assets

In EUR million	Goodwill 2018	Customer relationship 2018	Other 2018	**Total 2018**
Cost				
January 1	20.5	10.5	44.5	75.5
Additions	–	–	0.4	0.4
Disposals	–	–	–1.1	–1.1
Transfers	–	–	0.9	0.9
Effect of movements in exchange rates	–	0.3	0.6	0.9
December 31	**20.5**	**10.8**	**45.2**	**76.5**
Amortization				
January 1	–	8.2	43.3	51.4
Additions	–	2.1	0.9	3.0
Disposals	–	–	–1.1	–1.1
Effect of movements in exchange rates	–	0.3	0.6	0.9
December 31	**–**	**10.6**	**43.7**	**54.2**
Carrying amount as of December 31	**20.5**	**0.2**	**1.5**	**22.2**

In EUR million	Goodwill 2017	Customer relationship 2017	Other 2017	**Total 2017**
Cost				
January 1	20.5	11.0	45.4	76.9
Additions	–	–	0.9	0.9
Disposals	–	–	–0.9	–0.9
Transfers	–	–	0.6	0.6
Effect of movements in exchange rates	–	–0.5	–1.5	–2.0
December 31	**20.5**	**10.5**	**44.5**	**75.5**
Amortization				
January 1	–	6.4	44.1	50.5
Additions	–	2.2	1.4	3.6
Disposals	–	–	–0.8	–0.8
Effect of movements in exchange rates	–	–0.4	–1.4	–1.8
December 31	**–**	**8.2**	**43.3**	**51.5**
Carrying amount as of December 31	**20.5**	**2.3**	**1.2**	**24.0**

The goodwill and the customer relationship acquired through business combinations are due to the consolidation of SSW in 2014.

The customer relationship is amortized based on management's expectation of the term of the relationship. The amortization follows the straight-line method over the expected term of the customer relationship. Other intangible assets primarily comprise industrial property rights and similar rights acquired at cost from third parties, e.g. software licenses.

Amortization of intangible assets are included in the cost of sales.

For the purpose of impairment testing, goodwill has been allocated to the Group's Cash Generating Unit (CGU) '300 mm'. The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The key assumptions used for the calculation of the recoverable amount are a long-term EBITDA margin in line with the three-year medium-term planning without expansion investments, a remaining useful life of the leading asset of the CGU (parts of buildings designed for the wafer production), and a discount rate of almost 12.0 percent before tax. The determination of the long-term EBITDA margin and the useful life of the leading asset which covers 22 years, reflects past experiences in relation to similar CGUs. The discount rate was derived from a post-tax measure estimated on the historical industry average WACC. External information sources in relation to the EBITDA margin of the CGU are only available for some of the EBITDA components.

In the medium-term planning without expansion investments, increasing revenues and stable EBITDA margins are assumed. For the following years up to the end of the observation period it is assumed, that the average EBITDA of the medium-term planning without expansion investments is achieved and remains constant. In order for the CGU to reach EBITDA following the medium-term planning without expansion investments, EBITDA growth of an average of two percent per annum must be achieved during the relevant medium-term planning period without expansion investments. No growth rate was applied.

The recoverable amount exceeds the carrying amount by more than EUR 1 billion.

In addition, Siltronic conducts sensitivity analyses in which different assumptions are made for the EBITDA growth and discount rate, which Siltronic considers to be unlikely but possible.

There is a possibility of lower than forecasted EBITDA margins due to an overcapacity of the worldwide wafer supply industry and due to significant exchange rate fluctuations. A drop in EBITDA margin by an average of 37 percent compared to the medium-term planning without expansion investments would result in an impairment.

There is the possibility of higher than forecasted weighted-average cost of capital. A rise in the discount rate by 29 percentage points would lead to an impairment.

05 Development of property, plant and equipment

In EUR million	Land, buildings and similar rights	Machinery and technical equipment	Other equipment, factory and office equipment	Assets under construction and advanced payments	Total
	2018				
Cost					
January 1	712.3	2,430.6	130.5	77.7	3,351.1
Additions	0.7	82.3	3.8	169.7	256.5
Disposals	–137.6	–23.9	–6.7	–0.1	–168.3
Transfers	0.2	39.2	1.4	–41.7	–0.9
Effect of movements in exchange rates	17.2	32.3	0.7	2.4	52.7
December 31	**592.8**	**2,560.4**	**129.8**	**208.1**	**3,491.1**
Depreciation and impairment losses					
January 1	506.4	2,208.7	122.4	0.3	2,837.8
Additions	13.1	73.5	3.6	–	90.2
Impairment loss	0.1	–	–	–	0.1
Disposals	–137.6	–19.6	–6.7	–	–163.9
Transfers	0.0	0.3	0.0	–0.3	0.0
Write-ups	–1.7	–	–	–	–1.7
Effect of movements in exchange rates	13.9	30.1	0.7	0.0	44.7
December 31	**394.1**	**2,293.1**	**120.0**	**0.0**	**2,807.1**
Carrying amount as of December 31	**198.6**	**267.4**	**9.8**	**208.1**	**683.9**

In EUR million	Land, buildings and similar rights	Machinery and technical equipment	Other equipment, factory and office equipment	Assets under construction and advanced payments	Total
	2017				
Cost					
January 1	746.1	2,439.2	131.5	43.7	3,360.5
Additions	1.6	42.8	2.8	75.2	122.4
Disposals	–	–10.4	–3.0	0.0	–13.4
Transfers	4.0	35.4	0.8	–40.8	–0.6
Effect of movements in exchange rates	–39.4	–76.4	–1.6	–0.4	–117.8
December 31	**712.3**	**2,430.6**	**130.5**	**77.7**	**3,351.1**
Depreciation and impairment losses					
January 1	525.6	2,191.8	123.0	0.3	2.840,7
Additions	13.1	97.0	3.7	–	113.8
Impairment loss	0.0	–	–	–	0.0
Disposals	–	–9.0	–2.8	–	–11.8
Transfers	0.0	–0.0	–	–	0.0
Effect of movements in exchange rates	–32.3	–71.1	–1.5	0.0	–104.9
December 31	**506.4**	**2,208.7**	**122.4**	**0.3**	**2,837.8**
Carrying amount as of December 31	**205.9**	**221.9**	**8.1**	**77.4**	**513.3**

06 Inventories

In EUR million	2018	2017
Raw materials and supplies	74.5	63.0
Finished and unfinished products	74.2	86.9
Total	**148.6**	**149.9**
of which recorded at net realizable value	*0.0*	*0.0*

As of December 31, 2018, unfinished products amounted to EUR 48.7 million (prior year: EUR 51.5 million). The cost of sales were largely attributable to expenses related to inventories.

07 Trade receivables, contract assets, other financial and non-financial assets as well as income tax receivables

In EUR million	As of December 31, 2018 Total	of which non-current	of which current	As of December 31, 2017 Total	of which non-current	of which current
Trade receivables	**156.3**	–	**156.3**	**159.9**	–	**159.9**
Contract assets	**19.4**	–	**19.4**	–	–	–
Derivative financial instruments	2.1	0.1	2.0	20.0	1.5	18.5
Compensation claims against insurances	44.1	–	44.1	–	–	–
Other	0.7	–	0.7	2.8	–	2.8
Other financial assets	**46.9**	**0.1**	**46.8**	**22.8**	**1.5**	**21.3**
Prepaid expenses	3.1	–	3.1	2.4	–	2.4
Other tax receivables	13.7	–	13.7	15.6	–	15.6
Prepayments to German pension fund of Wacker Chemie VVaG	–	–	–	8.0	–	8.0
Other	4.4	–	4.4	4.0	–	4.0
Other non-financial assets	**21.2**	–	**21.2**	**30.0**	–	**30.0**
Other financial and non-financial assets	**68.1**	**0.1**	**68.0**	**52.8**	**1.5**	**51.3**
of which maturity > 5 years	–	–	–	–	–	–
Income tax receivables	**1.8**	–	**1.8**	**2.6**	–	**2.6**
of which maturity > 5 years	–	–	–	–	–	–

Contract assets

Contract assets relate to the change in revenue recognition for customers with whom Siltronic maintains a consignment stock. The contract assets from the first-time application of IFRS 15 as of January 1, 2018 were EUR 17.7 million. The amount of contract assets as of December 31, 2018 was affected by an impairment of less than EUR 0.1 million. Due to immateriality, the impairment loss was not presented separately in the profit and loss statement. Contract assets are reclassified to trade receivables when an invoice is issued to the customer.

The terms of payment of the invoices correspond to the customary national and industry-specific payment terms (no financing components, no variable consideration). Customers are not granted any rights of return, reimbursement or similar rights if the delivered product complies with the contractual terms. In addition, the customer is not entitled to any material warranty or guarantee claims apart from the statutory claims.

Compensation claim against insurances

The insurance compensation relates to an agreement that Siltronic reached with insurance companies in fiscal year 2018. Under this agreement, the parties agreed on a compensation payment to Siltronic of EUR 44.1 million. In return, the company entered into economic obligations which were recognized as provisions for environmental protection (see Note 11) in the amount of EUR 43.5 million (EUR 40.0 million long-term, EUR 3.5 million short-term). The amount of the claim against the insurance companies and the provision for environmental protection was, as far as permitted, netted in the profit and loss statement. The agreement had only a negligible effect on the operating result (EBIT), which was negatively affected by EUR 0.8 million.

Valuation allowances according to IAS 39 and IFRS 9

The Group has established a receivables management system under which each customer is granted payment terms, based on a credit analysis. This analysis takes into account, where available, published ratings, financial statements, information from credit agencies and internal information. An internal rating (1–6) and a credit limit are defined for each customer, which are regularly reviewed in the same way as outstanding exposures. Overdue payments and overruns of credit limits may result in the customer receiving changed payment terms, being reminded and/or deliveries being stopped.

Trade receivables and other receivables are recognized at amortized cost. In accordance with IAS 39, an assessment was made at each balance sheet date as to whether there was any objective evidence of impairment. Default risks were taken into account by valuation allowances.

The following table shows the aging of receivables for the prior year:

Overdues of receivables

	As of December 31, 2017					
			Of which past due, but not impaired			
In EUR million	Carrying amount	Of which neither impaired nor past due	past due < 30 days	past due 31 to 45 days	past due > 45 days	Of which past due and impaired
Trade receivables	159.9	138.6	20.8	0.1	0.2	0.2
Other financial assets	22.8	22.8	–	–	–	–
Other non-financial assets	30.0	30.0	–	–	–	–
Total	**212.7**	**191.4**	**20.8**	**0.1**	**0.2**	**0.2**

The following table shows the development of valuation allowances on trade receivables in the prior year period (no valuation allowances have been recorded on other assets):

Valuation allowances

In EUR million	2017
As of January 1	0.3
Utilization	–
Additions	–
Reversals	–0.1
As of December 31	**0.2**

The maximum default risk is estimated to match the carrying amount of the receivables not covered by a default insurance.

