Perfect Silicon Solutions

siltronic

Annual Report 2019

Siltronic Group key figures

Statement of profit or loss

In EUR million		2019	2018
Sales		1,270.4	1,456.7
Gross profit		457.6	631.9
Gross margin	%	36.0	43.4
EBITDA		408.7	589.3
EBITDA margin	%	32.2	40.5
EBIT		298.3	497.7
EBIT margin	%	23.5	34.2
Financial result		4.4	−9.3
Income taxes		−41.7	−87.8
Result for the period		261.0	400.6
Earnings per share	EUR	7.52	12.44

Capital expenditure and net cash flow

In EUR million	2019	2018
Capital expenditure in property, plant and equipment, and intangible assets	363.0	256.9
Net cash flow	81.3	240.4

Statement of financial position

In EUR million		Dec. 31, 2019	Dec. 31, 2018
Total assets		1,945.0	1,818.2
Equity		930.2	915.7
Equity ratio	%	47.8	50.4
Net financial assets		588.9	691.3

Non-financial performance indicators

		2019	2018
Efficiency of the use of silicon (100 percent corresponds to the 2016 base)	%	103	99
Energy use per wafer area (100 percent corresponds to 2015 base)	%	104	91
Waste recycling ratio	%	69	70
Water withdrawal per wafer area (100 percent corresponds to 2015 base)	%	107	89
Occupational accidents at work per million working hours	Number	2.5	1.9
Occupational accidents with chemicals per year (number of affected employees)		5	0

Employees (excluding temporary employees)	**3,669**	**3,914**

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

Siltronic

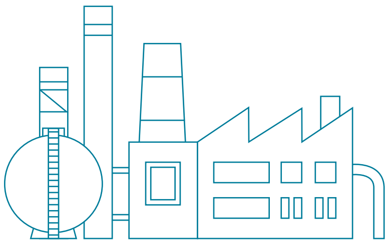
Figures and Facts

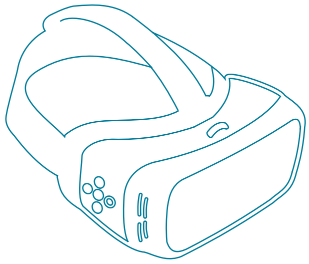
Our sites

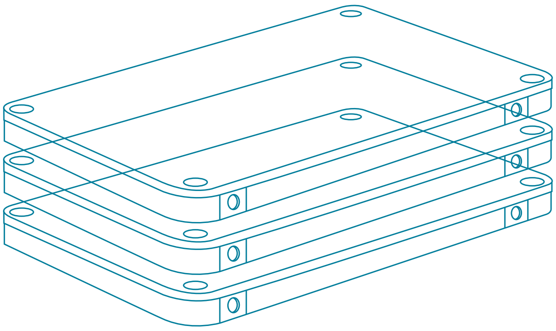
Germany
Munich (Headquarters)
Burghausen
Freiberg

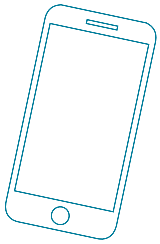
France
Italy
USA
Singapore
Taiwan
South Korea
Japan
China

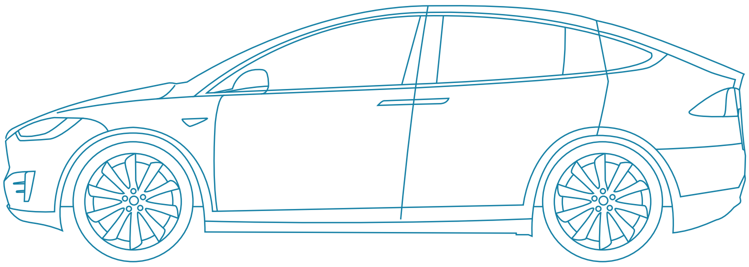
End markets for semiconductor applications



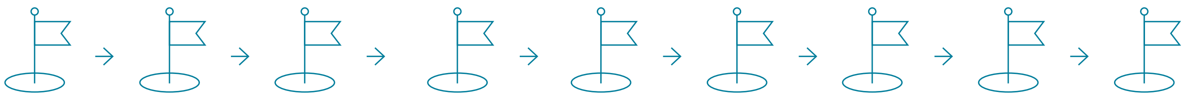








Our way to success



1962 – Development of the first silicon wafer

1968 – Founding of Wacker-Chemitronic Gesellschaft für Elektronik-Grundstoffe mbH (‘Wacker-Chemitronic’)

1978 – Founding of Wacker Siltronic Corporation in Portland (USA)

1995 – Acquisition of Freiberger Elektronikwerkstoffe Produktions- und Vertriebs-gesellschaft mbH

2006 – Foundation of the joint venture Siltronic Silicon Wafer Pte. Ltd. (SSW) in Singapore

2014 – Take-over of the majority interest in SSW

2015 – Siltronic successfully goes public

2017 – Wacker Chemie AG sells majority stake in Siltronic

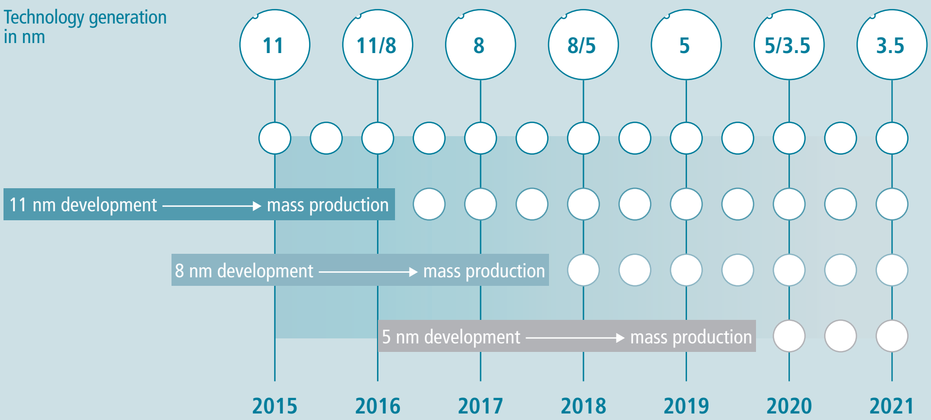
2018 – Siltronic celebrates its 50th anniversary

Future-proof with wafers

Wafers made of hyperpure silicon are so versatile in their use that probably almost everyone comes into contact with them. Siltronic's technology is to be found in smartphones, PCs and laptops and increasingly in industrial applications and automobiles. And the demand for wafers increases with every technological advancement - good prospects for our business. Since our company was founded over 50 years ago, it has developed just as dynamically as the challenging market environment in which we operate. With our unique combination of innovative strength and precision, we create the conditions for devices and applications to become ever more powerful and faster. Technological innovation and a consistent focus on efficiency gains is the basis for future growth of the company value.

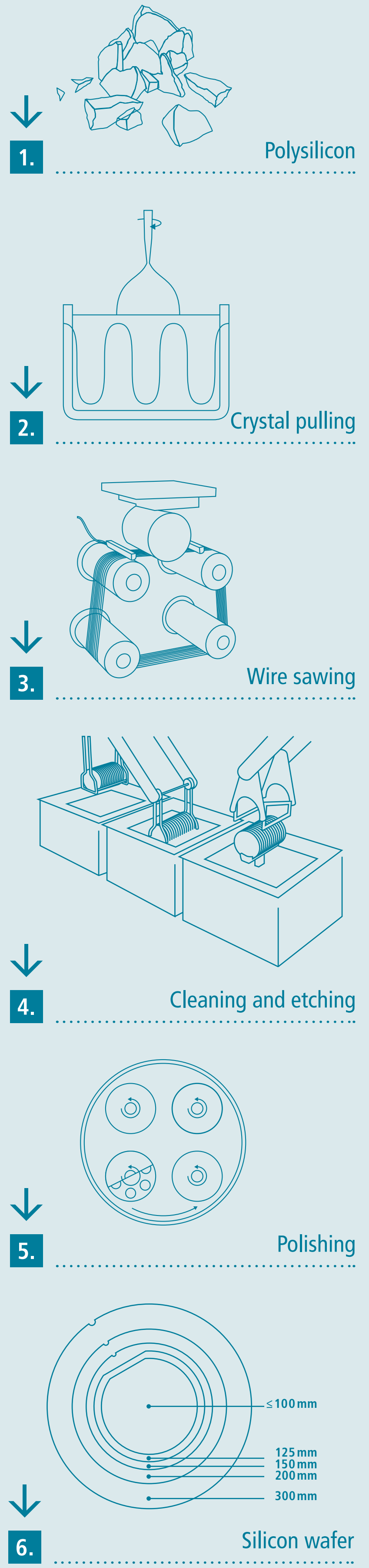
Driving wafer development

Short innovation cycles, a highly competitive market. Around 1,850 patents and patent applications clearly demonstrate our claim to be among the technology leaders in the global market.



Global player with strong roots in Germany. Siltronic is one of the world's leading manufacturers of hyperpure silicon wafers with a diameter of up to 300mm and a partner of many leading chip manufacturers.

Wafer production



The term wafer refers to silicon slices approximately 1 mm thin, which are given an extremely flat surface through technically very demanding processes. The choice of the crystal growing process is determined by the later application. After various production steps, the customer receives the wafer manufactured according to his specifications in special packaging that allows the wafers to be used immediately in his production line.

Dr. Christoph von Plotho,
Chief Executive Officer

Rainer Irle,
Chief Financial Officer

Letter to Shareholders

Dear shareholders, dear customers, business partners and employees

The past year has once again clearly shown how volatile the semiconductor industry is. At the turn of the year 2018/ 2019, market observers, analysts and above all our customers were still optimistic. This was still evident in December 2018 in the strong demand for our wafers and the prices that could be achieved.

We already warned against too much optimism at the beginning of 2019, but the extent of the downturn was not yet foreseeable. Our statement at the end of January that 2019 would see a rather muted development was based primarily on the expected macroeconomic and geopolitical uncertainties. However, due to the market slowdown, we had to make further downward adjustments to our forecast for 2019 in April and June.

Among the burdening factors were the ongoing trade dispute between the USA and China, disagreements between Japan and South Korea and possible burdens from Brexit, to name but the most important problem areas. These disruptive factors led to a deterioration in consumer confidence and a slowdown in economic growth in many regions of the world. For example, in October 2019, the International Monetary Fund was only expecting global GDP to increase by 3.0 percent in 2019, compared with plus 3.5 percent at the beginning of 2019. Consumer reticence was reflected in a buildup of finished goods inventories at our customers, which was surprisingly strong in terms of speed and extent.

In this challenging environment, our sales declined by 12.8 percent, mainly due to the lower wafer area sold in 2019. We are pleased to report that the average prices for our wafers still rose slightly on a euro basis in the course of the year. The drop in demand affected all wafer sizes, but the decline was more moderate in 300 mm than in the smaller diameters. We recorded a slight decline in market share, reflecting our strong position among the leading memory manufacturers.

The EBITDA margin was 32.2 percent. Net cash flow was again positive. Earnings per share amounted to EUR 7.52, after EUR 12.44 in the previous year. Overall, we did quite well and ultimately achieved the second-best result in the company's history. In accordance with our general dividend policy, which provides for a payout of approximately 40 percent of net income, the Management Board and Supervisory Board propose a dividend of EUR 3.00 for 2019.

We cannot rest on the results achieved in previous years, and we will face further challenges in 2020. A positive turnaround in the geopolitical and macroeconomic environment may come quickly, but it does not have to.

In our planning we are aware that there are things we can influence and things that are beyond our influence. We hardly have any influence on the demand for our wafers.

However, we can influence our technological performance. We have done that and are continuing to work intensively on it. We have used the strong operating cash flow for the years 2017 to 2019 to invest intensively in automation, capabilities, digitization and also a moderate expansion of our 300 mm capacities. In 2019, our investments amounted to around EUR 360 million, compared to just under EUR 260 million in the previous year. Expenditure on automation mainly relates to the German production sites.

The investments in capabilities ensure that we can maintain and further expand our position as one of the technology leaders. The strategic goal here is to be able to support all new customer specifications and the new design rule developments from the very beginning within the framework of leading-edge technology. We will continue to make funds available for digitization in order to optimize work processes worldwide.

We have been continuously influencing cost trends for years, although there are limits to this, as around 50 percent of our total costs are fixed, which is clearly a burden when production capacity has a lower utilization. Higher energy costs of a good EUR 20 million had a negative impact, as Siltronic is not being exempt anymore from the EEG surcharge from 2019 onwards.

Due to the continuing political and macroeconomic uncertainties and the corona virus that appeared at the beginning of the year, the forecast for 2020 is subject to certain uncertainties. The recent spread of the virus could lead to a considerable slowdown in the global economy. Wafer demand will be influenced by the development of the end markets and to a large extent by how quickly our customers' inventories will be reduced and returned to normal levels. Due to the underutilization last year, average selling prices have fallen slightly quarter-on-quarter since the third quarter of 2019. If the corona virus continues to spread, we expect both revenue and the EBITDA margin for 2020 to be significantly lower than in the previous year. The increased depreciation will have a negative impact on EBIT and thus on net profit for the period and earnings per share.

Due to the difficult market environment, we will significantly reduce our capex to around EUR 200 million. We will concentrate primarily on automation projects and improving our technological performance. In the first quarter, net cash flow will still be burdened by a backlog from investments in 2019.

One of our main concerns is to further strengthen our sustainability performance. This will be reflected in concrete measures to optimize energy use and the associated emissions, as well as in the conscious use of resources in general. We report on our CSR measures on 77.

With our investments in automation and capabilities, we are focusing on the growth trend for the wafer industry expected in the medium term. With autonomous driving, electric mobility, 5G, Internet of Things, artificial intelligence and NAND-based mass storage, there are a number of megatrends that will keep our industry on a growth course. However, we do not yet expect any short-term impetus due to the high raw wafer inventories especially at memory customers.

We produce wafers with diameters of up to 150 mm exclusively in Germany. This is an old product line with intense competition from Asia. In conjunction with the high labor costs and extremely high electricity prices in Germany, this product line is under massive pressure. We have concluded a solidarity pact with our employees in Germany in 2019 to keep this line as long as possible. This shows how great our employees are!

The corona virus can severly affect all of us. The health of our employees is of great concern to us. We have therefore taken various precautionary measures to avoid the risk of infection at our sites. In addition to travel restrictions, for example, we have sensitized all Siltronic employees to hygiene measures. To date, there is no known case of corona disease among any Siltronic employee.

We would like to thank our motivated employees very much for their commitment. We are confident that we can rely on them to successfully meet the challenges in 2020. We would also like to thank our business partners for their trusting cooperation.

We would also like to thank you, our shareholders, for your trust and for your continued support in achieving our ambitious goals.

Let us successfully master the challenges of 2020 together.

Kind regards

Dr. Christoph von Plotho
CEO

Rainer Irle
CFO

Supervisory Board report

Dear shareholders,

In the fiscal year 2019, Siltronic was unable to fully meet the expectations it had set for itself. A significant collapse in the global demand for semiconductors and significant inventory adjustments in the value chain have led to a decline in sales and earnings. In particular, customers producing memory elements such as DRAM suffer from high stock levels and are stretching investment plans.

The Executive Board reacted quickly and decisively to the clouding of the market. As a result, significantly fewer temporary employees were deployed, hour accounts were reduced and projects to increase productivity were initiated. In this challenging environment, the Company succeeded in achieving the second-best result in its history. As in the previous year, we want you as shareholders to share Siltronic's success, not least through an appropriate dividend. The Executive Board and Supervisory Board therefore recommend a dividend of EUR 3.00 per eligible share. This is in line with the dividend policy adopted by the Executive Board in September 2017, according to which around 40 percent of the consolidated profit attributable to shareholders is to be distributed.

The Company will continue to successfully meet the challenges of the volatile semiconductor market in the coming years – Siltronic has proven its ability to do so many times during its more than fifty-year history. The short-term economic headwind does not change the fact that the fundamental growth drivers remain intact. This is because global developments, such as the development of 5G mobile phone networks, the digitalization of all areas of life, decentralized energy supply, the replacement of stationary IT networks by cloud computing and the increasing use of electric vehicles will cause the worldwide demand for bits to rise in the mid and long term.

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

Continuous dialogue with the Executive Board

Throughout the fiscal year 2019, the Supervisory Board performed its duties according to the law, the Articles of Association and the rules of procedure with the utmost diligence. The Executive Board and the Supervisory Board worked together in the best interest of the Company in a spirit of trust. The Supervisory Board regularly advised the Executive Board on 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 both in writing and verbally in detail and in a timely manner about the Company's course of business, the position of the Company and its strategic development as well as the risk situation, the activities of the internal audit department and compliance topics. The Supervisory Board and the responsible committees were involved in all decisions of fundamental importance at an early stage. The Supervisory Board always had the opportunity to critically examine the reports and proposed resolutions of the Executive Board.

Deviations of the Company's course of business from the plans and targets were explained in detail. The Chairman of the Supervisory Board and the Chairman of the Audit Committee were also in close contact with the Executive Board outside the regular meetings of the Supervisory Board and were informed about current developments and significant business transactions.

Key activities of the Supervisory Board plenum

During the reporting year, four regular meetings were held – two in the first and two in the second half of the year.

At the meeting of the Supervisory Board to approve the financial statements held on March 1, 2019, we, including the auditor, who was present at the meeting, discussed in detail the annual financial statement of Siltronic AG and the consolidated financial statement as of December 31, 2018 and the combined management report and approved them. In addition, the Supervisory Board determined the variable remuneration of the Executive Board for the fiscal year 2018 and the targets for the variable remuneration for the fiscal year 2019 based on the recommendation of the Executive Committee and the determined achievement of the targets. In addition, we approved the report of the Supervisory Board to the Annual General Meeting and dealt with the agenda for the Annual General Meeting on May 7, 2019. The Executive Board also reported on the course of business of the Company during the fiscal year 2018 and the start of the fiscal year 2019.

On June 26, 2019, we dealt, among other things, with the course of business of the Company. The Executive Board also reported on the strategic challenges for the production of small wafer diameters at the Burghausen site.

The Supervisory Board meeting on September 26, 2019, took place at the Singapore site, the location with the largest and most modern wafer factories within the Siltronic Group. During a factory tour, we visited the construction progress of the new crystal-pulling hall. The managing director of the regional company reported on the opportunities and challenges of the location. We also dealt with the Executive Board's report on the course of business and the economic situation of the Company. The Supervisory Board also reviewed the efficiency of its activities. The German Corporate Governance Code and the submission of the declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) were further items on the agenda. We also dealt with the legal requirements that may result from the implementation of the European Shareholder Rights Directive.

At its meeting on November 28, 2019, the Supervisory Board discussed the Executive Board's report on the course of business, the planning for the fiscal year 2020 of the Siltronic Group and the mid-term plan for the fiscal years up to and including 2022. The 2020 budget presented by the Executive Board, including financial and investment planning, was discussed in detail and approved. Another focus of the discussions was the Company's pension obligations. In addition, we adapted the rules of procedure for the Supervisory Board and changed the composition of the Executive Committee effective January 1, 2020 and resolved the key points for a new Executive Board remuneration system which shall be submitted to the 2020 Annual General Meeting for approval.

Supervisory Board committees

In order to perform its duties efficiently, the Supervisory Board has set up a total of four committees: an Audit Committee, an Executive Committee, a Nomination Committee and the Conciliation Committee, the latter of which is mandatory pursuant to Section 27 (3) of the German Co-Determination Act. The committee chairpersons reported regularly and comprehensively to the Supervisory Board on the committee work.

The Executive Committee met twice during the reporting year and passed one resolution outside a session. It dealt with the personnel matters of the Executive Board and its compensation and, in this context, prepared the resolutions of the Supervisory Board plenum regarding the determination of targets for the variable compensation, the determination and review of the appropriateness of the Executive Board compensation and the approval of the compensation report. The Committee also dealt with the key points for a new compensation system for the Executive Board, which is to be submitted to the 2020 Annual General Meeting for approval. Effective January 1, 2020, the Executive Committee will be expanded to include a further shareholder representative, Michael Hankel. At the same time, Dr. Hermann Gerlinger will take over the chairmanship of the Committee.

The Audit Committee held four meetings in the fiscal year 2019 and passed one resolution outside a session. The Audit Committee discussed the annual financial statement of Siltronic AG and the consolidated financial statement as well as the combined management reports in the presence of the auditor. 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 to the Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, be proposed to the 2019 Annual General Meeting for election as auditor. The Audit Committee issued the audit engagement letter to the auditor for the fiscal year 2019, defined the focal points of the audit and determined the auditor's fee. In addition, the Committee monitored the selection, independence, qualifications, rotation and efficiency of the auditor. In particular, it dealt with the treatment of non-audit services. In addition, the Audit Committee dealt with the accounting process, the Company's risk management system, the effectiveness and findings of the internal audit and the compliance system and received ongoing reports on compliance topics and tax audits.

The Nomination Committee and the Conciliation Committee were not convened in the fiscal year 2019.

Individualized disclosure of attendance of Supervisory Board members in 2019

Supervisory Board member	Number of Supervisory Board meetings including its committees	Participation	Attendance
Dr. Tobias Ohler (Chairman)	10	10	100 %
Johann Hautz (Deputy Chairman)	6	6	100 %
Mandy Breyer	4	4	100 %
Klaus Estermaier	4	4	100 %
Prof. Dr. Gabi Dreo	4	4	100 %
Sieglinde Feist	4	4	100 %
Gebhard Fraunhofer	8	8	100 %
Dr. Hermann Gerlinger	6	6	100 %
Michael Hankel	4	3	75 %
Bernd Jonas	8	8	100 %
Jörg Kammermann (since May 23, 2019)	3	3	100 %
Gertraud Lauber	4	4	100 %
Harald Sikorski (until May 7, 2019)	1	1	100 %

Audit of annual and consolidated financial statements

The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements of Siltronic AG for the fiscal year 2019, the consolidated financial statement and the combined management report on the individual and consolidated financial statements (balance sheet date December 31, 2019) 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 as auditor responsible for the audit since the fiscal year 2017. The external rotation period for auditors defined as maximum of ten years in compliance with the European Auditing Regulation (EU Regulation 537/2014) started in 2015, the year in which Siltronic AG was listed on the stock exchange.