As of January 1, 2018, the Group determines the allowance in accordance with IFRS 9 using the expected credit loss (ECL) model. The ECL model is applied to contract assets and to all financial assets measured at amortised cost, see Note 15 Financial instruments. Valuation allowances for trade receivables, other financial assets and contract assets are measured at the expected credit loss over the term of the contract.

In estimating expected credit losses, the Group considers information that is relevant and available without inappropriate expense. This includes quantitative and qualitative information, which is based on past experience of the Group and on estimates for the future. The Group assumes that the default risk of a financial asset has increased if it is more than 30 days past due and there is no objective reason such as a complaint.

If it is unlikely that a debtor will fully meet its payment obligations, Siltronic considers a financial asset to be impaired. Collateral is included in the analysis.The 20 largest customers account for more than 80 percent of Siltronic's sales and a very large proportion of these customers are listed on the stock exchange.

The following table shows the breakdown of trade receivables (EUR 156.3 million), other financial assets (EUR 44.9 million) and contract assets (EUR 19.4 million) measured at amortized cost by risk class in fiscal year 2018:

In EUR million	As of December 31, 2018					
Risk assessement	Corresponds to external rating	Internal rating by Siltronic	Loss rate (weighted average) in percent	Gross carrying amount	Valuation allowance	Impaired creditworthiness
Low	AAA to BBB–	1 to 3	0%	218.6	0,0	No
Medium	BB– to BB+	4	0%	2.1	–0.1	No
High	C to D	5 to 6	0%	0.0	0,0	Yes
Total			**0%**	**220.7**	**–0.1**	

Loss rates are calculated on the basis of actual credit losses over the last five years. These rates have been multiplied by scaling factors to reflect the differences between the economic conditions at the time the historical data was collected, the current conditions and the Group's view of the economic conditions over the expected life of the receivables. The maximum exposure to credit risk is the amount of the carrying amount of receivables not covered by credit insurance.

The valuation allowances in accordance with IAS 39 amount to EUR 0.2 million as of December 31, 2017. The application of IFRS 9 as of January 1, 2019 resulted in only a minor change in the valuation allowance. There were no significant changes in fiscal year 2018. At the end of the fiscal year, the valuation allowance amounted to EUR 0.1 million.

08 Cash and cash equivalents, fixed-term deposits and securities

Cash and cash equivalents comprise cash in hand and bank balances with a maturity of three months or less.

Siltronic has fixed-term deposits of EUR 368.2 million and cash and cash equivalents of EUR 257.5 million, which are measured at amortized cost. These are deposited with banks and financial institutions that have a rating of AA to BBB, based on the Standard & Poor's rating. The estimated valuation allowance for cash and cash equivalents was calculated on the basis of expected losses within twelve months and reflects the short maturities. The Group assumes that its cash and cash equivalents have a low default risk based on the external ratings of banks and financial institutions, which are based on industry default probabilities.

For fixed-term deposits, the valuation allowance was determined over the entire remaining term.

When IFRS 9 was applied for the first time, the Group recognized a valuation allowance of less than EUR 0.1 million as of January 1, 2018. The amount of the valuation allowance increased to EUR 0.1 million in 2018.

The securities were classified as available-for-sale until January 1, 2018. As of January 1, 2018, the securities are measured at fair value through profit and loss based on the business model. Most of the securities are held as part of the special fund. The securities of the special fund are managed and their performance measured on a fair value basis.

09 Equity

The individual items of equity and its development are shown in the consolidated statement of changes in equity.

Subscribed capital

The subscribed capital of Siltronic AG amounts to EUR 120 million and is divided into 30 million no-par-value shares, each with an imputed share of the capital amounting to EUR 4. The shares are registered shares. All the shares are of the same type; each share has the same rights attached to it and allows one vote at the Annual General Meeting.

Capital reserve

The capital reserve amounts to EUR 974.6 million and comprises a premium on the issuance of shares, non-cash capital contributions, and transactions with shareholders.

Retained earnings and net result

This item comprises the Group's cumulative net result of prior periods, net of dividend payouts.

Management of capital

The capital management of the Siltronic Group pursues the objective of ensuring a going concern on a sustainable basis and of generating an appropriate return for the shareholders. Instruments of capital management include, amongst others, dividend payments. In managing its capital, Siltronic AG complies with the legal stipulations on capital maintenance. The Company's Articles of Association do not stipulate any capital requirements. Special terms for capital are not used.

There is conditional capital and authorized capital: the Company's share capital may be increased by issuing up to 12,500,000 new no-par-value registered shares, whereby the share capital may increase by up to EUR 50.0 million (conditional capital). Furthermore, the Executive Board is authorized, subject to the approval of the Supervisory Board, to increase subscribed capital until June 7, 2020, by up to a total amount of EUR 60.0 million through the issue of new no-par-value bearer shares on one or more occasions (Authorized Capital).

10 Provision for pensions

There are various post-employment pension plans for Group employees, which depend on the legal, economic and fiscal conditions prevailing in the relevant countries. These pension plans generally take into account employees' service term and salary levels.

The Group operates both defined contribution and defined benefit plans. Defined contribution plans lead to no further obligation for the company beyond paying contributions into special-purpose funds. The Group has both defined contribution and defined benefits plans, which are partly financed through the Pensionskasse der Wacker Chemie VVaG (pension fund) or (fiduciary-) funds. Pension obligations result from defined benefit plans in the form of entitlements to pension benefits for eligible active and former employees of the Siltronic Group and their surviving dependents. In essence, the various pension plans guarantee employees lifelong pensions based on the average salary (career average plan) during employment at Siltronic, or capital payments.

The Group has the following pension plans:

Plans supplied by pension fund

For employees in Germany, a basic pension is provided through the legally independent pension fund. This is financed by members' and company contributions. The promised benefits include retirement, disability, and survivors' benefits.

The Pension Fund is a small mutual insurance company within the meaning of § 210 of the Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG) and is regulated by § 230 (1) VAG. It is thus subject to the regulations for German insurers and is supervised by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). There are legal minimum financing requirements.

For employees who joined the pension fund up to 2004, the basic pension is subject to a fixed benefit obligation, which must be taken into account when valuing the pension obligations. The pension level is independent of the age of the contribution payment and also irrespective of the asset interest rate achieved. For employees who entered the Company after 2004, new rates apply to the basic pension. The benefits are based on guaranteed interest rates and the level of benefits depends on the age of the contribution payment. Annual surplus participation may increase future benefits. In addition, employees in Germany can make contributions to the pension fund in respect of the voluntary supplementary pension scheme PK+. Above all, the contributions under the pension scheme regulated by collective agreement are paid into the voluntary higher insurance on the basis of collective bargaining agreements on single payments and old-age pensions, and on working life and demography.

Benefits by direct commitments

In addition to the pension fund commitments, employees in Germany receive direct commitments in the form of an additional pension. The additional pension insures salary elements above and beyond the pension insurance contribution assessment ceiling. For employees who joined the company before the end of 2004, a pension is granted and depends on the average salary earned during the period of employment with the Group (career average plan). For employees who joined the plan from 2005 onwards, the pension is based on a certain percentage of the salary above the pension insurance contribution assessment ceiling. The resulting capital will bear interest. The benefits may be drawn as a life-long pension or, in the case of commitments from 2005 onwards, as a lump sum. Employees and their surviving dependents are eligible to receive benefits. The employees' entitlements are included in the calculation of the pension obligations. This applies both to employees who joined up to 2004 and to employees who joined from 2005 onwards.

'Deferred Compensation' plan

Non-tariff employees in Germany may contribute part of their salary to an employee-financed commitment plan ('Deferred Compensation'). This plan enables employees to waive their portions of their future salary claims into pension benefits. Depending on the date of conclusion of the agreement to participate in the benefit plan (commitment), the pension capital will bear interest at 7 percent (1996–2001), 6 percent (2002–2010) or 5 percent (2011–2013). Plans bearing 7 percent or 6 percent interest may be drawn in the form of either a pension or a lump sum. Plans bearing 5 percent interest are paid out exclusively in lump-sum form. From 2015, senior executives can pay parts of their salary into an employee-financed benefit plan at a variable interest rate. The variable interest rate is dependent on the current yield of domestic five-year bearer bonds and is at least 2.5 percent and at most 5 percent. The payout is solely in capital form. Commitments made up to December 31, 2000 are valued at the m/n-tel net present value (in accordance with the Projected Unit Credit method). Commitments made on or after January 1, 2001, are valued at the present value of the acquired expectancy or the acquired capital.

For the partial coverage of the pension obligations from direct commitments, deferred compensation and the pension adjustments of the basic pension (previously unfunded defined benefit obligations) an amount of EUR 30 million was paid into a fiduciary fund in the year under review. The fund is financed through a Contractual Trust Arrangement (CTA). The cash transferred is administrated by an external trustee and serves exclusively to finance domestic pension obligations.

The pension entitlements in Germany are protected against insolvency by the Mutual Pension Assurance Association (Pensions sicherungsverein a.G.). The insolvency insurance has an upper limit. There are no legal minimum funding requirements.

United States

Various pension plans are available for employees of foreign subsidiaries, subject to the statutory provisions applicable in the respective countries. With the exception of the US pension plans, these pension plans are not significant to the Group.

In the United States, defined benefit plans exist for employees of Siltronic Corporation, Portland who entered the company before end of 2003. Both plans were closed for new entrants after December 31, 2003. Retirement benefits are paid monthly starting at age 65 and are based on the last average salary paid. Special provisions apply to early retirement at age 55 depending on the employee's years of service. Post-retirement health care and severance benefits are also provided to eligible employees due to the related character. Hires after 2003 only receive defined contribution benefits.