The annual financial statements of Siltronic AG and the combined management report for the Siltronic Group were prepared in accordance with German statutory accounting requirements. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the additional requirements of German law pursuant to Section 315e (1) 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 first discussed and examined in detail as a draft version in the Audit Committee meeting on February 20, 2020. The final version was subsequently discussed and examined in great detail at the Supervisory Board's meeting to approve the financial statements on March 4, 2020. The auditor was present in both meetings. The Audit Committee dealt in particular with the Key Audit Matters described in the audit opinion, including the audit procedures performed. The auditor reported on the scope, the priorities and main results of their audit and in particular addressed the Key Audit Matters and the audit procedures applied. The auditor was available to the Audit Committee and the Supervisory Board plenum for questions and additional information. The auditor also examined the early warning system for risks in accordance with Section 91 of the German Stock Corporation Act (AktG) and found that the early warning system for risks meets the legal requirements. No risks were identified that could jeopardize the going concern status of the Company.

At the Supervisory Board meeting held on March 4, 2020, the Supervisory Board, taking into account the recommendation of the Audit Committee, adopted the resolution proposal to be made to the 2020 Annual General Meeting regarding the selection of the auditor. The decision was based on the Audit Committee's statement that its recommendation is free from undue influence by third parties and that no restrictive clause within the meaning of Article 16(6) of the EU Statutory Audit Regulation had been imposed on it.

The Supervisory Board concurs with the results of the audit. Based on the final results of the review by the Audit Committee and our own examination, there are no objections to the annual financial statements of Siltronic AG, the consolidated financial statements, the combined management report and the auditor's reports. We therefore approve the annual financial statements of Siltronic AG and the consolidated financial statements for the year ending December 31, 2019, as prepared by the Executive Board. The annual financial statements of Siltronic AG are thus adopted. The Executive Board proposes to use the unappropriated profit to pay a dividend of EUR 3.00 per eligible share and to carry forward the remainder. The Supervisory Board concurs with this proposal.

Separate non-financial report

At its meeting on October 22, 2019, the Audit Committee 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 audit opinion. The combined non-financial (Group) report and the audit opinion of KPMG AG Wirtschaftsprüfungsgesellschaft were submitted to the members of the Supervisory Board in a timely manner. The Audit Committee at its meeting on February 20, 2020 and the Supervisory Board at its meeting on March 4, 2020 discussed, reviewed and approved the combined non-financial (Group) report in detail. There were no indications for any objections to the combined non-financial (Group) report or the assessment of the audit results by KPMG AG Wirtschaftsprüfungsgesellschaft.

Changes to the Executive Board and Supervisory Board

There were no changes in the composition of the Executive Board during the reporting year.

At the end of the Annual General Meeting on May 7, 2019, Harald Sikorski resigned from his office as employee representative. We would like to thank him for the trusting cooperation in the Supervisory Board. Jörg Kammermann was appointed as his successor by court order dated May 23, 2019.

The Supervisory Board would like to thank all employees of Siltronic AG and all Group companies for their hard work and commitment.

Munich, March 4, 2020
The Supervisory Board

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

Siltronic on the stock exchange

Global equity markets on an upward trend in 2019

In the first half of 2019, the international financial markets responded to a large number of geopolitical and economic crises. Despite the conflicts, the stock markets performed very positively. This was mainly due to the behavior of the US Federal Reserve, which suspended its moderate tightening of monetary policy. In the third quarter, stock markets stagnated compared with the previous quarter, as the global economy continued to weaken, while the major central banks signaled that they would support the economy with further monetary policy measures if necessary. The situation on the stock markets eased in the fourth quarter as a result of the agreement on a first partial agreement in the trade dispute between China and the USA as well as the clear victory of the Conservatives in the British parliamentary elections.

Siltronic share showed a volatile movement

Siltronic's share price was again very volatile in 2019, ranging from EUR 53 to EUR 97 due to macroeconomic and semiconductor-specific reports. Based on the Xetra closing price of EUR 72.20 on December 28, 2018 and a closing price on December 30, 2019 (last trading day) of EUR 89.72, the gain was 24.3 percent.

The average daily Xetra trading volume of Siltronic shares in 2019 was 224,797 shares. Based on the Xetra closing price, the market capitalization on December 30, 2019 was EUR 2.7 bn.

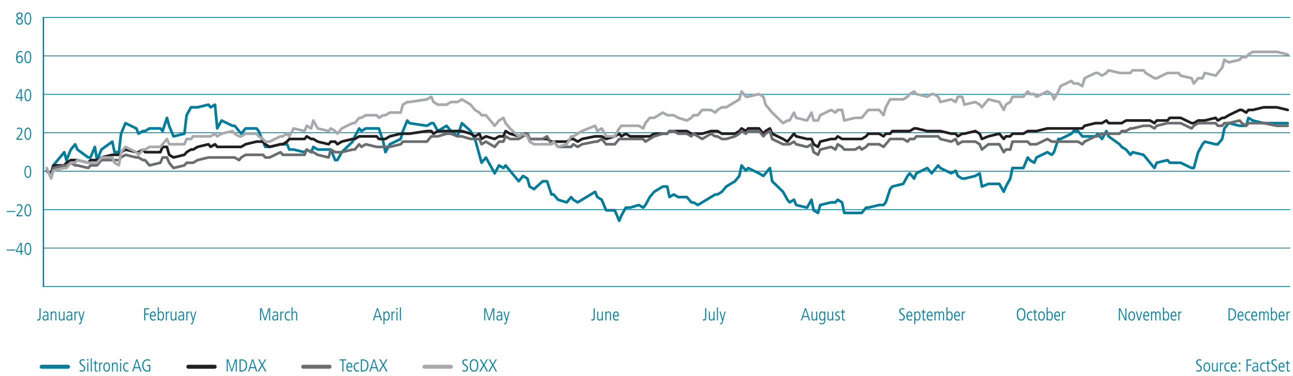
The reference indices MDAX and TecDAX, which are important for Siltronic, recorded strong gains of 31.2 percent and 23.1 percent respectively over the year. The international benchmark index Philadelphia Semiconductor Sector Index even rose by 60.8 percent in the same period.

In the MDAX ranking, Siltronic shares ranked 18 in terms of trading volume and 56 in terms of market capitalization at the end of 2019. In the TecDAX it was ranked 8 in terms of trading volume and 20 in terms of market capitalization.

Dividend proposal of EUR 3.00

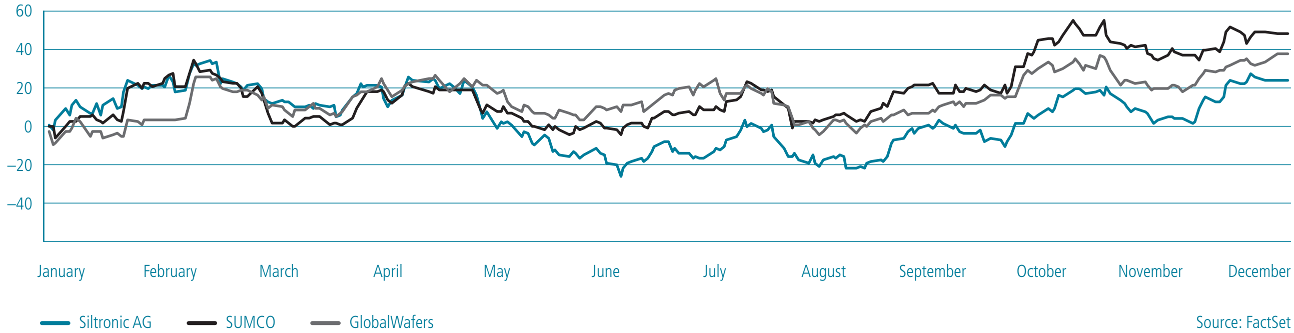
The proposed dividend for the 2019 financial year is EUR 3.00 per share. With a total payout of EUR 90 million, this corresponds to a payout ratio of 40.3 percent and thus to the general dividend policy of Siltronic AG.

Performance of Siltronic shares vs. indices 2019
in %



Source: FactSet

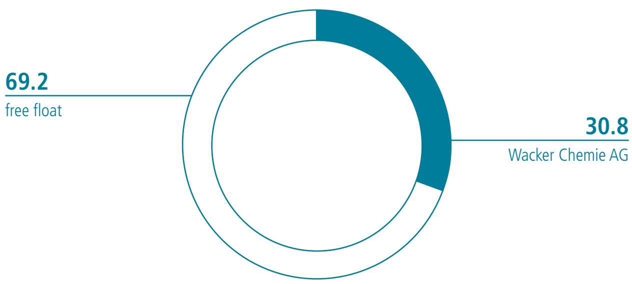
Performance of Siltronic shares vs. competitors 2019
in %



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, 2019, the largest institutional investors with more than 3 percent of voting rights were Goldman Sachs (5.08 percent), the State of Norway (4.93 percent), BlackRock (3.85 percent), and Allianz Global Investors (3.21 percent), according to the voting rights notifications. Within the free float, as of November 2019, the majority (35 percent) is held in Germany, followed by 30 percent in the USA and 17 percent in the United Kingdom.

Shareholder structure of Siltronic AG
in %



As of December 31, 2019, the Executive Board and Supervisory Board held less than 1 percent of the shares.

Sustainable investor relations activities

Our investor relations activities aim to provide comprehensive information and contribute to an appropriate valuation of the shares. We maintain open communication with our investors and analysts and create transparency. Our capital market communication in 2019 focused on the reasons for the decline in demand for silicon wafers, the long-term contracts with our customers and the expansion of capacity in the wafer industry. Other important topics included the impact of trade tensions on the semiconductor industry, our ongoing cost-cutting programs and the technological challenges involved in maintaining our leading position in our customers' latest design rules.

The development of Siltronic, the various end markets and applications as well as the development of the semiconductor industry and in particular the wafer industry also generated great interest in discussions with the Investor Relations department and the Executive Board in 2019. We participated in 18 capital market conferences and spoke with investors at 16 roadshows in Europe, America and Asia. In addition, we are increasingly hosting investors to our corporate headquarters in Munich. Overall, we held more than 400 meetings in 2019.

Analyst coverage increased

Despite the MIFID II regulations on the purchase of research services that have been in force since the beginning of 2018, coverage of the Siltronic share rose from 10 to 12 analysts in 2019. Of these, three analysts issued a buy recommendation as of December 31, 2019. Nine analysts advised holding the share. There was no recommendation to sell. The average price target of the banks was EUR 80.08 at the end of November.

Current data and information is 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	MDAX, TecDAX
ISIN	DE000WAF3001
Ticker symbol	WAF300
Free float in %	69.2
Number of shares	30,000,000
High of 2019[1)]	EUR 97.30
Low of 2019[1)]	EUR 53.22
2019 closing price[1)]	EUR 89.72
Market capitalization as of December 31, 2019	EUR 2.7 bn

[1)] Xetra closing price

Combined management report

Business and economic conditions

Group structure and business activities

One of the leading international supplier of hyperpure silicon wafers

Siltronic is a global market and technology leader for hyperpure silicon wafers for the semiconductor industry. There are 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 in less than 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 completely 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 2019, the Company had direct or indirect equity investments in seven companies and one special fund.

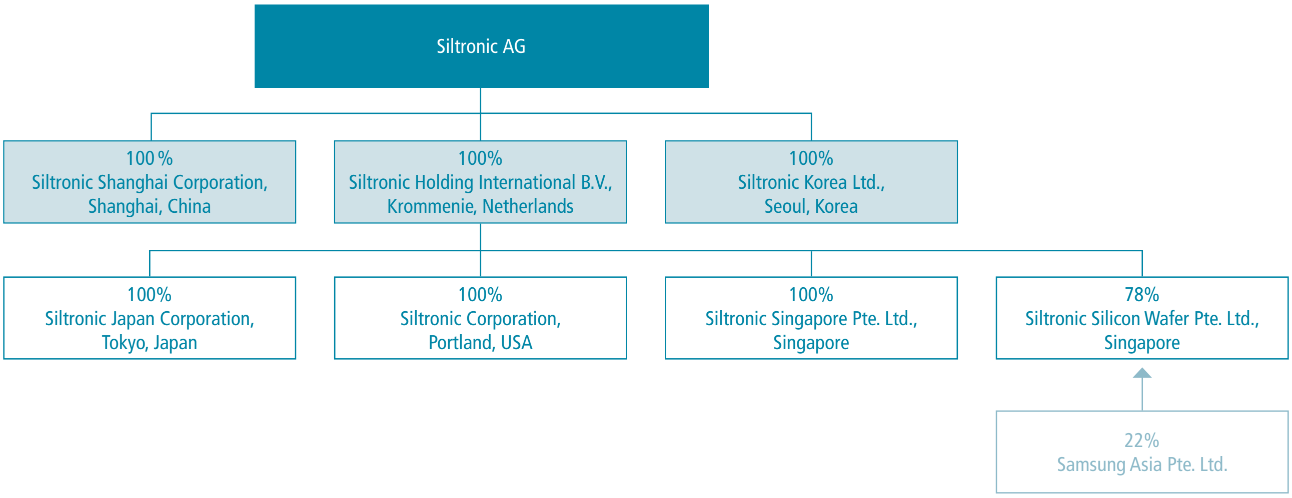
Management and control

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 2019. The Supervisory Board consists of twelve members. Information on the Executive Board and the Supervisory Board and how their responsibilities are allocated can be found in the Report on Corporate Governance on 68.

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 compensation report on 56 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 issued on 68. It includes information on the work of the Executive Board and Supervisory Board, the declaration of conformity pursuant to section 161 AktG, details on significant corporate management practices and further details on corporate governance.

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 2019, our five largest customers were (in alphabetical order) Infineon Technologies, Intel, Samsung Electronics, SK Hynix 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 roughly 13 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 and energy costs. 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 🗋 44.

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 will continue to strongly invest in technology and quality, continue with our program for operational excellence and cost reductions as well as increase our capacities according to market growth. 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 largest 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 and 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 41). 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 2019 were EBIT, EBITDA margin and net cash flow.

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

Another important metric is 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.

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 KPIs mainly relate primarily to the efficient use of silicon and energy, recycling of waste, water withdrawal as well as the number of work accidents 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 our non-financial report (see 77).

Business report

Macroeconomic situation and industry trends

According to analyses by the International Monetary Fund (IMF), global economic growth in 2019 declined significantly. According to the latest forecast from January 2020, global gross domestic product in 2019 rose by only 2.9 percent, compared with growth of 3.6 percent in the previous year.

At 1.2 percent, growth in 2019 in the euro zone was significantly weaker than in the previous year (2018: 1.9 percent). Industrial production, which suffered from the uncertainty caused by trade conflicts, recorded a significant decline. Only the service sector was able to prevent the euro zone economy from sliding into recession.

The German economy, which is heavily dependent on exports, grew by only 0.5 percent in 2019, after still growing by 1.5 percent in 2018.

According to the IMF, the US economy grew by 2.3 percent in 2019 (2018: 2.9 percent). Despite the international trade conflicts, the US economy continued to create substantial new jobs in the tenth year of the upswing. The continuing upturn on the labor market is the main driver of private consumption, which in turn has recently been responsible for the bulk of economic growth.

Japan's economy recorded a significant upturn in 2019, with economic growth of 1 percent, compared with only 0.9 percent in 2018. At 6.1 percent, China's gross domestic product in 2019 was slightly lower than in 2018 (6.6 percent).

The market for silicon wafers for the semiconductor industry shrank by 7.3 percent in 2019 (2018: plus 7.8 percent), measured in terms of wafer area sold worldwide. The decline in demand was recorded over the entire course of the year and marked by high inventory levels.

Sources:
IMF (World Economic Outlook update, January 20, 2020),
SEMI SMG (press release February 4, 2020)

Significant events affecting our business performance

There were no events in 2019 that had a material impact on Siltronic's business performance.

Comparison of actual and forecast business performance

Business in 2019 was down in the first three quarters, with only the fourth quarter seeing a slight recovery. The decline in demand affected all wafer sizes. As a result of the strong US dollar, the average selling price in euros was slightly higher on average for the year than in the previous year.

Due to the decline in demand, the forecast regarding sales and EBITDA margin was adjusted during the year in April and June 2019 by ad-hoc announcements. A decline in sales of approximately 10 to 15 percent below the previous year and an EBITDA margin range of between 30 and 35 percent were forecast. When the results for the third quarter of 2019 were presented, it was announced that both key figures would be in the lower half of the forecast range.

With revenues of EUR 1,270.4 million, the year-on-year decline of 12.8 percent was within the adjusted forecast range. The EBITDA margin in 2019 was 32.2 percent, which is also within the communicated range.

At EUR 81.3 million, net cash flow was significantly higher than the adjusted forecast, but roughly EUR 159 million lower than in 2018 (EUR 240.4 million).

Investments in tangible and intangible assets (capex) were slightly above forecast. In 2019, approximately EUR 360 million were invested (forecast approximately EUR 350 million). The good financial situation of recent years was used to make targeted investments in capacities, automation, digitization and capabilities.

Comparison of actual and forecast business performance

	2018 actual	Forecast February 2019 (Ad-hoc) & Annual Report 2018 (as of March 2019)	Forecast April 10, 2019 (Ad-hoc) & Q1 Statement (as of May 2019)	Forecast June 17, 2019 (Ad-hoc)	Forecast Q2 report (as of July 2019)	Forecast Q3 statement (as of October 2019)	**2019 actual**
Sales in EUR million	1,456.7	in the region of the previous year	Depending on when the recovery in the market environment takes place and on exchange rate influences, between 5 percent and 10 percent lower y-o-y	Depending on when the recovery in the market environment takes place and on exchange rate influences, between 10 percent and 15 percent lower y-o-y	Depending on when the recovery in the market environment takes place and on exchange rate influences, between 10 percent and 15 percent lower y-o-y	Depending on when the recovery in the market environment takes place and on exchange rate influences, between 10 percent and 15 percent lower y-o-y	1,270.4
EBITDA margin in %	40.5	Slightly below previous year	Between 33 percent and 37 percent	Between 30 percent and 35 percent	Between 30 percent and 35 percent	Between 30 percent and 35 percent	32.2
Net cash flow in EUR million	240.4	Clearly positive, due to increased investments approx. EUR 100 million below previous year	Clearly positive, but decrease by approximately EUR 150 million compared to 2018	Clearly positive, but decrease by approximately EUR 180 million compared to 2018	Clearly positive, but decrease by approximately EUR 180 million compared to 2018	Clearly positive, but decrease by approximately EUR 180 million compared to 2018	81.3
R&D ratio in %	4.7	Approximately 5 percent of sales	Approximately 5 percent of sales	Approximately 5 percent of sales	Approximately 5 percent of sales	Approximately 5 percent of sales	5.4
Depreciation in EUR million	91.6	Around EUR 110 million	Around EUR 110 million	Around EUR 110 million	Around EUR 110 million	Around EUR 110 million	110.4
Tax rate in %	18	Between 15 percent and 20 percent	Between 15 percent and 20 percent	Between 15 percent and 20 percent	Between 10 percent and 15 percent	Between 10 percent and 15 percent	14
Financial result in EUR million	−9.3	On the previous year's level	Better than the previous year	Better than the previous year	Better than the previous year	Better than the previous year	4.4
Capex in EUR million	256.9	Around EUR 350 million in capacity, automation and capabilities	Around EUR 350 million in capacity, automation and capabilities	Around EUR 350 million in capacity, automation and capabilities	Around EUR 350 million in capacity, automation and capabilities	Around EUR 350 million in capacity, automation and capabilities	363.0
Earnings per share in EUR	12.44	Slightly below previous year	Significantly below previous year	Significantly below previous year	Significantly below previous year	Significantly below previous year	7.52

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

Sales and earnings declined significantly in 2019. While a record result was achieved in 2018, the market deteriorated massively at the turn of the year 2018/2019. This had a correspondingly negative impact on the sales and earnings performance of Siltronic AG. The financial year ended with consolidated sales of EUR 1,270.4 million. Average sales prices in euros for the year were slightly higher than in the previous year. Due to increased capital expenditure, net cash flow for 2019 declined significantly from EUR 240.4 million to EUR 81.3 million, but exceeded the adjusted expectations. Despite the high dividend payment of EUR 150 million, net financial assets decreased by only EUR –102.4 million to EUR 588.9 million in 2019.

The high level of investment in automation, digitization and capabilities secured and further expanded Siltronic's position as one of the technology leaders. Technological performance is the key capability in the rapidly developing semiconductor and wafer industry.

Siltronic's economic situation remains stable. This assessment is based on the results of the consolidated and separate financial statements for 2019 and takes into account the course of business up to the time of preparation of the combined management report for 2019. The outlook for the wafer market is subdued at the beginning of 2020 against the backdrop of ongoing geopolitical and global economic challenges, existing inventories at customers and the outbreak of the corona virus at the beginning of 2020. We do not see that memory customers would contribute to a higher demand for silicon wafers due to high raw wafer inventories. However, we expect that demand for logic applications remains strong.

Financial position and financial performance

Financial performance and financial position

Decrease in sales mainly due to lower wafer area

		2019	2018	Change	Q4 2019	Q3 2019	Q4 2018	Change Q4 to Q3	Change Q4 to Q4
Sales	**in EUR million**	**1,270.4**	**1,456.7**	**–186.3**	**304.3**	**299.8**	**388.1**	**4.5**	**–83.8**
	in %			–12.8				1.5	–21.6

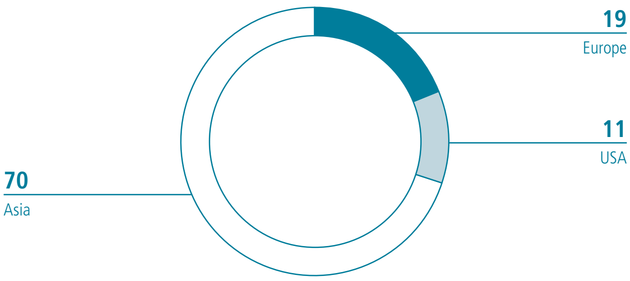
We closed the 2019 financial year with consolidated sales of EUR 1,270.4 million, down 12.8 percent from the previous year's record figure of EUR 1,456.7 million. Despite the significant decline, the EUR 1,270.4 million achieved in 2019 represent the second highest number in the last ten years.