The present value of defined benefit obligations reconcile with the provisions recognized on the statement of financial position as follows:

Net liability of defined benefit obligations

	As of December 31, 2018			As of December 31, 2017		
In EUR million	Germany	Foreign	Total	Germany	Foreign	Total
Present value of the at least partially fund-financed defined benefit obligations	850.8	115.7	966.5	614.8	127.0	741.8
Fair value of plan assets	521.7	89.6	611.3	447.8	90.3	538.1
Funded status	**329.1**	**26.1**	**355.2**	**167.0**	**36.7**	**203.7**
Present value of unfunded defined benefit obligations	–	7.1	7.1	156.5	7.0	163.5
Provisions for pensions and similar obligations	**329.1**	**33.2**	**362.3**	**323.5**	**43.7**	**367.2**

Development of the net liability of defined benefit obligations

In EUR million	2018 Projected benefit plan obligation	2018 Fair value of plan assets	2018 **Difference**
As of January 1	**905.3**	**538.1**	**367.2**
Current service cost	19.5	–	19.5
Interest expenses and interest income	20.6	12.6	8.0
Administrative cost paid out of plan assets	–	−0.8	0.8
Past service cost	0.8	–	0.8
Effects of settlements	−7.4	−7.1	−0.3
Remeasurements			
Gains (–)/losses (+) from plan assets, excluding amounts recognized in interest income	–	−5.0	5.0
Gains (–)/losses (+) from changes in demographic assumptions	28.2	–	28.2
Gains (–)/losses (+) from changes in financial assumptions	7.8	–	7.8
Gains (–)/losses (+) from changes in experience-based assumptions	5.4	–	5.4
Effects of exchange-rate differences	5.8	4.2	1.6
Contributions by			
the Employer to the German pension fund	–	49.5	−49.7
the Employer into a trust (CTA)	–	30.0	−29.8
Pension plan beneficiaries	4.6	4.6	0.0
Pension payments	−18.1	−14.8	−3.3
Transfers	1.1	–	1.1
As of December 31	**973.6**	**611.3**	**362.3**

In EUR million	2017 Projected benefit plan obligation	2017 Fair value of plan assets	2017 **Difference**
As of January 1	**895.6**	**500.5**	**395.1**
Current service cost	20.3	–	20.3
Interest expenses and interest income	19.3	11.2	8.1
Administrative cost paid out of plan assets	–	−0.6	0.6
Past service cost	–	–	–
Effects of settlements	–	0.0	–
Remeasurements			
Gains (–)/losses (+) from plan assets, excluding amounts recognized in interest income	–	17.9	−17.9
Gains (–)/losses (+) from changes in demographic assumptions	1.5	–	1.5
Gains (–)/losses (+) from changes in financial assumptions	−15.8	–	−15.8
Gains (–)/losses (+) from changes in experience-based assumptions	12.7	–	12.7
Effects of exchange-rate differences	−16.9	−10.6	−6.3
Contributions by			
Employer	–	28.5	−28.5
Pension plan beneficiaries	4.3	4.3	–
Pension payments	−16.1	−13.1	−3.0
Transfers	0.4	–	0.4
As of December 31	**905.3**	**538.1**	**367.2**

Assumptions

The pension obligations are calculated by taking into account company-specific and country-specific biometric calculation principles and parameters. The calculations are based on actuarial valuations that factor in the following parameters:

Assumptions

	2018		2017	
In %	Germany	USA	Germany	USA
Discount rate	1.98	4.08	2.10	3.45
Salary growth rate	2.50	3.00	2.50	3.00
Pension growth rate				
Basic and additional pension plan [1)]	1.8/1.0	–	1.8/1.0	–
Deferred compensation [1)]	2.5/1.0	–	2.5/1.0	–

[1)] Varies according to the date the employees enter the company or according to the date of conclusion of the various tariff generations.

In October 2018, Prof. Dr. Klaus Heubeck published new "Richttafeln 2018G" mortality tables in Germany. Siltronic converted to these new mortality tables at the end of the financial year. As a result of this change in estimate, the pension provision increased by EUR 28 million.

Previously, Siltronic had based its calculations on the "Richttafeln 1998" mortality tables developed by Prof. Dr. Klaus Heubeck, subject to modifications. For this, mortality tables approved by the supervisory authority (reduction of mortality rates for men to 75 percent and for women to 85 percent of the guideline values) were used for the pension fund portfolio (basic pension). For the remaining commitments, mortality rates for men were reduced to 60 percent and for women to 85 percent of the Heubeck values.

In the United States, the mortality table "Sex distinct RP-2014 mortality tables" (Scale SoA MP-2014) for pensioners and candidates, differentiated by gender, was applied in the previous year. In the reporting year, the mortality table "RP-2017" was adopted. This change did not result in a significant impact.

The discount rates and increases in salaries taken into account in the calculation of the pension obligation were derived in accordance with the respective economic framework conditions and according to uniform principles. The discount rate is based on a yield curve which is derived from high-grade fixed-income corporate bonds with matching maturities issued by the respective country concerned. It takes into account the Siltronic-specific, expected future cash flows of the obligations.

Sensitivity analysis

The following sensitivity analysis involves an adjustment of only one assumption with the other assumptions remaining unchanged so that the sensitivity of each individual assumption can be observed in isolation. It follows that possible correlation effects between the individual assumptions are not taken into account.

The following table shows the estimated changes in the present value of pension obligations resulting from changes in the respective actuarial assumptions:

Sensitivity analysis

	As of December 31, 2018		As of December 31, 2017	
	Effect on defined benefit obligation		Effect on defined benefit obligation	
	Defined benefit obligation in EUR millions	Change in %	Defined benefit obligation in EUR millions	Change in %
Present value of pension obligations as of the reporting date	**974**		**905**	
Present value of all pension obligations if				
the discount rate increases by 0.5%	885	−9.1	824	−9.0
the discount rate decreases by 0.5%	1.076	10.5	998	10.3
salaries increase by 0.5%	982	0.8	913	0.9
salaries decrease by 0.5%	966	−0.8	898	−0.8
future pension increases are 0.25% higher	1.002	2.9	930	2.8
future pension increases are 0.25% lower	947	−2.8	881	−2.7
life expectancy increases by one year	1.004	3.1	936	3.4

Composition of plan assets

In Germany, the plan assets are comprised of insurance policies issued by the Pension Fund. The Pension Fund invests most of the assets in equities, pension funds, bonded loans as well as real estate. The investment strategy follows the investment guideline provided by the executive board of the pension fund.

The funds managed by an external trustee, which are invested in the form of a Contractual Trust Arrangement (CTA), invest exclusively in shares and funds and serve above all to partially fund domestic direct commitments, deferred compensation and the pension adjustment of the basic pension. The cash is invested on the capital market in accordance with the investment principles laid down in the trust agreement and the investment guidelines. Investment decisions are not made by the trustee but by an investment committee.

The plan assets of pension funds in the United States are generally invested in equities and funds in accordance with the applicable investment guidelines. The composition of plan assets for the Group is:

Composition of plan assets

	As of December 31, 2018			As of December 31, 2017		
In EUR million	Market price quoted in an active market	No market price quoted in an active market	Total	Market price quoted in an active market	No market price quoted in an active market	Total
Real estate	–	95.1	95.1	–	77.7	77.7
Loans and fixed-income securities	202.0	79.3	281.3	207.2	84.0	291.2
Equities/equity funds/private equity	116.6	72.8	189.4	95.3	53.0	148.3
Cash and cash equivalents	–	45.5	45.5	–	20.9	20.9
Total plan assets	**318.6**	**292.7**	**611.3**	**302.5**	**235.6**	**538.1**
thereof own-used real estate		*0.6*	*0.6*	–	*0.4*	*0.4*

The Group was utilizing EUR 0.6 million of plan assets for its own purposes (prior year: EUR 0.4 million). The assets in question comprised the real estate used by Siltronic AG for its headquarters in Munich.

Risks

In addition to the actuarial risks, the risk connected with the defined benefit obligation relates in particular to financial risks connected with plan assets. In Germany, substantial amounts of the defined benefit obligation are covered by plan assets managed by the pension fund. The current and future relationship between the asset allocation in its portfolio and our pension obligations are analyzed and projected as part of an annual asset-liability study to determine the long-term return on plan assets. The long-term yield requirement of the pension fund is calculated as a result. Based on this, the pension fund defines a strategic target portfolio. The yield requirement, the company contribution of the sponsoring companies, and the strategic asset allocation are thus reviewed annually and harmonized.

All capital investments are exposed to market price fluctuation risks. These risks may comprise changes in interest rates, equity prices, or exchange rates.

The plan assets managed by the pension fund are subject to a so-called overlay management that aims to limit losses to a predefined level. Derivatives are partially used for hedging purposes.

Due to the investment of plan assets in equities and funds, the defined benefits plans in the United States and the plan assets of the CTA are not only subject to actuarial risks, but also to market price risks.

Depending on the legal and company statutory provisions, Siltronic is under a duty to reduce any shortfall in the pension plans by providing liquid funds.

Risks arise in particular from the life expectancy of the beneficiaries, the interest rate guarantee risk and also from salary and pension increases. The interest rate guarantee risk is regularly monitored as part of the risk management process. The determination of the long-term interest rate requirement and the ability to meet it is one of the focus areas of the pension fund. Risks from the interest rate guarantee also apply to the 'Deferred Compensation'.

Financing of the pension plan

In the year 2018, benefits in the amount of EUR 11.7 million (prior year: EUR 11.3 million) were paid into pension plans in Germany, and EUR 6.4 million (prior year: EUR 4.8 million) into pension plans outside of Germany. For the 2019 financial year, it is expected that the employer's contributions of approximately EUR 8 million for the following year will again be paid in advance. The expected term of pension obligations as of December 31, 2018 was 21.1 years (prior year: 20.6 years) in Germany and 15.8 years (prior year: 17.1 years) in the United States.

The following table shows the pensions benefits that the Group expects to pay from 2019 to 2023:

Projected payment periods for pension benefits

In EUR million	2019	2020	2021	2022	2023
	19.5	21.6	23.6	26.3	28.1

Composition of pension expenses by pension plan

In EUR million	2018	2017
Current service cost due to defined benefit plans	19.5	20.3
Past service cost/effects of settlements/transfers	0.5	0.0
Administrative cost paid out of plan assets	0.8	0.6
Net interest expenses due to defined benefit plans	8.0	8.1
Expenses due to defined contribution plans	1.0	0.9
Other pension expenses	0.3	0.1
Contributions to public pension schemes	17.4	15.7
Total retirement benefits	**47.5**	**45.7**

11 Other provisions/provisions for income taxes

In EUR million	As of December 31, 2018			As of December 31, 2017		
	Total	of which non-current	of which current	**Total**	of which non-current	of which current
Personnel	37.8	35.1	2.7	43.3	40.7	2.6
Environmental protection	43.5	40.0	3.5	–	–	–
Onerous contracts	12.9	6.8	6.1	8.7	8.0	0.7
Other	2.3	0.1	2.2	1.4	0.1	1.3
Total	**96.5**	**82.0**	**14.5**	**53.4**	**48.8**	**4.6**
Provisions for income taxes	41.6	14.0	27.6	1.2	0.7	0.5

Provisions for personnel

The provisions for personnel primarily represent obligations for anniversary payments and early retirement. The provisions for early retirement plans will be completely paid out in six years. The outflow takes place on a continuous basis. The Group owns bonds and securities that serve as plan assets for early retirement benefits and have been offset against the obligations resulting from early retirement.

Provisions for onerous contracts

The provisions include expected costs for obligations arising from the termination of long-term contracts.

Provision for environmental protection

The provision for environmental protection covers expected burdens due to contamination on the plant site and the neighbouring river at Portland, Oregon, United States. In the fiscal year 2018, Siltronic agreed with insurance companies on a compensation payment of EUR 44.1 million. In return, the company has entered into economic obligations in connection with the contaminated river. These obligations were valued at EUR 43.5 million. The Company expects that EUR 3.5 million of this amount will be utilized in fiscal year 2019 and EUR 40.0 million in the years 2020 to 2024.

There are additional, probably sufficient insurance covers for all further environmental risks in Portland. As in the previous year, the amount of these additional environmental risks cannot be reliably estimated. The reason for this is the lack of indications from the responsible environmental authorities regarding the amount and timing of possible environmental protection measures. Accordingly no obligation is recognized in this respect.

The following table shows the development of other provisions for the year 2018:

Development of other provisions

In EUR million	Jan. 1, 2018	Utilization	Reversal	Addition	Interest and exchange rate	Dec. 31, 2018
Personnel	43.3	−19.5	0.0	13.6	0.3	37.8
Environmental protection	–	–	–	42.5	1.0	43.5
Onerous Contracts	8.7	−0.6	−0.7	5.5	–	12.9
Other	1.4	−1.0	−0.3	2.1	0.1	2.3
Total	**53.4**	**−21.1**	**−1.0**	**63.7**	**1.4**	**96.5**

Provisions for income taxes

The provisions for taxes comprise all expected obligations from domestic and foreign entities. The main reason for the increase in comparison to the previous year were increased taxable profits and later payment dates.

The following table shows the development of the provisions for income taxes:

Provision for income taxes

In EUR million	Jan. 1, 2018	Utilization	Reversal	Addition	Interest and exchange rate	Dec. 31, 2018
Provision for income taxes	1.2	−0.3	0.0	40.0	0.7	41.6

12 Trade liabilities, customer prepayments, other financial and non financial liabilities and income tax liabilities

	As of December 31, 2018			As of December 31, 2017		
In EUR million	Total	of which non-current	of which current	Total	of which non-current	of which current
Trade liabilities	**96.6**	**–**	**96.6**	**67.1**	**–**	**67.1**
Customer prepayments [1]	231.7	175.2	56.5	69.8	42.9	26.9
of which > 5 years	*29.9*	*29.9*	–	–	–	–
Other liabilities						
Derivative financial instruments	16.9	0.2	16.7	0.7	0.0	0.7
Other	0.2	–	0.2	0.5	–	0.5
Total	**17.1**	**0.2**	**16.9**	**1.2**	**0.0**	**1.2**
of which > 5 years	–	–	–	–	–	–
Other non-financial liabilities [1]						
Other tax liabilities	4.3	–	4.3	2.9	–	2.9
Social security	2.5	–	2.5	2.1	–	2.1
Payroll	1.8	–	1.8	1.6	–	1.6
Profit-sharing and bonuses	37.5	–	37.5	29.0	–	29.0
Other personnel liabilities	8.7	–	8.7	11.3	–	11.3
Other	0.0	–	0.0	0.1	–	0.1
Total	**54.8**	**–**	**54.8**	**47.0**	**–**	**47.0**
of which > 5 years	–	–	–	–	–	–
Income tax liabilities	0.2	–	0.2	4.8	–	4.8

[1] The customer prepayments were presented retrospectively for 2017 as a separate line in the balance sheet. In the previous year's report, the customer prepayments were presented in the other non-financial liabilities.

The customer prepayments are equivalent to the contractual liabilities from contracts with customers in accordance with IFRS 15. The amount of EUR 41.2 million reported under contractual liabilities at the beginning of the period was recognised as sales in the 2018 financial year. There were no significant sales from performance obligations fulfilled in previous periods.

The total amount of expected revenues from unfulfilled or partially unfulfilled performance obligations is estimated at over EUR 1.9 billion, of which 40 percent is expected in 2019. The remaining 60 percent are expected to be realized between 2020 and 2024. As permitted by IFRS 15, no information is provided on the remaining performance obligations as of December 31, 2018 that have an expected original term of up to one year.

Liabilities relating to social security refer in particular to amounts withheld that have not been paid.

The other personnel liabilities include primarily vacation and flextime credits. The liability from derivative financial instruments corresponds to the negative fair value of these instruments.

13 Other financial obligations and contingencies

Under rental and leasing agreements classified as operating leases, the Group primarily leases land, buildings and equipment. With the exemption of lease agreements for land with terms up to 2040, the terms of these agreements have a maximum duration of 10 years.

Expenses for operating leases in fiscal years 2018 and 2017 amounted to EUR 5.6 million and EUR 5.4 million, respectively, and are primarily related to minimum lease payments.

Other financial obligations

In EUR million	Dec. 31, 2018	Dec. 31, 2017
Obligations from operating lease agreements		
due within 1 year	5.9	3.9
due between 2 to 5 years	12.7	9.5
due after 5 years and more	19.5	20.0
Total	**38.1**	**33.4**

Subleases exist only to an insignificant extent.

The obligations from operating lease agreements are largely attributable to three long-term leases for land in Singapore with terms up to 2027 and 2037, respectively, as well as a leasehold agreement in Germany with a term up to 2040. There is a 30-year extension option for the leases in Singapore. Both the leases in Germany and the leases in Singapore may be subject to annual indexation. These indexations may result in contingent rent payments in the future.

As of December 31, 2018, obligations from purchase commitments amounted to EUR 293.1 million (prior year: EUR 139.5 million); the commitments primarily related to property, plant and equipment.

The Group enters into long-term purchase agreements with minimum commitments. These minimum purchasing obligations amounted to EUR 63.1 (prior year: EUR 50.2 million) as of December 31, 2018.

For environmental risks located in Portland, Oregon, United States, further obligations could arise that exceed the existing insurance coverage. As in the previous year, a reliable estimate of these contingent liabilities cannot be made. See Note 11.

Other disclosures

14 Earnings per share

	2018	2017
Net result attributable to Siltronic AG shareholders (in EUR million)	373.2	185.3
Average number of outstanding common shares	30,000,000	30,000,000
Number of common shares outstanding at the end of the year	30,000,000	30,000,000
Earnings per common share (in EUR) (average)	12.44	6.18
Dividend payment per common share (in EUR) for the prior year	2.5	0.00

For the financial year 2018, the Management Board and Supervisory Board propose to distribute a dividend of EUR 5.00 per share. The approval or rejection of this proposal is the responsibility of the Annual General Meeting of Siltronic AG. Subject to this approval a total amount of EUR 150 million will be distributed for the total number of 30,000,000 no-par value shares.

15 Financial instruments

The following tables show financial assets and liabilities by measurement categories and classes for the years ending December 31, 2018 and 2017, respectively. Also presented are liabilities from derivatives for which hedge accounting is used, even though they do not belong to any of the measurement categories.

The fair value of financial instruments measured at amortized cost is determined based on discounting, taking into account customary market interest rates that are adequate to the specific risk and correspond to the relevant maturity. The carrying amount of current items recognized in the statement of financial position approximate fair value. The categories in accordance with IAS 39 and IFRS 9 differ between assets and liabilities measured at amortized costs and those measured at fair value as shown in the table below. These categories are sufficient to reflect the classes in accordance with IFRS 7 which distinguish at minimum financial instruments measured at amortized cost from financial instruments measured at fair value. Those financial instruments which show specific risks are derivative financial instruments only pertaining to foreign currency derivatives, which are presented separately in the table below.

Financial assets and liabilities by measurement categories according to IFRS 9

		Measurement according to IFRS 9			
in EUR million	Carrying amount as of Dec. 31, 2018	Amortized Cost (AC)	Fair Value through profit and loss (FVTPL)	Fair Value through other comprehensive income (Hedge Accounting)	Fair Value as of Dec. 31, 2018
Securities	66.9	–	66.9	–	66.9
Trade receivables	156.3	156.3	–	–	156.3
Fixed-term deposits	368.2	368.2	–	–	368.2
Other financial assets	46.9	44.9	0.8	1.2	46.9
Compensation claims against insurances		44.1	–	–	
Other		0.8	–	–	
Derivatives for which hedge accounting is not used (FVTPL)		–	0.8	–	
Derivatives for which hedge accounting is used (Hedge accounting according to IAS 39)		–	–	1.2	
Cash and cash equivalents	257.5	257.5	–	–	257.5
Total financial assets	**895.8**				**895.8**
Trade liabilites	96.6	96.6	–	–	96.6
Other financial liabilities	17.1	0.2	4.3	12.6	17.1
Other		0.2	–	–	
Derivatives for which hedge accounting is not used (FVTPL)		–	4.3	–	
Derivatives for which hedge accounting is used (Hedge accounting according to IAS 39)		–	–	12.6	
Total financial liabilities	**113.7**				**113.7**

Cash and cash equivalents in foreign currency are measured at the exchange rate on the reporting date.

The fixed-term deposits will mature in January 2020. The fair value for these financial instruments also approximates their carrying amount.

Financial assets and liabilities by measurement categories according to IAS 39

In EUR million	Carrying amount as of Dec. 31, 2017	Measurement according to IAS 39 Amortized Cost	Fair Value through profit and loss	Fair Value through other comprehen-sive income	Fair Value as of Dec. 31, 2017
Securities	1.3	–	–	1.3	1.3
Trade receivables	159.9	159.9	–	–	159.9
Fixed-term deposits	116.3	116.3	–	–	116.3
Other financial assets	22.8	2.8	4.2	15.8	22.8
Loans and receivables		2.8	–	–	
Derivatives for which hedge accounting is not used		–	4.2	–	
Derivatives for which hedge accounting is used		–	–	15.8	
Cash and cash equivalents	225.8	225.8	–	–	225.8
Total financial assets	**526.1**				**526.1**
of which pursuant to IAS 39 measurement categories:					
Loans and receivables	*504.8*	*504.8*	–	–	*504.8*
Securities classified as available-for-sale	*1.3*	–	–	*1.3*	*1.3*
Derivatives for which hedge accounting is not used (assets held for trading)	*4.2*	–	*4.2*	–	*4.2*
Derivatives for which hedge accounting is used (Hedge Accounting)	*15.8*	–	–	*15.8*	*15.8*
Trade liabilities	67.1	67.1	–	–	67.1
Recognized at amortized cost		67.1	–	–	
Other financial liabilities	1.2	0.5	0.2	0.5	1.2
Recognized at amortized cost		0.5	–	–	
Derivatives for which hedge accounting is not used (liabilities held for trading)		–	0.2	–	
Derivatives for which hedge accounting is used		–	–	0.5	
Total financial liabilities	**68.3**				**68.3**
of which pursuant to IAS 39 measurement categories:					
Financial liabilities recognized at amortized cost	*67.6*	*67.6*	–	–	*67.6*
Derivatives for which hedge accounting is not used (liabilities held for trading)	*0.2*	–	*0.2*	–	*0.2*
Derivatives for which hedge accounting is used (Hedge Accounting)	*0.5*	–	–	*0.5*	*0.5*

The loans and receivables reported include trade receivables, fixed-term deposits, as well as cash and cash equivalents. Cash and cash equivalents in foreign currency are measured at the exchange rate on the reporting date. Their carrying amounts corresponds to the fair values.

The carrying amounts of trade liabilities and current other liabilities are equal to their fair values.

The following table shows the net gains and losses from financial instruments by IAS 39 measurement category for the previous year and IFRS 9 measurement categories for the reporting year. The impacts on earnings due to derivatives that qualify for cashflow hedge accounting are not shown in the table because they do not belong to any of the IAS 39 or IFRS 9 measurement categories.