The main reason for the decrease in sales compared to the previous year was the decline in the wafer area sold. The average wafer price (ASP), expressed in Euro, increased in comparison to the previous year due to currency effects, but its influence on the development of sales was subordinate to the decrease in wafer area.

Siltronic generates most of its sales in US dollars. Between January and December 2019, the US dollar averaged 1.12, compared with 1.18 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 70 percent of sales revenue (previous year: 69 percent), followed by Europe with 19 percent (previous year: 19 percent). Sales in the USA accounted for 11 percent (previous year: 12 percent).

Sales by region
in %



In 2019, sales fell in the first three quarters compared with the previous quarter and rose in the last quarter: Sales in the third quarter amounted to EUR 299.8 million, followed by EUR 304.3 million in the fourth quarter. Despite the increase, revenue in the final quarter is significantly lower than in the final quarter of 2018, when the highest quarterly revenue in the Siltronic Group's history was generated at EUR 388.1 million.

Higher cost for energy and depreciation weigh on cost of sales

		2019	2018	Change	Q4 2019	Q3 2019	Q4 2018	Change Q4 to Q3	Change Q4 to Q4
Cost of sales	in EUR million	812.8	824.8	–12.0	207.4	196.1	208.1	11.3	−0.7
	in %			–1.5				5.8	−0.3
Gross profit	**in EUR million**	**457.6**	**631.9**	**–174.3**	**96.9**	**103.7**	**180.0**	**–6.8**	**−83.1**
	in %			**–27.6**				**–6.6**	**−46.2**
Gross margin	in %	36.0	43.4		31.8	34.6	46.4		

The absolute decrease in cost of sales of EUR 12.0 million compared to the previous year resulted primarily from a decline in the wafer area produced.

As the wafer area sold decreased more than cost of sales, the cost of sales per wafer area increased. There were three main reasons for this development: lower utilization of our facilities, approximately EUR 20 million higher energy costs due to the lapse of the German "EEG" hardship and an increase in regular depreciation of property, plant and equipment due to the investments incurred.

Gross margin declines primarily because of lower utilization
Gross profit declined by EUR 174.3 million to EUR 457.6 million (–27.6 percent). The gross margin decreased from 43.4 percent in the previous year to 36.0 percent in the year under review. Despite the decline, the second highest gross margin in the last ten years was achieved in 2019.

The main reason for the decline in the gross margin year-on-year is the lower utilization of the production capacity. The gross margin fell from quarter to quarter in the year under review. In the first quarter, gross margin stood at 40.8 percent, followed by 36.1 percent in the second quarter and 34.6 percent in the third quarter. In the fourth quarter, the gross margin reached 31.8 percent, which is roughly the average value for 2017.

Selling expenses, R&D and general administration expenses slightly increased

In EUR million	2019	2018	Change	Q4 2019	Q3 2019	Q4 2018	Change Q4 to Q3	Change Q4 to Q4
Selling expenses	36.9	35.0	1.9	10.7	8.8	9.0	1.9	1.7
R&D expenses	68.4	68.1	0.3	17.7	17.2	17.9	0.5	−0.2
Administration expenses	27.8	27.5	0.3	6.8	6.7	7.5	0.1	−0.7
Total	**133.1**	**130.6**	**2.5**	**35.2**	**32.7**	**34.4**	**2.5**	**0.8**
In % of sales	10.5	9.0		11.6	10.9	8.8		

Since sales declined significantly, the percentage of sales, research and development (R&D) and administration costs in comparison with the previous year (9.0 percent) was higher at 10.5 percent.

Effect from currency hedges puts burden on 2019

In EUR million	2019	2018	Change	Q4 2019	Q3 2019	Q4 2018	Change Q4 to Q3	Change Q4 to Q4
Balance of exchange rate effects	−27.0	0.7	−27.7	−4.2	−7.7	−4.8	3.5	0.6
Sundry other operating income and expenses	0.9	−4.3	5.2	−0.7	0.3	−2.0	−1.0	1.3
Balance of other operating income and expenses	**−26.1**	**−3.6**	**−22.5**	**−4.9**	**−7.4**	**−6.8**	**2.5**	**1.9**

The development of the US dollar and the Japanese yen had a positive impact on sales and gross margin in the first three quarters of 2019. In order to mitigate future adverse exchange rate developments, we implement currency hedging measures. These currency hedges have an opposite effect to the development of sales and gross margin in the net balance of other operating income and other operating expenses.

In 2019, the balance of currency effects resulted in expenses of EUR –27.0 million. This represents a EUR 27.7 million charge compared to the previous year.

At EUR 0.9 million, the net balance of other operating income and expenses in 2019 was considerably lower than in the previous year. This is mainly attributable to the recording a provision for environmental protection measures in 2018.

Weaker demand reduces EBITDA and EBITDA margin

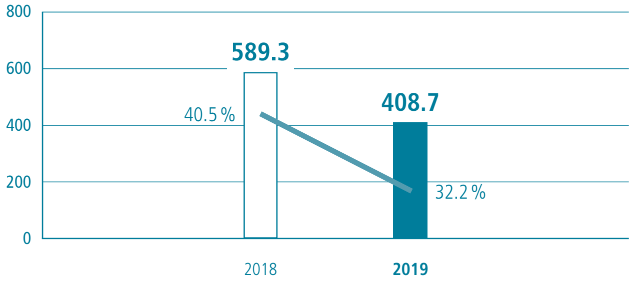
		2019	2018	Change	Q4 2019	Q3 2019	Q4 2018	Change Q4 to Q3	Change Q4 to Q4
EBITDA	**in EUR million**	**408.7**	**589.3**	**−180.6**	**90.0**	**91.5**	**160.8**	**−1.5**	**−70.8**
	in %			**−30.6**				**−1.6**	**−44.0**
EBITDA margin	**in %**	**32.2**	**40.5**		**29.6**	**30.5**	**41.4**		
Depreciation, amortization and impairment less reversals thereof	in EUR million	−110.4	−91.6	18.8	−33.3	−27.9	−21.9	−5.4	−11.4
EBIT	in EUR million	298.3	497.7	−199.4	56.7	63.6	138.9	−6.9	−82.2
	in %			−40.1				−10.8	−59.2
EBIT margin	in %	23.5	34.2		18.6	21.2	35.8		

EBITDA for 2019 amounted to EUR 408.7 million, down EUR 180.6 million or 30.6 percent on the previous year (EUR 589.3 million). The main reasons for this development were lower demand and higher energy costs. The EBITDA margin fell from 40.5 percent in the previous year to 32.2 percent.

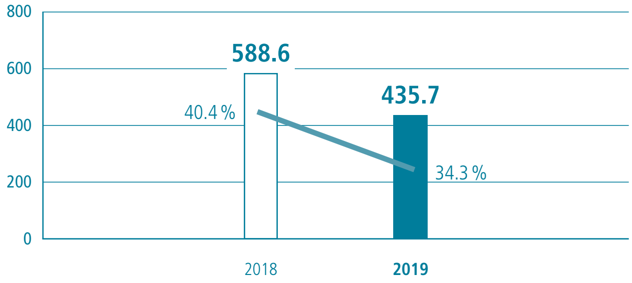
In the fourth quarter of 2019, we achieved an EBITDA margin of 29.6 percent, compared with 30.5 percent in the third quarter (fourth quarter of 2018: 41.4 percent).

EBIT of EUR 298.3 million in 2019 was EUR 199.4 million lower than in the previous year. The decline was driven by the lower gross profit and higher exchange rate effects, which are included in other operating income and expenses.

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 of EUR –27.0 million (previous year: EUR 0.7 million), included in the other operating income and expenses, which were mainly attributable to hedging transactions.

Strong financial result despite low interest rate environment

In EUR million	2019	2018	Change	Q4 2019	Q3 2019	Q4 2018	Change Q4 to Q3	Change Q4 to Q4
Interest expenses for pension provisions	–7.4	–8.0	0.6	–1.9	–1.7	–1.9	–0.2	–
Other financial result, net	11.8	–1.3	13.1	2.9	2.7	–1.9	0.2	4.8
Financial result	**4.4**	**–9.3**	**13.7**	**1.0**	**1.0**	**–3.8**	**–**	**4.8**

The other financial result mainly comprises income from securities and fixed-term deposits. Expenses from the discounting of long-term liabilities and income and expenses from derivative instruments used for currency hedging are also included in this item.

Despite the low interest rate environment, a surplus of EUR 11.8 million was achieved in 2019 through interest-bearing and non-interest-bearing financial investments. Hence, interest expense for pensions of EUR 7.4 million was more than compensated for.

Net profit of EUR 261 million

								Change	
		2019	**2018**	Change	**Q4 2019**	Q3 2019	Q4 2018	Q4 to Q3	Q4 to Q4
Result before income tax	in EUR million	302.7	488.4	−185.7	57.7	64.6	135.1	−6.9	−77.4
Income taxes	in EUR million	−41.7	−87.8	46.1	−12.3	−5.1	−29.1	−7.2	16.8
Tax rate	in %	14	18		21	8	22		
Result for the period	**in EUR million**	**261.0**	**400.6**	**−139.6**	**45.4**	**59.5**	**106.0**	**−14.1**	**−60.6**
		225.6	*373.2*		*36.4*	*49.6*	*97.5*		
		35.4	*27.4*		*9.0*	*9.9*	*8.5*		
Earnings per share	in EUR	7.52	12.44	−4.92	1.21	1.65	3.25	−0.44	−2.04

In the fiscal year, income taxes amounted to EUR 41.7 million (previous year: EUR 87.8 million). The tax expense mainly related to effective taxes in Germany, Singapore and the USA. Deferred taxes reduced earnings by EUR 19.8 million in the reporting period.

In 2019, the Group tax rate was 14 percent (previous year: 18 percent). The reason for the lower tax rate is primarily that profits are increasingly generated by companies with low effective tax rates.

Our net profit decreased from EUR 400.6 million in 2018 to EUR 261.0 million in 2019 out of which EUR 225.6 million are attributable to Siltronic shareholders (previous year: EUR 373.2 million). The net profit of EUR 261.0 million represents the second largest result in the history of the company.

Earnings per share amounted to EUR 7.52 after EUR 12.44 in the previous year.

Assets and liabilities

The Group's total assets increased to EUR 1,945.0 million on December 31, 2019 (2018: EUR 1,818.2 million).

Non-current assets increased due to investments

In EUR million	**Dec. 31, 2019**	Dec. 31, 2018	Change
Intangible assets	22.7	22.2	0.5
Property, plant and equipment	951.4	683.9	267.5
Right-of-use assets	48.7	–	48.7
Financial investments	52.1	31.3	20.8
Other assets	5.4	25.4	−20.0
Non-current assets	**1.080.3**	**762.8**	**317.5**

Non-current assets amounted to EUR 1,080.3 million at the end of 2019, or around 56 percent of total assets (previous year: 42 percent). Compared with the end of 2018 (EUR 762.8 million), they increased by EUR 317.5 million, 85 percent of which is attributable to higher property, plant and equipment, and the remainder largely due to changes in accounting regulations for leases.