Net result by measurement category

EUR Mio.	2018	2017
Loans and receivables (IAS 39)	–	−18.5
Securities classified as available for sale (IAS 39)	–	0.1
Assets/liabilities classified as at fair value through profit or loss (IAS 39/IFRS 9)	−9.0	3.3
Financial assets recognized at amortized cost (IFRS 9)	13.9	–
Financial liabilities recognized at amortized cost (IAS 39/IFRS 9)	−1.6	6.0
Total	**3.3**	**−9.1**

The net result of the category 'Loans and receivables' was primarily due to net losses and gains from exchange rate effects, interest income from financial assets, fixed-term deposits and bank balances (net of valuation allowances).

The net gains on non-current securities are included in the category 'Securities classified as available-for-sale' in the previous year.

In the year under review, the net result from financial assets measured at amortised cost mainly included net gains/losses from currency translation, interest income from fixed-term deposits and cash in banks.

Gains and losses from changes in the fair value of foreign exchange derivatives not qualifying for hedge accounting under IAS 39 and of securities are included in the category "Fair value through profit or loss" category. Dividend income and interest income/expenses from interest-bearing securities are also reported in the net result of this category. Dividend income is not recognized until there is a legal claim to payment.

The net losses (prior year: net gains) in the category 'Financial liabilities recognized at amortized cost' primarily include effects resulting from valuations with different foreign exchange rates.

The interest income from financial assets which are not recognized at fair value through profit or loss amounts to EUR 3.8 million in 2018 (prior year: EUR 1.9 million). This interest income relates to cash and cash equivalents and fixed-term deposits.

The interest expenses from financial liabilities which are not recognized at fair value through profit or loss were EUR 0.0 million in 2018 (prior year: EUR 1.2 million).

The financial assets and liabilities measured at fair value in the statement of financial position were allocated to one of three categories in accordance with the fair value hierarchy described in IFRS 13.

The levels of the hierarchy are as follows:

Level I. Financial instruments measured using quoted prices in active markets (markets showing appropriate liquidity) which are representative to the financial instrument being measured.

Level II. Financial instruments measured using valuation methods based on observable market data, the fair value of which can be determined using similar financial instruments traded in active markets or using valuation methods all of whose parameters are observable. These include hedging and non-hedging derivative financial instruments and loans.

Level III. Financial instruments measured using valuation methods not based on observable parameters, the fair value of which cannot be determined using observable market data and which require application of different valuation methods (typically applied for over-the-counter derivatives and unquoted equity instruments).

The following tables show the categories in the fair value hierarchy to which the financial assets and liabilities measured at fair value in the statement of financial position are allocated:

Fair value hierarchy

In EUR million	As of December 31, 2018 Level I	Level II	Level III	Total
Financial assets measured at fair value				
Fair value through profit or loss (FVTPL)				
Derivatives for which hedge accounting is not used	–	0.8	–	0.8
Securities	66.9	–	–	66.9
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	–	1.2	–	1.2
Total	**66.9**	**2.0**	**–**	**68.9**
Financial liabilities measured at fair value				
Fair value through profit or loss (FVTPL)				
Derivatives for which hedge accounting is not used	–	4.3	–	4.3
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	–	12.6	–	12.6
Total	**–**	**16.9**	**–**	**16.9**

In EUR million	As of December 31, 2017 Level I	Level II	Level III	Total
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (assets held for trading)	–	4.2	–	4,2
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	–	15.8	–	15,8
Securities classified as available-for-sale	–	1.3	–	1,3
Total	**–**	**21.4**	**–**	**21,4**
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (assets held for trading))	–	0.2	–	0.2
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	–	0.5	–	0.5
Total	**–**	**0.7**	**–**	**0.7**

Market values are calculated using information available on the reporting date and based on counterparties' quoted prices or via appropriate valuation methods (discounted cash-flow or well-established actuarial methodologies, such as the par method). For all securities of the Company, quoted prices are available on an active market at the end of the fiscal year. For this reason, all securities are assigned to hierarchy level I.

Derivative financial instruments are recognized at fair value and are thus subject to a recurring fair value assessment. They are categorized as Level II fair values. The fair value of a derivative financial instrument is calculated based on market data such as exchange rates or yield curves in accordance with market-specific valuation methods. The calculation of the fair value reflects our and the counterparty's default risk, using maturity-matching and market-observable CDS values.

Disclosures on derivative financial instruments

In cases where the Group hedges against foreign currency risks, it uses derivative financial instruments which comprise currency forward exchange contracts, currency option contracts, and currency foreign exchange swaps. Derivatives are used only if they are offset by scheduled transactions arising from operations (underlying transactions). The scheduled transactions also include expected transactions. The derivatives relate to three areas which are called 'strategic hedging', 'operational hedging' and 'hedging of specific intra-group matters'.

Strategic hedging comprises expected sales transactions in foreign currency which are not yet invoiced. The time horizon for strategic hedging is between two and a maximum of 15 months. The hedged cash flows influence the statement of profit or loss at the time when sales are realized. The cash inflows are usually recorded one to two months afterwards. In strategic hedging, forward exchange transactions and stop/loss orders deposited with the bank are primarily used.

Operational hedging relates to recognized trade receivables and trade liabilities and generally covers time horizons of between one and two months. Hedges are executed with currency forward exchange contracts.

Hedging of specific intra-group matters, especially intra-group-loans, are usually covered by currency swap contracts.

Foreign exchange hedging is carried out mainly for the US dollar, Japanese yen and Singapore dollar.

The market values refer to the repurchase values (redemption values) of the financial derivatives and are calculated using recognized actuarial methods.

The derivatives are recognized at their market values, irrespective of their stated purpose. They are reported in the statement of financial position under other assets or other liabilities. Where eligible, cash flow hedge accounting is applied for the strategic hedging of currency exchange risks from future foreign exchange cash flows. In such cases, changes in the market values of foreign exchange contracts are recognized in other comprehensive income until the underlying transaction takes place, insofar as the hedge is effective. When future transactions are realized, the effects accumulated in other equity items are restated through profit and loss to the operating result (other operating income and expenses) .

The reconciliation of the cumulative effects recognised in other comprehensive income (before tax) for the 2018 and 2017 financial years are as follows:

EUR Mio.	2018	2017
Accumulated effects from derivative financial instruments (cash flow hedge) before taxes as of January 1	15.2	−4.6
Changes in market values	– 18.7	23.6
Reclassification to the profit and loss statement (other operating income and expenses)	−7.8	−3.8
Accumulated effects from derivative financial instruments (cash flow hedge) before taxes as of December 31	**−11.3**	15.2

For strategic hedging purposes, staggered hedging ratios of between 30 percent and 40 percent are used in relation to the expected net exposure in US dollars (where applicable, taking into account currencies showing a high correlation with the US dollar) and Japanese yen. The expected net exposure on US dollar and yen basis for 2019 is approximately 33 percent hedged.

Siltronic determines the effectiveness of the hedging relationship between the hedged item and the hedging instrument based on maturities, currencies and nominal values, whereby the hedging ratio between the hedging instrument and the hedged item in hedge accounting is generally 100 percent. The Company assesses whether the designated derivatives effectively hedge the cash flows of the hedged item using the hypothetical derivative method. The credit risk of the counterparties as well as changes in the timing of the hedged highly probable future transactions represent possible sources of ineffectiveness. No ineffectiveness was reported in the result for the period, as the hedging relationships were almost completely effective and the changes in value of the hedging instruments were therefore approximately opposite to those of the underlying transactions.

Nominal values and market values

The following tables compare the fair values of derivative financial instruments with their nominal values:

in EUR million	As of December 31, 2017 Nominal values	As of December 31, 2017 Market values
Foreign currency derivatives	783.2	19.3
Market values for derivative financial instruments within hedge accounting	–	15.2

For the year under review, the nominal and fair values are presented in detail as other financial assets and liabilities in accordance with the new requirements of IFRS 9:

in EUR million	As of December 31, 2018 Nominal values	As of December 31, 2018 Market values
Other financial assets	233.3	2.0
Foreign currency derivatives	225.6	1.9
thereof for strategic hedging (with hedge accounting)	*102.5*	*1.2*
Other derivatives	7.7	0.1
Other financial liabilities	396.1	16.9
Foreign currency derivatives	396.1	16.9
thereof for strategic hedging (with hedge accounting)	*335.6*	*12.6*

The following table shows the breakdown of the nominal values of the foreign currency derivatives for strategic hedging by maturity as well as the average hedging rate per currency:

in EUR million	As of December 31, 2018 current (less than 1 year)	As of December 31, 2018 non-current (more than 1 year)
Nominal values	401.4	36.6
Average hedging rate		
EUR/JPY	130	129
EUR/USD	1.21	1.19
USD/SGD	1.34	1.35
EUR/SGD	1.63	–

The following table provides information on the netting of financial assets and liabilities in the consolidated statement of financial position. It also shows the financial effects of a possible setting off of financial instruments from netting agreements, enforceable global netting agreements, or similar agreements.

Net amount

	As of December 31, 2018					
	I	II	I – II	Related amounts not set off in the statement of financial position		
In EUR million	Gross amounts of recognized financial assets/liabilities	Gross amounts of recognized financial assets/ liabilities set off in the statement of financial position	Net amounts of financial assets/liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives with a positive market value	9.2	7.3	1.9	1.9	–	0.0
Derivatives with a negative market value	−24.1	−7.3	−16.9	−1.9	–	−14.9

	As of December 31, 2017					
	I	II	I – II	Related amounts not set off in the statement of financial position		
In EUR million	Gross amounts of recognized financial assets/liabilities	Gross amounts of recognized financial assets/ liabilities set off in the statement of financial position	Net amounts of financial assets/liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives with a positive market value	20.2	0.6	19.6	0.3	–	19.3
Derivatives with a negative market value	−0.9	−0.3	−0.6	−0.6	–	0.0

In addition to the amounts offset under the provisions on netting pursuant to IAS 32, the table also includes those amounts that may not be netted pursuant to IAS 32.

As a part of strategic hedging of foreign currency cash flows the Group closes out forward-exchange contracts prior to maturity by offsetting transactions. The strategic forward exchange contract and the corresponding offsetting forward exchange transaction are recognized as a net amount in accordance with IAS 32. In addition, general offsetting agreements, which apply only in cases of insolvency, have been concluded with a number of banks.

The Group has not received any pledged cash security for positive market values of derivatives nor pledged any cash security for negative market values.

Management of financial risks

The following disclosures explain the management of the financial risks of the Group. Other parts of these notes include more quantitative information to financial assets and financial liabilities or contingencies.

In the normal course of business, the Group is exposed to credit, liquidity, and market risks from financial instruments. The goal of financial risk management is to limit risks from operating business and the resultant financing requirements by using certain derivative and non-derivative hedging instruments. In addition, the Group is exposed to a minor extent to market and interest rate risks from the securities held in the special fund.

In terms of assets, liabilities and planned transactions, the Group faces risks resulting from the fluctuation of foreign exchange rates.

Generally, only those risks which have an impact on the cash flow of the Group are hedged. To mitigate default risks, hedging instruments are only entered with counterparties of high credit rating.