Siltronic is only marginally affected by the new accounting regulations on leasing (IFRS 16): As of December 31, 2019, the assets and liabilities sides of the balance sheet expanded by approximately EUR 49 million each, largely due to the very long-term use of land in Singapore. The balance sheet expansion represents only 3 percent of the balance sheet total. The new line item on the assets side is called "Rights of use", the one on the liabilities side "Leasing liabilities".

Investments (additions to property, plant and equipment and non-current intangible assets) amounted to EUR 363.0 million (previous year: EUR 256.9 million). In addition to the base investments of around EUR 90 million, capital expenditure resulted primarily from a new crystal pulling hall in Singapore, from projects for automation of production, from measures in production to meet increasingly demanding technical specifications ("capabilities") and from digitization activities.

Depreciation and amortization amounted to EUR 110.4 million (previous year: EUR 93.4 million).

As of December 31, 2019, intangible assets include in particular goodwill arising from the step acquisition of Siltronic Silicon Wafer Pte. Ltd. in 2014. Goodwill, which amounts to EUR 20.5 million, is not subject to scheduled amortization.

Other non-current assets largely comprise deferred taxes which declined in Germany and the USA.

Current assets decreased mainly due to dividend payment for 2018

In EUR million	Dec. 31, 2019	Dec. 31, 2018	Change
Inventories	152.8	148.6	4.2
Trade receivables	142.3	175.7	−33.4
Other assets	31.1	69.8	−38.7
Cash and cash equivalents and fixed-term deposits	538.5	661.3	−122.8
Current assets	**864.7**	**1,055.4**	**−190.7**

Current assets amounted to EUR 864.7 million as of 31 December 2019, down EUR 190.7 million on the previous year (EUR 1,055.4 million). They accounted for around 44 percent of total assets (previous year: around 58 percent).

The item trade receivables and contract assets is below the previous year due to lower demand.

Other current assets mainly comprise tax receivables, market values of derivative financial instruments and prepaid expenses. The previous year also included a compensation claim against insurance companies. The proceeds of the compensation claim which was paid on schedule to Siltronic in 2019 explains almost the entire year-on-year decline in this item.

The net working capital amount to EUR 168.4 million (previous year: EUR 227.1 million). The amount is composed of inventories, trade receivables and contract assets less trade payables. Advance payments from customers are not included in net current assets.

The main reasons for the decline in cash and cash investments have been low inflow from free cash flow of EUR 36.4 million because of the investments and the outflow of EUR 150.0 million paid out in 2019 as a dividend for 2018.

Increasing provision for pensions due to lower interest rates drive non-current liabilities up

In EUR million	Dec. 31, 2019	Dec. 31, 2018	Change
Equity	**930.2**	**915.7**	**14.5**
Pension provision	491.5	362.3	129.2
Customer prepayments	152.5	175.2	−22.7
Lease liabilities	45.5	–	45.5
Other liabilities	81.8	97.9	−16.1
Non-current liabilities	**771.3**	**635.4**	**135.9**

Equity amounted to EUR 930.2 million as of December 31, 2019 (previous year: EUR 915.7 million). The equity ratio was thus 47.8 percent compared to 50.4 percent as of 31 December 2018.

The increase in equity by EUR 14.5 million is mainly due to the net income of EUR 261.0 million less the dividend payment for 2018 of EUR 150.0 million and a reduction of EUR 130.0 million due to actuarial losses when calculating the pension obligations. This actuarial loss results from the low interest rate environment.

Non-current liabilities amounted to EUR 771.3 million as of 31 December 2019 (previous year: EUR 635.4 million); they account for around 40 percent (previous year: around 35 percent) of total liabilities and equity. The increase of EUR 135.9 million was driven by a sharp rise in pension provisions, which rose by EUR 129.2 million. The increase was dominated by the declining interest rate: In the USA, the interest rate for pensions fell from 4.08 percent at the end of 2018 to 2.98 percent at the end of 2019, in Germany from 1.98 percent to 1.24 percent in the same period.

The decline in non-current customer prepayments received is caused by the scheduled transition to current prepayments.

Explanations on leasing liabilities are provided in the notes on non-current assets above.

Non-current other liabilities mainly comprise obligations for anniversary bonuses, partial retirement, taxes, environmental protection and outstanding invoices due in more than one year. The decrease in this line item is not caused by a few specific cases but by many, which have led to an overall decrease.

As in the previous year, current liabilities accounted for only a small share of the balance sheet total at 13 percent

In EUR million	Dec. 31, 2019	Dec. 31, 2018	Change
Trade liabilities	126.8	96.6	30.2
Customer prepayments	28.6	56.5	–27.9
Lease liabilities	3.8	–	3.8
Other provisions and liabilities	84.3	114.0	–29.7
Current liabilities	**243.5**	**267.1**	**–23.6**

Current liabilities totaled EUR 243.5 million as of 31 December 2019, down EUR 23.6 million on the previous year (31 December 2018: EUR 267.1 million). Current liabilities account for around 13 percent of total assets (previous year: around 15 percent).

Trade payables increased as investment activities in the months prior to the balance sheet date were higher than in the same period of 2018.

The lower short-term customer prepayments reflect the transition from non-current customer prepayments less scheduled refund to customers. Refunds are linked to shipments and sales respectively.

Other current liabilities mainly include the current portion of personnel liabilities (vacation, overtime, performance-related compensation), taxes, liabilities from derivative financial instruments and provisions for environmental protection. The main reasons for the decrease in this item were income taxes, personnel liabilities and derivatives.

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, 2018 to December 31, 2019 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.

Refunds of customer prepayments and positive free cash flow despite record in capital expenditure

In EUR million	2019	2018	Change
Cash flow from operating activities	385.3	651.9	−266.6
Proceeds/payments for capital expenditure including intangible assets	−348.9	−235.5	−113.4
Free cash flow	**36.4**	**416.4**	**−380.0**
Increase/decrease of prepayments received (customer prepayments)	44.9	−176.0	220.9
Net cash flow	**81.3**	**240.4**	**−159.1**
Proceeds/payments for capital expenditure including tangible assets	−348.9	−235.5	−113.4
Proceeds/payments from fixed-term deposits (fixed-term deposits, securities)	55.0	−315.1	370.1
Cash flow from investing activities	**−293.9**	**−550.6**	**256.7**

In 2019, we generated net cash inflow from operating activities of EUR 385.3 million compared to EUR 651.9 million in 2018, although these amounts are significantly influenced by customer prepayments, which only represent a shift between periods. In the previous year, cash flow from operating activities included EUR 176.0 million more inflows from customer prepayments than refunds. In contrast, repayments of EUR 44.9 million predominated in the year under review. Taking this time lapse in 2019 into account, cash flow from operating activities did not decline by EUR 266.6 million, but by EUR 45.7 million only.

Cash outflows for investments in property, plant and equipment and intangible assets increased from EUR 235.5 million in 2018 to EUR 348.9 million in 2019.

The very high cash outflows for investments in property, plant and equipment and intangible assets in 2019 and the refund of customer prepayments were easily financed from operating activities: Free cash flow (cash inflow from operating activities after deduction of investments in property, plant and equipment and intangible assets) was clearly positive (EUR 36.4 million).

Net cash flow reached EUR 81.3 million
Siltronic's management uses net cash flow as an internal performance indicator for the operating business. The net cash flow helps to assess the extent to which a company can sustainably finance its investments in property, plant and equipment and intangible assets through its operating activities, because in contrast to free cash flow, the timing of inflows and outflows caused by customer prepayments is balanced. Due to the amount and time lapse of the inflows, such shifts undermine the information provided in the free cash flow.

The net cash flow shows that, ignoring the shifts in the periods due to customer prepayments, net cash inflows of EUR 81.3 million were generated in 2019 after deducting the extremely high payments for capital expenditures. The significant reduction compared to the previous year's figure of EUR 240.4 million is primarily due to the much higher payments for investments in property, plant and equipment in the reporting year.

Cash inflow/outflow for financial investments
In addition to cash outflows for property, plant and equipment and intangible assets, cash inflows and outflows for cash investments (time deposits and securities) are included in cash flow from investing activities. In 2019, net cash inflows due to cash investments had a volume of EUR 55.0 million (previous year: net outflows of EUR 315.1 million). After these net cash inflows, the Group had EUR 388.2 million in cash investments as of 31 December 2019. This EUR 388.2 million was owned in addition to cash and cash equivalents of EUR 200.7 million (cash and cash equivalents).

Financial management

Principles and objectives

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

As 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 reach EUR 588.9 million

Despite the high investments of EUR 349.0 million in fiscal 2019 and the dividend of EUR 150.0 million paid to shareholders, net financial assets declined by EUR 102.4 million only. Siltronic showed net financial assets of EUR 588.9 million as of December 31, 2019 (December 31, 2018: EUR 691.3 million).

In EUR million	Dec. 31, 2019	Dec. 31, 2018	Change
Cash and cash equivalents	200.7	257.5	–56.8
Financial investments	388.2	433.8	–45.6
Net financial assets	**588.9**	**691.3**	**–102.4**

Some financial investments have a maturity up to June 2021.

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

The net financial assets of EUR 588.9 million provide a solid foundation for our growth strategy.

Limitation of financial risk

To limit Siltronic's currency risk, we have defined a strategy for entering into currency hedging transactions. We refer to this as "hedging strategy". Currency hedging transactions include futures, swaps and options. Expenses and income are recognized in accordance with the rules on hedge accounting under IFRS (reported in the income statement or in other comprehensive income).

Other 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

We finance investments in property, plant and equipment from operating cash flow. Capital expenditures mainly relate to existing production plants in order to automate or optimize production and increase yields. In 2019, we invested primarily in capacity expansions, the new crystal 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 to end customers if (a) customers are located in Europe or (b) in Taiwan or if (c) the customer explicitly wishes to purchase from Siltronic AG. The sales of wafers to other customers is realized 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	2019	2018	Amount	in %
Sales	**971.2**	**1.066.0**	**−94.8**	**−8.9**
Changes in inventories and other own work capitalized	5.2	−1.6	6.8	−425.0
Total operating output	**976.4**	**1.064.4**	**−88.0**	**−8.3**
Cost of materials	−473.4	−421.3	−52.1	12.4
Labor costs	−245.0	−226.9	−18.1	8.0
Depreciation, amortization, and impairment	−66.3	−53.1	−13.2	24.9
Other net operating expenses and income	−161.4	−149.9	−11.5	7.7
Result before dividend income from subsidiaries	30.3	213.2	−182.9	−85.8
Dividend income from subsidiaries	50.0	37.0	13.0	35.1
EBIT	**80.3**	**250.2**	**−169.9**	**−67.9**
EBITDA	**146.6**	**301.6**	**−155.0**	**−51.4**
Interest income/expenses	−11.9	−15.9	4.0	−25.2
Result before income taxes	**68.4**	**234.3**	**−165.9**	**−70.8**
Income taxes	−9.9	−64.8	54.9	−84.7
Retained earnings	**58.5**	**169.5**	**−111.0**	

The decline in sales revenues by EUR 94.8 million in fiscal year 2019 is primarily due to lower demand for wafers produced by Siltronic AG. The negative effect on sales due to less wafer area sold clearly overcompensated the positive effect due to higher average prices.