The basic rules of financial management are determined by the Executive Board and monitored by the Supervisory Board of the Group. The Executive Board has the overall responsibility for the implementation and monitoring of the risk management of the Group. Part of this system is the management of financial risks. Among other things, the system for managing financial risks has a guideline defining the usage and the extent of derivative financial instruments and committees supervising the application of the guideline, evaluating the efficiency of the derivative financial instruments entered and defining additional risk limits when necessary.

The Group mitigates financial risks through the risk management system it has in place. This system is monitored by the Supervisory Board. The fundamental purpose of the risk management system is to identify, analyze, coordinate, monitor, and communicate risks in a timely manner. The Executive Board of the Group receives regular analyses on the extent of those risks. The analyses focus on market risks, in particular on the potential impact of raw-material price risks, foreign currency exchange risks, and interest rate risks on net interest income.

Foreign currency risks

Foreign currency risks generally result from investments, financing measures, and operating business. The Group hedges foreign currency risks as far as it can influence the cash flow of the Group. Foreign currencies which do not influence the cash flow of the Group result from the translation of assets and liabilities of foreign subsidiaries into Euro. Such risks are not hedged because they refer to long-term investments.

Since it is very common in the semiconductor industry to transact in US dollar and the proceeds for the Group from the sale of products (operating business) significantly exceed the cash outflows in US dollar (operating business and investments), the Group faces a US dollar foreign exchange risk. The Group also faces foreign currency exchange risks related to the Japanese yen and the Singapore dollar.

The net exposure for foreign currency, i.e. the amount in the same foreign currencies (or currencies put together because of high correlations) remaining after eliminating cash inflows and cash outflows, is hedged according to the Group policy.

To record market risks, IFRS 7 requires sensitivity analyses which show the results from hypothetical changes of relevant risk variables on profit or loss and on equity. The periodical changes are calculated by applying the hypothetical changes of the risk variables on all existing financial instruments as of the reporting date. The sensitivity analyses regarding foreign currencies have the following presumptions:

The existing primary monetary financial instruments (cash and cash equivalents, fixed-term deposits receivables, securities, interest bearing, and non-interest bearing liabilities) as of the reporting date represent a normal level. Approximately two-thirds of consolidated sales are invoiced in US dollar. Payouts in foreign currency remain on the current level which is dependent on the production level. Thus, the Group is only opposed to foreign currency exchange risks coming from trade receivables not hedged and the change in fair value of existing derivative financial instruments.

If the US dollar against the euro would have been up or down by 10 percent as of December 31, 2018, the fair value of the hedging instruments would have decreased or increased by approximately EUR 27.8 million and these changes would have been fully recognized in other comprehensive income. The corresponding fair value changes as of December 31, 2017 would have decreased or increased by EUR 28.1 million. If the yen had been up or down by 10 percent against the euro as of December 31, 2018, the fair value of the hedging instruments would have changed by approximately EUR 10.7 million. The change would have been fully recognized in other comprehensive income. The corresponding change in fair value as of December 31, 2017 would have been EUR 8.9 million. If the Singapore-dollar had been up or down by 10 percent against the euro as of December 31, 2018, the fair value of the hedging instruments would have changed by approximately EUR 6,5 million (prior year: EUR 10,0 million). The change would have been fully recognized in other comprehensive income in the financial year 2018 and 2017.

Interest rate risk

As of the reporting date, the Group is not exposed to any material interest rate risks from its operating activities as it has no interest-bearing net liabilities and does not expect any material net liabilities. Furthermore, the derivatives denominated in foreign currencies are not subject to any significant changes in interest rates, so that no interest rate risk arises.

Securities that may be subject to interest rate risks are held as part of the special fund. These risks are monitored and reduced by an overlay management.

Other price risks

To a small extent, the Group is exposed to other market price risks from fluctuating stock market prices as a result of securities held in the special fund. These risks are monitored and reduced by an overlay management.

Credit risk (risk of default)

In terms of financial instruments, the Group is exposed to a default risk should a contractual party fail to fulfill its commitments. The maximum risk is therefore the amount of the respective financial instrument's positive fair value. To limit the risk of default, transactions are conducted only within defined limits and with partners of very high credit standing. To make efficient risk management possible, the market risks within the Group are controlled centrally. The conclusion and handling of transactions comply with internal guidelines and are subject to monitoring procedures that take account of the separation of duties. As for operations, outstanding receivables and default risks are continually monitored and partly hedged against by means of trade credit insurance. Receivables from major customers are not so high as to represent an extraordinary concentration of risks. For further information on the default risk of financial assets and contract assets, see Notes 07 and 08.

In the last three years, the expenses for default was on average less than 0.1 percent of sales.

Liquidity risk

A liquidity risk means that a company may not be able to meet its existing or future financial obligations because of insufficient funds. The Group ensures continuous liquidity and financial flexibility by holding enough funds as cash and cash equivalents. Financing through loans is currently of no relevance.

The liquidity status of the Group is monitored by comparing cash outflows for each of the next three months with the cash proceeds. In addition, actual cash flows are compared to forecasted cash flows to detect unplanned developments early. Moreover, a cash flow forecast on a monthly rolling basis is in place covering the period to the end of the year. This forecast is in accordance with the monthly forecasts of statement of profit or loss and statement of financial position which also cover the period to the end of the year. By these means the Company ensures that it will meet financial liabilities without negatively affecting its reputation.

According to the policy of the Group, guarantees are generally issued only to subsidiaries. No guarantees had been issued as of the years ended December 31, 2018 or 2017.

Market risk

Market risk describes the risk that the fair value or future cash flows of an original or derivative financial asset will change due to the volatility of the market. The securities of the special fund are also subject to this risk.

Fixed-term deposits

Fixed-term deposits are investments held at banks. They have a term until January 2020.

16 Segment reporting

The Group has only one reportable segment, which includes the development, production, and marketing of semiconductor wafers with a wide variety of features satisfying numerous product specifications to meet customers' precise technical specifications, which are utilized in the manufacture of semiconductor devices. Based on the fact that in the wafer industry the allocation of resources is derived from a wide variety of specifications, the Group operates only in one segment. The products can differ between diameters, between polished and epitaxial wafer, between different pulling technologies and other features.

The geographical information during the reporting periods was as follows:

Segment information by region

	2018							
In EUR million	Germany	Europe excluding Germany	United States	Taiwan and (mainland) China	Korea	Asia excluding Taiwan, (mainland) China and Korea	Consoli-dation and others	Siltronic Group
External sales from contracts with customers by customer location	115.1	160.6	172.1	408.2	332.2	247.6	20.9	1,456.7
Additions to property, plant and equipment, and intangible assets	100.0	–	10.0	0.1	0.2	146.5	–	256.9
Non-current assets (December 31)	331.7	–	20.3	0.1	0.2	336.3	17.5	706.1

	2017							
In EUR million	Germany	Europe excluding Germany	United States	Taiwan and (mainland) China	Korea	Asia excluding Taiwan, (mainland) China and Korea	Consoli-dation and others	Siltronic Group
External sales by customer location	80.2	134.2	154.6	381.8	225.5	185.0	16.0	1,177.3
Additions to property, plant and equipment, and intangible assets	92.8	–	5.1	0.1	0.1	25.1	–	123.2
Non-current assets (December 31)	285.0	–	11.9	0.1	0.1	222.4	17.7	537.2

In 2018, the Group realized sales with three customers with a share of 16 percent, 15 percent and 12 perdent, respectively. In 2017, three customers constituted 16, 15 and 11 percent of consolidated sales.

17 Transactions with related companies and persons

The disclosure requirements according to IAS 24 refer to transactions (i) with its minority shareholder Wacker Chemie AG (until March 15, 2017 majority shareholder) and the ultimate controlling shareholder of Wacker Chemie AG, which is Dr. Alexander Wacker Familiengesellschaft mbH (holding more than 50 percent of the voting shares in Wacker Chemie AG), (ii) with Pensionskasse (pension fund), and (iii) with members of the Executive Board and Supervisory Board of the Company.

Related companies
The amounts recorded in the statement of profit or loss resulting from transactions with Wacker Chemie AG:

Information on transactions with related companies

In EUR million	2018	2017
Sales	0.9	1.0
Purchased material and services (primarily cost of sales)	172.5	171.8

In 2018, sales include research and development services for EUR 0.9 million (prior year: EUR 1.0 million) to Wacker Chemie AG.

The cost of sales primarily relates to (a) the purchase of the major raw material polysilicon from Wacker Chemie AG and (b) a services framework agreement the Company has entered into with Wacker Chemie AG covering technical engineering, IT, materials management and procurement, site services at the production facility in Burghausen, and corporate administrative services.

The following table shows inventories, receivables from and liabilities to related parties recorded in the statement of financial position for the years ended December 31, 2018 and 2017:

Inventories, receivables from and liabilities to related parties

In EUR million	Dec. 31, 2018	Dec. 31, 2017
Inventories	12.5	10.0
of which Wacker Chemie	*12.5*	*10.0*
Other assets	–	8.0
of which advance payment to Pensionskasse	*–*	*8.0*
Trade liabilities	12.8	9.5
of which Wacker Chemie	*12.8*	*9.5*

The inventories relate to shipments of raw materials supplied by Wacker Chemie AG.

Related persons
The following table shows the remuneration of members of the Executive Board and Supervisory Board:

Remuneration of corporate bodies

In EUR		Fixed remuneration	Variable remuneration	Share-based payments	Pensions	Total
Remuneration for Executive Board members	2018	1,021,017	891,800	894,630	301,148	2,995,592
	2017	817,327	685,890	701,356	265,666	2,470,239
Provisions for pensions for active Executive Board members	2018				4,575,714	4,575,714
	2017				4,073,552	4,073,552
Remuneration for former Executive Board members and their surviving dependants	2018				217,617	217,617
	2017				213,317	213,317
Provisions for pensions for former Executive Board members and their surviving dependants	2018				6,951,202	6,951,202
	2017				7,205,291	7,205,291
Supervisory Board remuneration	2018	705,114				705,114
	2017	537,500				537,500

Share-based payments with a fair value of EUR 0.8 million were granted to the members of the Executive Board on March 1, 2018.

Remuneration for pensions consists of service costs and interest costs.

Moreover there were no further significant transactions between Siltronic and related parties in the 2018 fiscal year beyond the existing employment, service, or appointment relationship or the contractual remuneration.

Detailed information on the remuneration of the Executive Board members are included in the remuneration report on 76. The remuneration report is part of the management report and includes disclosures which are part of the Notes under German commercial law.

18 Share-based payments

In 2017, the Executive Board was granted for the first time part of its performance-related remuneration in the form of phantom stocks.