In addition to sales of wafers produced by Siltronic AG, the company generates sales from trading wafers produced by subsidiaries and from the sale of the intermediate product "ingot". Ingots are sold almost entirely to subsidiaries. Due to price effects, Siltronic AG generated higher revenues than in the previous year when looking at total sales generated in the trading business and the sale of ingots. However, the increase could not offset the decline in wafers produced by Siltronic AG.

The breakdown of sales by region was unchanged from the previous year. 59 percent of sales revenues were generated with customers in Asia, 26 percent with customers based in Europe, 13 percent in America and the remaining two percent in other regions. 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.

The cost of materials increased due to the larger trading business. In the trading business, the cost of materials does not result from production costs, but from the purchasing costs for procured wafers. The procurement price is only slightly below the sales price, as the company is only entitled to a trading margin in line with the limited business risk of a reseller. The cost of materials associated with the company's own production has fallen. Although energy costs have increased by some EUR 20 million due to the lapse of the "EEG" hardship regulation in Germany, expenses for raw materials, supplies and packaging decreased further.

Personnel expenses rose by EUR 18.1 million or 8.0 percent compared to the previous year. This is almost entirely due to a special payment into the pension fund.

The most important reason for the higher depreciation and amortization are capital expenditures. The line item also includes an unscheduled depreciation of EUR 4.9 million, whereas the previous year's amount does not include any unscheduled depreciation.

The EUR 11.5 million decrease in other operating expenses and income (net) is the result of cost-reducing and cost-increasing factors. The most important relief came from lower costs for temporary staff, the most important burdens were IT-driven (especially the transition of IT to a new service provider).

Siltronic AG can participate in the financial performance of all major foreign subsidiaries through its investment company Siltronic Holding International B.V., Netherlands, by way of dividends. The Executive Board of Siltronic AG exercises this option by determining the amount of dividends to be paid by Siltronic Holding International B.V. to Siltronic AG each year on the basis of business considerations. In fiscal 2019, Siltronic AG recognized EUR 50.0 million as a dividend income (previous year: EUR 37.0 million).

The decline in EBIT and EBITDA by EUR 169.9 million and EUR 155.0 million, respectively, is mainly due to the following reasons: (a) lower demand for wafer area produced by Siltronic AG itself; (b) higher costs for electricity due to the elimination of the 'EEG' hardship clause in Germany; (c) special payment into the pension fund. The higher dividend payout by Siltronic Holding International B.V. only slightly offset the aforementioned economic burdens.

EBIT fell by 68 percent year-on-year and the EBITDA margin declined by 13 percentage points from 28 percent to 15 percent. The developments were thus similar to those of the Group.

Siltronic AG's net cash flow in the year under review was EUR –10.2 million due to the high level of capital expenditure. The dividend from Siltronic Holding International B.V. for 2019 is not included in this figure because the inflow will take place in 2020. Including the deferred inflow of EUR 50.0 million, the net cash flow would have been EUR 39.8 million. In the previous year, the company generated a net cash flow of EUR 135.2 million, which included the distribution by Siltronic Holding International B.V. (no deferred inflow). The decline of 71 percent is similar to the Group's comparable figure.

The net interest and financial result is affected by the discounting of personnel-related balance sheet items, in particular the provision for pensions.

Income tax expense decreased compared to the previous year due to the lower earnings before taxes.

Net assets of Siltronic AG in accordance with HGB

Assets, in EUR million	Dec. 31, 2019	Dec. 31, 2018	Change Amount	Change in %
Fixed assets				
Intangible Assets	2.1	1.4	0.7	50.0
Property, plant and equipment	408.7	329.9	78.8	23.9
Investments in affiliated companies	129.7	129.7	–	–
Financial assets	130.4	110.0	20.4	18.5
	670.9	**571.0**	**99.9**	**17.5**
Current assets				
Inventories	249.0	247.2	1.8	0.7
Trade receivables from third parties	73.7	94.9	−21.2	−22.3
Receivables from affiliated companies	119.8	107.8	12.0	11.1
Other assets, excluding time deposits	26.3	42.3	−16.0	−37.8
Cash and cash equivalents, including time deposits	107.6	287.7	−180.1	−62.6
	576.4	**779.9**	**−203.5**	**−26.1**
Total assets	**1.247.3**	**1.350.9**	**−103.6**	**−7.7**

As investments in property, plant and equipment exceeded depreciation, the carrying amount increased by EUR 78.8 million. In 2019, additions to property, plant and equipment and intangible assets amounted to EUR 147.1 million, while depreciation and amortization was significantly lower at EUR 66.3 million.

Investments in affiliated companies relate almost exclusively to the subsidiary Siltronic Holding International B. V.

Advance payments made in the amount of EUR 167.4 million reported under inventories are virtually unchanged from the previous year (EUR 171.5 million). Siltronic AG made the advance payments to a manufacturing subsidiary whose wafers are sold by Siltronic AG as a distributor. No borrowing was necessary to finance the advance payment because Siltronic AG in turn received an advance payment in the same amount from a customer.

Trade receivables from third parties fell by EUR 21.2 million as a result of the decline in sales compared with the previous year.

The item receivables from affiliated companies includes two offsetting effects. On the one hand, the item contains a dividend receivable from Siltronic Holding International B.V. in the amount of EUR 50.0 million (previous year: no receivable). On the other hand, trade receivables from subsidiaries declined by EUR 35.9 million year-on-year due to declining demand.

The reason for the decline in the item “other assets excluding fixed-term deposits” is that the item at the end of 2018 included a significantly higher receivable due to an advance payment to the Wacker Chemie VVaG pension fund than in December 2019.

The weaker earnings situation compared to 2018 in together with investments in property, plant and equipment and the EUR 150.0 million dividend payout were the driver that cash and cash equivalents and fixed-term deposits decreased by EUR 180.1 million.

Financial position of Siltronic AG in accordance with HGB

in EUR million	Dec. 31, 2019	Dec. 31, 2018	Change	
			Amount	in %
Equity	**644.1**	**735.6**	**−91.5**	**−12.4**
Provisions				
Pension provisions	122.0	107.6	14.4	13.4
Other provisions	113.7	140.3	−26.6	−19.0
	235.7	**247.9**	**−12.2**	**−4.9**
Liabilities				
– Trade payables to third parties	36.3	33.7	2.6	7.7
– To affiliated companies	122.9	80.1	42.8	53.4
Other liabilities	208.3	253.6	−45.3	−17.9
	367.5	**367.4**	**0.1**	**0.0**
Total equity and liabilities	**1,247.3**	**1,350.9**	**−103.6**	**−7.7**

As of the balance sheet date, 52 percent of the assets are financed by equity and 48 percent by debt.

Other provisions are down compared with the end of 2018 because personnel-related provisions decreased and the provision for outstanding invoices was lower.

The main reason for the increase in liabilities to Group companies excluding trade accounts payable by EUR 42.8 million is the increase in financial clearing accounts with subsidiaries.

The EUR 45.3 million reduction in other liabilities is almost entirely attributable to advance payments received by Siltronic AG from customers outside the Group and relating to future wafer deliveries. The advance payments were refunded as scheduled.

Net financial assets amounted to EUR 35.2 million at December 31, 2019, compared to EUR 259.6 million a year earlier.

Cash flow from operating activities amounted to EUR 98.7 million in the past year, compared to EUR 247.9 million in the previous year. Payments for tangible and intangible assets amounted to EUR 149.2 million in the past fiscal year, compared to EUR 90.6 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. In principle, Siltronic AG participates in the rewards of its subsidiaries in accordance with its interest. The assessment of risks is 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

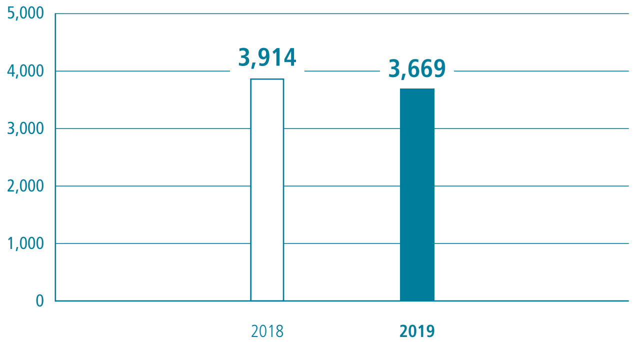
Employees

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, 2019, Siltronic had 3,669 employees. Compared to the previous year (3,914 employees), the number of employees thus decreased by 245 or around 6 percent. In addition, 283 temporary staff were employed worldwide as of December 31, 2019 (previous year: 715).

As a manufacturing company, we have a high proportion of direct personnel. In 2019, this figure was around 62 percent.

Number of employees (excluding temporary employees)
as of December 31, 2019



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 performance 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.

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 familiarize 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 and would like to fill more high-value functions with female executives by means of personnel development.

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 people with equal rights worked in 2019 (2018: 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 work-shops.

We are committed to childcare and the return to work after parental leave. 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 by paying the costs of childcare in form of a one-off subsidy. In addition, our employees can apply for parental leave to take care of 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 its own 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 2019, the IG BCE union and the employers in the chemical industry agreed on collective agreements with a term of 27 and 28 months respectively, which provide for a collective increase in two stages of 1.5 percent from July 2020 and 1.3 percent from July 2021. In addition, the chemical industry's social partners agreed on more flexibility in working hours and guidelines for mobile working in the new "Modern Working World" collective agreement, as well as a future amount from 2020 that can be used for various purposes in working life. Furthermore, the collective bargaining partners have agreed on the introduction of supplementary nursing care insurance for all employees covered by collective agreements from mid 2021.

Employee development has high priority

In order to ensure the sustainability of our success, we have been initiating a process for the promotion of talented potential candidates for many years. In an annual performance management cycle, all non-tariff employees and senior executives are discussed according to uniform criteria in internal and cross-divisional conferences. At the subsequent Siltronic Conference, all potentials worldwide are presented to the Executive Board in order to initiate individual development directions. In the annual employee review, concrete development measures are then discussed between the supervisor and the employee on this basis. We want to fill challenging positions with internal candidates in the medium and long term. As part of the digitization of our processes, the documentation of the employee appraisal interview will be electronic not only for non-tariff employees, but from 2020 also for our employees covered by collective bargaining agreements.

Personnel marketing concept for the recruitment of new employees and retain existing ones

We present Siltronic as an employer brand at various recruiting fairs. In addition to the career page on our website with all the important information for applicants, cooperation with Social Media platforms also enables us to win a wider audience for our varied jobs. We not only want to be perceived as an attractive employer for applicants. We also attach great importance to internal employer branding. As part of the modernization of our intranets, we have therefore focused on ensuring that our employees find the content they need quickly and in a targeted manner and can obtain comprehensive information about our wide range of services.

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 2020 have already been filled successfully in 2019. We are currently training 23 apprentices.

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.

Leasing models for employees

We offer our employees the opportunity to lease cars and bicycles and to retain the leasing instalment conveniently via their payroll accounting. Our employees can use up to two bicycles or e-bikes via an external provider. Employees not covered by collective agreements also have the option of a car leasing model.