The performance-related compensation for a particular fiscal year ('compensation year') is calculated on the basis of the average of the overall target achievement factors relating to each of the performance categories for the compensation year and the previous fiscal year, multiplied by the average contractually agreed annual basic salary in the compensation year. 51 percent of the performance-related compensation is initially converted into virtual shares (phantom stocks) based on the average weighted Xetra closing price of the Company's share during the last 30 trading days of the compensation year. After a holding period of two years, the virtual shares are settled in cash. Dividends that would have been paid out during the holding period for real shares are added to the cash settlement. The variable compensation is limited to a maximum amount of 300 percent of the average annual basic salary. Details of the share-based payment agreement are provided in the remuneration report on 76. On the basis of the overall target achievement factors of the performance categories, 12,391 phantom stocks were allocated to the Executive Board (previous year: 5,782). The average price of the Siltronic share, which is decisive for the number of virtual shares, was EUR 74.91 (prior year: EUR 123.45). The fair value per phantom stock on the reporting date was EUR 72.20 (closing price 2017: EUR 121.30). This corresponds to a provision for virtual shares from 2017 and 2018 of EUR 1.3 million (prior year: EUR 0.7 million) and personnel expenses of EUR 0.6 million (prior year: EUR 0.7 million) for the financial year.

19 Other information

The following table shows the personnel employed on average during the year.

Average number of employees

Number	2018	2017
Germany	2,332	2,280
Singapore and other countries in Asia	1,114	1,037
United States	412	389
Total	**3,858**	**3,706**

The auditor's fees are divided into audits of financial statements, other certification services and non-audit services.

Audit fees

In EUR million	2018	2017
Audit of financial statements	0.4	0.4
Other certification services	0.1	0.1
Non-audit services	0.0	0.0
Total	**0.5**	**0.5**

Non-controlling Interests

A minority shareholder has a non-controlling interest of 22.3 percent in SSW. Apart from SSW, there are no minority shareholders in the Siltronic Group.

The following summarized financial information is in accordance with IFRS and presented before consolidation. As of December 31, 2018 non-current assets totaled EUR 296.8 million and current assets EUR 230.0 million, non-current liabilities EUR 351.3 million and current liabilities EUR 47.7 million.

In the year 2018, SSW realized sales of EUR 305.5 million resulting in a net profit of EUR 122.8 million and a comprehensive income of EUR 125.3 million. The net cash surplus from cashflows generated from operating activities less cash outflows from investing activities due to capital expenditures including intangible assets (taking proceeds into account resulting from the disposals of property, plant and equipment) added up to EUR 172.6 million.

The minority shareholder did not receive a dividend.

The list of shareholdings in affiliated companies as of December 31, 2018 is as follows (IFRS amounts):

List of shareholdings

	2018		
	Share capital in EUR million	Net income in EUR million	Equity share in %
Siltronic Holding International B.V., Rotterdam, The Netherlands [1)]	400.5	−1.5	100.0
Siltronic Singapore Pte. Ltd., Singapore [2)]	345.8	104.4	100.0
Siltronic Silicon Wafer Pte. Ltd., Singapore [2)]	127.4	127.4	77.7
Siltronic Corp., Portland (Oregon), USA [2)]	58.3	33.8	100.0
Siltronic Japan Corp., Tokyo, Japan [2)]	−1.5	2.9	100.0
Siltronic Korea Ltd., Seoul, Korea [1)]	0.5	0.4	100.0
Siltronic Shanghai Corp., Ltd., Shanghai, China [1)]	0.3	0.1	100.0
Structured entity: Special Fund, Frankfurt [1)]	77.2	−2.8	100.0

[1)] Held directly by Siltronic AG
[2)] Held indirectly by Siltronic AG

20 Subsequent events

There were no significant events after the end of the fiscal year ending December 31, 2018.

Munich, March 1, 2019
The Executive Board of Siltronic AG

Dr. Christoph von Plotho
(CEO)

Rainer Irle
(CFO)

Additional information

Independent Auditor's Report

To Siltronic AG, Munich

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions
We have audited the consolidated financial statements of Siltronic AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Siltronic AG for the financial year from 1 January to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
– the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions
We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters

Measurement of deferred tax assets
Please refer to the 'Deferred tax assets and liabilities' section under the accounting policies in the notes to the consolidated financial statements for more information on the accounting policies applied.

The Financial Statement Risk
Deferred tax assets in the amount of EUR 25.3 million are reported in the consolidated financial statements of Siltronic AG as at 31 December 2018.

For the recognition of deferred tax assets, Siltronic AG assesses to what extent current deferred tax assets will be able to be used in subsequent reporting periods. For these claims to be realised, it must be probable that future taxable profits will be available to utilise the deductible temporary differences. If there is reasonable doubt about the future usability of the deferred tax claims determined, impairment losses are recognised on deferred tax assets.

The recognition of deferred tax assets depends heavily on the Executive Board's estimates and assumptions about the operating performance of the parent company and its subsidiaries, as well as on the Group's tax planning, and is thus subject to considerable uncertainty. Moreover, utilising deferred tax assets also depends on the respective tax environment

In financial year 2018, Siltronic AG recognised deferred tax assets from temporary differences after offsetting in the amount of EUR 24.4 million. In prior years, to the extent group entities showed a loss history, impairment losses had been recognised on deferred tax assets resulting from deductible temporary differences and loss carryforwards. These group entities generated taxable profits both in the current and the prior financial year. In the Executive Board's opinion, the financial performance of the group entities has improved sustainably, meaning that it is possible to reduce the impairment losses on deductible temporary differences and loss carryforwards.

There is a risk for the financial statements that Siltronic AG's estimate is not appropriate and thus that the deferred tax assets have not been measured properly

Our audit approach
We involved our tax specialists in the audit to assess the tax matters. We first critically examined the temporary differences between the IFRS carrying amounts and the respective tax base.

We evaluated how the deferred tax assets had been measured based on internal forecasts prepared by the Company concerning the future taxable income situation and the development of temporary differences, and critically assessed the underlying assumptions. In this regard, we particularly compared the projected future taxable income of the group entities with the group planning prepared by the Executive Board and approved by the Supervisory Board and checked this information for consistency. The appropriateness of the group planning was assessed on the basis of external market analyses. We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analysing deviations. Furthermore, the development of future temporary differences were assessed in the forecast period through a comparison with other documentation such as actuarial reports.

We had the Executive Board explain to us Siltronic AG's assessment on the sustainable improvement of the financial performance of group entities for a specific forecast period. In this context, we verified the assumptions for the forecast period and assessed the sustainability of the taxable profit.

Our observations
The assumptions for the measurement of deferred tax assets are reasonable overall.

Revenue recognition cut-off
Please refer to the 'Revenue recognition' section under 'Accounting policies' in the notes to the consolidated financial statements for more information on the accounting methods used to recognise revenue.

The Financial Statement Risk
The Group's revenue amounted to EUR 1,456.7 million in the reporting year.

Siltronic AG recognises revenue when it fulfils a performance obligation through the transfer of a promised asset to a customer. An asset is considered transferred at the time when the customer obtains control of that asset. In line with the transfer of control, revenue is to be recognised either at a point in time or over time in the amount to which Siltronic AG expects to be entitled.

Siltronic AG has determined based on the following indicators that the performance obligation is fulfilled at the time the wafers are transferred to the customer, and thus that revenue is recognised at a point in time:

- Siltronic AG has a current entitlement to receive payment for the asset,
- Siltronic AG has transferred possession of the asset,
- The significant risks and rewards of ownership of the asset have been transferred to the customer.

The Group's key markets are in Europe, USA and Asia. For global supplies of goods, various agreements with customers are made by the group entities containing terms of delivery in particular. The products are delivered to the customers using various modes of transportation such as aircraft, truck or ship, or collected by the customers.

The use of different delivery terms and various transport times, alongside the high number of deliveries, means there is the risk for the financial statements that revenue could be incorrectly recognised as of the reporting date.

Our audit approach
To assess revenue recognition cut-off, we reviewed the appropriateness and implementation of internal controls relating to order acceptance, outgoing goods and invoicing and particularly evaluated the determination and verification of the correct or actual transfer of risk.

Furthermore, we assessed revenue recognition cut-off by reconciling invoices with the related external delivery records and the corresponding orders. This assessment was based on revenue selected using a mathematical/statistical procedure and which, depending on the delivery terms and typical delivery times up to the transfer of risk, was recognised during a defined period before and after the reporting date. In addition, we examined whether all outgoing deliveries made up to the reporting date had been recognised accordingly. This was based on a system-generated report, the validity of which we verified. Furthermore, we examined whether relevant credit notes were issued at the start of the following financial year. In this context, we evaluated the respective documentation for the credit notes. We also assessed revenue entered into the accounts manually, especially as of the end of the period and the beginning of the following year. To this end, we evaluated the manual transactions using the related supporting documents, such as invoices or the contractual basis.

Our observations
Siltronic Group's procedure for revenue recognition cut-off is appropriate.

Other information
The Executive Board is responsible for the other information. The other information comprises the separate non-financial report, the corporate governance statement and the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information and, consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Board and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report
The Executive Board is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Executive Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Executive Board is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Executive Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
– Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
– Evaluate the appropriateness of accounting policies used by the Executive Board and the reasonableness of estimates made by the Executive Board and related disclosures.
– Conclude on the appropriateness of the Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
– Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

– Perform audit procedures on the prospective information presented by the Executive Board in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Executive Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on 19 April 2018. We were engaged by the Supervisory Board on 1 March 2018 on the condition that we be elected as group auditor at the annual general meeting of Siltronic AG on 19 April 2018. We have been the group auditor of Siltronic AG without interruption since its IPO in financial year 2015.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided the following services to group entities that are not disclosed in the consolidated financial statements or in the combined management report:

We audited the annual financial statements of Siltronic AG. Audit reviews of interim financial statements were integrated into the audit. Furthermore, other assurance services were provided for statutory or contractually agreed audits, such as audits in accordance with the German Renewable Energies Act [EEG], EMIR assessments pursuant to Section 20 of the German Securities Trading Act [WpHG], certification of electricity price compensation and an assurance engagement for the non-financial statement.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Volker Specht.

Munich, March 1, 2019
KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Specht Wirtschaftsprüfer [German Public Auditor]	Ratkovic Wirtschaftsprüfer [German Public Auditor]

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the significant opportunities and risks associated with the expected development of the Group.

Munich, March 1, 2019
The Executive Board of Siltronic AG

Dr. Christoph von Plotho	Rainer Irle
(CEO)	(CFO)

Further disclosures on offices held

Supervisory Board

Name	Occupation	Membership of other supervisory boards and other comparable domestic and foreign supervisory bodies of business enterprises (As at December 31, 2018)
Dr. Tobias Ohler Chairman of the Supervisory Board	Member of the Executive Board of Wacker Chemie AG, Munich, Germany	Member of the Supervisory Board – Wacker Chemie VVaG Pension Fund
Johann Hautz[1] Deputy Chairman of the Supervisory Board	Chairman of the works council of Siltronic AG, Burghausen site	
Maximilian Baumgartner[1] Representative of Senior Executives (until April 19, 2018)	Head of Operation Processes, Siltronic AG	
Mandy Breyer[1] (since April 19, 2018)	Deputy Chairwoman of the works council of Siltronic AG, Freiberg site	
Prof. Dr. Gabi Dreo Rodosek (since April 19, 2018)	Executive Director of the Research Institute CODE and University Professor and Chair of Communication Systems and Network Security at the University of the Federal Armed Forces in Munich	Member of the Supervisory Board – Giesecke & Devrient GmbH, Munich – BWI GmbH Member of the Advisory Board – Giesecke & Devrient GmbH, Munich
Klaus-Peter Estermaier[1] Representative of senior executives (since April 19, 2018)	Head of Supply Chain Management Germany, Siltronic AG Chairman of the Joint Speaker Committee of the Senior Executives of Siltronic AG	
Sieglinde Feist	Head of the Central Division Sales und Distribution, Wacker Chemie AG, Munich	Chairwoman of the Board of Directors (non-executive) – Wacker Chemicals Ltd., United Kingdom – Wacker-Kemi AB, Sweden Member of the Board of Directors (non-executive): – Wacker Chemie Italia S.r.l., Italy – Wacker Chemie S.A.S., France – Wacker Química Ibérica, S.A., Spain – Wacker Chemicals (South Asia) Pte. Limited, Singapore – Wacker Chemicals Korea Inc., South Korea (all Wacker Chemie Group mandates)
Gebhard Fraunhofer[1]	Chairman of the general works council of Siltronic AG	

[1] Employee representative

Name	Occupation	Membership of other supervisory boards and other comparable domestic and foreign supervisory bodies of business enterprises (As at December 31, 2018)
Dr. Hermann Gerlinger	Managing Partner of the GeC GmbH (one-person company)	Member of the Board of Directors – VAT Group AG, Switzerland
Karin Gottschalk[1)] (until April 19, 2018)	Vice-Chairwoman of the works council of Siltronic AG, Freiberg site	
Michael Hankel (since April 19, 2018)	Member of the Executive Board of ZF Friedrichshafen AG	Member of the Supervisory Board – ZF Gusstechnologie GmbH, Nuremberg (ZF Friedrichshafen-Group mandate)
Bernd Jonas	Independant lawyer	
Gertraud Lauber[1)]	Trade Union Secretary IG BCE, Economic and Energy Policy Division	Member of the Supervisory Board – Rütgers Germany GmbH, Castrop-Rauxel
Dr. Franz Richter[2)] (until April 19, 2018)	Chairman of the Executive Board of SÜSS MicroTec SE	Chairman of the Board of Directors – Scint-X AB, Sweden Member of the Board of Directors – Meyer Burger Technology AG, Switzerland – COMET Holding AG, Switzerland
Harald Sikorski[1)]	Head of the regional district Westphalia of IG BCE	Member of the Supervisory Board – Wacker Chemie AG (until October 31, 2018) – Vivawest GmbH (since March 1, 2018) – Vivawest Wohnen GmbH (since April 18, 2018) – RAG AG (since July 1, 2018) – RAG Deutsche Steinkohle AG (since July 1, 2018) Deputy Chairman of the Supervisory Board – RAG Anthrazit Ibbenbüren GmbH (since June 1, 2018)
Angela Wörl[2)] (until April 19, 2018)	Head of personnel/social affairs, Wacker Chemie AG, Munich	Member of the Supervisory Board – Wacker Chemie VVaG Pension Fund

[1)] Employee representative
[2)] Mandates held on the effective date of resignation on April 19, 2018

Supervisory Board committees

Conciliation Committee
Dr. Tobias Ohler (Chairman)
Gebhard Fraunhofer[1)]
Johann Hautz [1)]
Sieglinde Feist (since April 19, 2018)
Angela Wörl (until April 19, 2018)

Audit Committee
Bernd Jonas (Chairman)
Gebhard Fraunhofer[1)] (since April 19, 2018)
Harald Sikorski[1)] (until April 19, 2018)
Dr. Tobias Ohler

Executive Committee
Dr. Tobias Ohler (Chairman)
Johann Hautz [1)]
Dr. Hermann Gerlinger

Nomination Committee
Dr. Tobias Ohler (Chairman)
Dr. Hermann Gerlinger

Executive Board

Dr. Christoph von Plotho

Chief Executive Officer
Application Technology
Engineering
Investor Relations & Communications
Corporate Development
Production
Quality Management & Sustainability
Legal & Compliance
Site Management, Burghausen & Freiberg
Supply Chain Management
Technology
Sales & Marketing
Siltronic Japan
Siltronic Singapore

Member of the Board of Directors (Chairman) of the following affiliated companies:
- Siltronic Silicon Wafer Pte. Ltd., Singapore
- Siltronic Singapore Pte. Ltd., Singapore
- Siltronic Corporation, USA
- Siltronic Japan Corporation, Japan

Rainer Irle

Chief Financial Officer & Labor director
Controlling & Finance
Accounting & Tax
Human Resources
Procurement
IT
Risk Management & Audit
Siltronic USA

Member of the Board of Directors of the following affiliated companies:
- Siltronic Corporation, USA
- Siltronic Japan Corporation, Japan

[1)] Employee representative

Quarterly overview

		Q4 2018	Q3 2018	Q2 2018	Q1 2018
Statement of profit or loss					
Sales	EUR million	388.1	379.8	361.3	327.4
EBITDA	EUR million	160.8	160.2	146.0	122.3
EBITDA margin	%	41.4	42.2	40.4	37.4
EBIT	EUR million	138.9	138.0	124.1	96.6
EBIT margin	%	35.8	36.3	34.4	29.5
Net profit	EUR million	106.0	114.6	98.0	82.0
Earnings per share	EUR	3.25	3.53	3.04	2.62
Capital expenditure and net cash flow	**EUR**				
Capital expenditure on property, plant and equipment, and intangible assets	EUR million	115.5	62.8	45,2	33,4
Net cash flow	EUR million	–32.2	93.0	67,1	112,4

		Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018
Statement of financial position					
Total assets	EUR million	1,818.2	1,739.8	1.544.0	1.415,8
Equity	EUR million	921.8	841.7	720.1	707.1
Equity ratio	%	50.4	48.4	46.6	49.9
ROCE	%	62.8	66.8	64.2	49.3
Net financial assets	EUR million	691.3	714.4	602.7	490.8

Multi-year overview

		2018	2017	2016	2015
Statement of profit or loss					
Sales	EUR million	1,456.7	1,177.3	933.4	931.3
Gross profit	EUR million	631.9	370.3	171.9	162.9
Gross margin	%	43.4	31.5	18.4	17.5
EBIT	EUR million	497.7	235.7	27.0	2.7
EBIT margin	%	34.2	20.0	2.9	0.3
EBITDA	EUR million	589.3	353.1	146.0	124.0
EBITDA margin	%	40.5	30.0	15.6	13.3
Financial result	EUR million	−9.3	−8.5	−11.1	−12.2
Income taxes	EUR million	−87.8	−35.0	−7.2	−10.6
Net profit/loss for the period	EUR million	400.6	192.2	8.7	−20.1
Earnings per share	EUR	12.44	6.18	0.40	−0.50
Capital expenditure and net cash flow					
Capital expenditure on property, plant and equipment, and intangible assets	EUR million	256.9	123.2	88.8	75.0
Net cash flow	EUR million	240.4	124.8	39.6	60.7
Statement of financial position					
Total assets	EUR million	1,818.2	1,252.4	1,056.8	1,040.8
Equity	EUR million	915.7	637.9	425.3	497.3
Equity ratio	%	50.4	50,9	40.2	47.8
ROCE	%	58.1	31.3	3.7	0.4
Net financial assets	EUR million	691.3	342.1	175.0	155.9
Employees		**3,914**	**3,730**	**3,757**	**3,894**

Glossary

ASP
Average selling prices

Capabilities
The capabilities relate to the ability of Siltronic to meet the increasing technological requirements of customers, at consistent quality.

Cash flow
A financial metric representing the net amount of cash and cash equivalents flowing into and out of a business during a period. Net cash flow is the sum of cash flow from operating activities (excluding the change in advance payments received) and cash flow from current investing activities (excluding securities but including additions from finance leases).

EBIT
Earnings before interest and taxes. This standardized metric is used by many companies, making it useful for comparing profit.

EBITDA
Earnings before interest, taxes, depreciation and amortization = EBIT + depreciation and amortization.

Equity ratio
A company's equity expressed as a percentage of its total assets. This metric provides an indication of a company's economic and financial stability.

IFRS
International Financial Reporting Standards (until 2001: International Accounting Standards, IAS). These standards are developed and published by the International Accounting Standards Board (IASB), which is based in London, UK. Under the IAS Regulation, adoption of IFRS has been mandatory for listed companies headquartered in the European Union since 2005.

HAP
Hazardous air pollutants

NMVOC
Non-methane volatile organic compounds

NOx
Nitrogen oxides

PM
Particulate matter

Polysilicon
Hyperpure silicon used to manufacture silicon wafers for the electronics and solar industries. Raw silicon is added to liquid trichlorosilane and extensively distilled before being separated again in a hyperpure form at a temperature of 1,000 degrees Celsius.

POP
Persistent organic pollutant

ROCE
Return on capital employed. This metric is calculated from a company's profit relative to the amount of capital it has used.

Semiconductor
A substance whose electrical conductivity is much lower than that of a metal but increases rapidly as the temperature rises. Semiconductors can be changed by deliberately introducing impurities in order to adapt them for a particular purpose.

Silicon
The second most abundant element on Earth after oxygen. In nature, silicon can only be found in the form of compounds, predominantly silicon dioxide and silicates. Silicon is obtained in an energy-intensive reaction between quartz sand and carbon. It is the most important raw material for the electronics industry.

Silicon wafer
A round disk with a thickness of approximately 200 to 800 µm. Silicon wafers are used by the semiconductor industry to manufacture semiconductor components, i.e. integrated circuits and individual components (known as discrete components).

SOx
Sulfur oxides

Financial calendar

March 5, 2019	Annual Report 2018
May 3, 2019	Annual General Meeting, Munich
May 7, 2019	Interim Reporting Q1 2019
July 25, 2019	Interim Report Q2 2019
October 24, 2019	Interim Reporting Q3 2019

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Imprint

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Annual report concept, design and realization
HGB Hamburger Geschäftsberichte GmbH & Co. KG, Hamburg

Note on the Annual Report
This Annual Report is also available in German. If there are differences between the two, the German version takes priority. The Annual Report is available as a pdf document.

Note on rounding
Please note that slight differences may arise as a result of the use of rounded amounts and percentages.

Disclaimer
This annual report contains forward-looking statements based on assumptions and estimates made by Siltronic's Executive Board. Although we assume that the expectations in these forward-looking statements are realistic, we cannot guarantee they will prove to be correct. The assumptions may harbor risks and uncertainties that may cause the actual figures to differ considerably from the forward-looking statements. Factors that may cause such discrepancies include, among other things, changes in the economic and business environment, variations in exchange and interest rates, the introduction of competing products, lack of acceptance for new products or services, and changes in corporate strategy. Siltronic does not plan to update the forward-looking statements, nor does it assume the obligation to do so. Due to rounding, it is possible that individual figures in this report and other reports do not exactly add up to the total stated and that percentages shown may not exactly reflect the absolute values to which they refer.

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