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

	2019	2018	2017	2016
R&D expenditure (EUR million)	68.4	68.1	68.3	66.4
R&D expenditure as a percentage of sales	5.4	4.7	5.8	7.1
R&D grants and subsidies received (EUR million)	0.7	0.5	0.8	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 1,850 registered patents and patent applications in 340 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 68.4 million in 2019 (previous year: EUR 68.1 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 very well 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 2019
In 2019, we continued with projects which already started in 2018, like debottlenecking of our lines and automation projects to improve our cost position. The main projects include capacity expansion, the construction of the new crystal 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 reliability 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 preferably use the internationally recognized "RosettaNet" standard. Alternatively, 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 continuously improve our procurement costs and the quality of our supplies, to ensure the supply of our production at all times and to avoid procurement risks as well as to quickly develop additional supply potentials. Specialized teams control purchasing processes from raw materials and supplies, spare parts and equipment, facilities, energy and utilities, IT and logistic services as well as technical and site services to supply our international locations. In 2019, we continuously worked on a competitive expansion of our supplier base in the global procurement markets. This enables us to secure internationally competitive material and services costs, continuous improvement of quality and service in deliveries and adequate security of supply.

A systematic supplier management (risk and performance monitoring, auditing, supplier development) is an important tool for Siltronic to build up sustainable and reliable supplier relationships, to assess and develop these and to 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. We also ensure compliance with all legal requirements and standards and increasingly monitor the contribution of our supply chain to sustainability. We attach great importance to direct contact with our suppliers and to long-term, constructive cooperation based on partnership. Our suppliers make a significant contribution to Siltronic's ability to produce wafers of the quality demanded by customers through improved processes and high innovation. In 2019, at our biennial Suppliers' Day, we honored 12 suppliers for their outstanding performance.

Due to our investment the order volume of around EUR 845 million in 2019 was significantly higher than in the previous year (2018: around EUR 727 million). The agreed delivery qualities, quantities and dates were realized by our suppliers at a very high level. Worldwide, Siltronic placed more than 58,900 purchase orders. In the area of procurement and logistics, 8 percent of our suppliers account for around 90 percent of our procurement volume.

Variation in material price movements

In 2019, the price trend for our most important materials and raw materials was slightly increasing due to the strong worldwide economy and the increasing prices for raw materials and energy and higher personnel costs. We had to accept some price increases in some specific input materials. Currency effects had a slight negative impact on procurement in 2019.

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 2023. 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.

Efficient and robust processes and systems

We increasingly use e-procurement and look at the entire purchasing process, from sending an inquiry to a supplier to paying the in-voice. A key metric is the number of purchase orders created automatically. More than 99,800 different purchase order items were released worldwide in 2019 (previous year: around 111,400 items). At our German sites, around 74 percent of the total number for 2019 were created automatically and thereof around 38 percent via eCatalog.

We work with over 3,800 suppliers worldwide (previous year: 3,800). Asian suppliers continue to account for about 34 percent. Our goal is to continue to expand our procurement globally with new suppliers in order to exploit and offset opportunities and risks in the procurement market and to continue to ensure continuous production without disruptions through the supply chain at the best possible cost and quality.

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 40.

Experts in sales and application technology in the six defined sales regions USA, Europe, Japan, China, Taiwan, 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, 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. Despite a challenging market environment we signed, also in 2019, multi-year contracts with customers for 300 mm as well as 200 mm 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 2019, for example, we received the Preferred Quality Supplier Award from Intel for the ninth time in a row and the Best Silicon Supplier Award from CanSemi in China.

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 our "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 and Global Compact Principles.

The non-financial report follows the combined management report in the annual report.

Risk and opportunity report

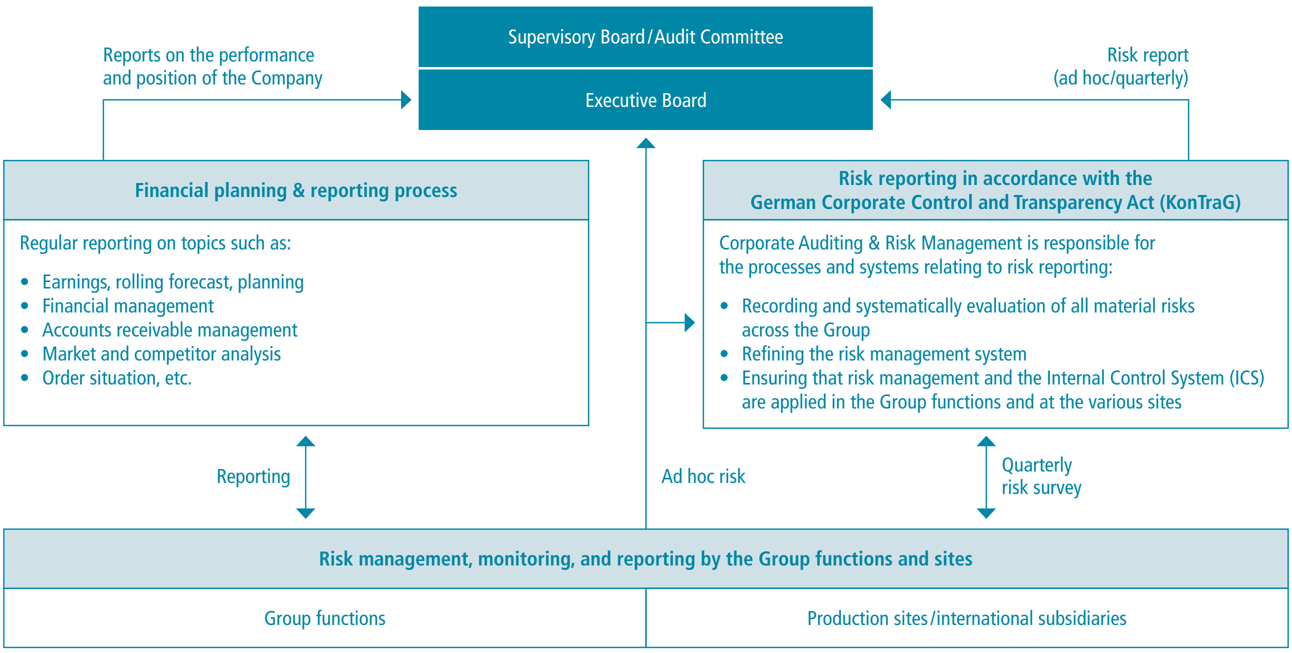
Risk strategy and risk policy

Siltronic is exposed to various risks. 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. No significant changes were made to the risk management system. 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.

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 material risks. The statements refer to the period covered by the outlook, i.e. the whole of the 2020 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 mitigation 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 or the further spread of the corona virus, 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 including corona virus

Siltronic AG is a global company with production facilities in Germany, the USA, and Singapore. Possible natural disasters, political crises, pandemic 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. The financial impact of damage to our production facilities is partly covered by insurance. Our prevention plans, as well as our global production sites, help limit the impact of local or regional events on our business operations.

In the context of the spread of the corona virus, our global pandemic preparedness plans were initiated immediately, particularly at our production site in Singapore and the Shanghai sales office, and the situation is being assessed on an ongoing basis. In particular, we are closely monitoring the logistics chains with suppliers and to our customers. We procure polysilicon, by far the most important raw material, almost exclusively from locations outside Asia.

Industry and market risks

Intense competition, demand controlled by customers, interchangeability of products, cycles in 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. Not only existing competitors but also new competitors may be able to 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.

Investments

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.

Various measures were initiated to improve the cost structure in Germany in order to maintain the production of small diameter wafers at the Burghausen production site. For example, an adjustment of the profit-sharing scheme for the financial years from 2020 onwards was agreed with the employees at the German locations.

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 AG 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 continuing strong order situation in some supplier 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, as well as critical equipment and services, 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 adversely affect our future business performance.

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

Legal and regulatory risk

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

As a technology company, Siltronic AG 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.

We limit legal risks with the support of 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 AG 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 AG meets this risk through extensive maintenance routines and ongoing inspections of its own facilities. In its mission statement, Siltronic AG has formulated the responsibility for environmental protection, safety and health and communicated globally binding principles and strategies. In the event of damage, Siltronic AG 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 an upland investigation and cleanup of the Siltronic Corp. property in Portland and the second is design work done jointly with another party for a remedy 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 Corp. 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.

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 or emissions trading.

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 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 out

As part of the IT carve out project, work began in 2019 to transfer key IT services from Wacker Chemie to new service providers. This also includes a technical separation of the systems. The workplace computers are modernized. 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 performance 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.

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. 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. We therefore expect additional payments.

Financial risk

Credit risk

Due 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 16.

Liquidity risk

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

Opportunity report

We see a variety of opportunities for maintaining its path of successful growth over the coming 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. The efficient use of limited global resources is forcing the industry to develop ever smaller, more powerful and more efficient components. To make this possible, the technological requirements for our wafers are increasing.

The most important driver of profitability is the prices achievable on the market. In addition to the technical requirements, the utilization of existing capacities plays a decisive role in the capital-intense environment of wafer producers. In the short term, these are influenced by fluctuations in customer demand and their inventories, in the medium to long term by the investment decision of wafer producers and the steadily increasing consumption of wafer area.

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.

Stay amongst the technology leaders
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 semi-conductor 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
We are investing more heavily in the automation of existing plants and processes in order to further improve its cost position.

New applications and material properties
Due to the high availability of silicon and its special material properties, we assume that substitution materials will only be used for special applications. Based on the further development of technical possibilities and applications at our customers, we continuously evaluate the market in order to recognize and use new fields of application and opportunities at an early stage.

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 2020

Risk	Risk Assessment: Low	Medium	High	Change from AR 2018[1]
Overall environment				
Economic downturn			•	→
External risk			•	↑
Industry and market risk				
Competition, demand controlled by customers, interchangeability of products, cycles in the wafer market			•	→
Investments		•		→
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

We assess the relevant risks according to the probability of occurence and the degree of impact on business activities, net assets, financial position, results of operations and cash flow. For better readability, we have classified risks according to the following matrix compared to the previous year:

Risk assessment		Probability of occurrence: < 25 percent	25 – 75 percent	> 75 percent
Effects on the development of the Group's net assets, financial position and result of operations	< EUR 5 million	Low	Low	Medium
	EUR 5 – 25 million	Low	Medium	High
	> EUR 25 million	Medium	High	High

Outlook

Expected macroeconomic trends

The International Monetary Fund (IMF) forecast for global growth in 2020 is significantly higher than the figure for 2019 (2020: 3.3 percent expected, 2019: 2.9 percent forecast). The IMF expects the strongest growth to occur in emerging and developing countries, where the growth rate is expected to rise from 3.7 percent (2019) to 4.4 percent (2020). For the established economies, however, a minus of 0.1 percentage point compared to 2019 is forecast. The IMF sees the greatest risks in geopolitical uncertainties, such as the tensions between the USA and Iran and the possible strain on oil supplies.

In the euro zone, signs point to very moderate growth of 1.3 percent in 2020 (2019: 1.2 percent expected).

For Germany, the IMF is forecasting a significant acceleration in growth of 1.1 percent in 2020 (2019: 0.5 percent expected). According to the IMF, the US economy is expected to grow by only 2.0 percent in 2020 (2019: 2.3 percent expected). For Japan, on the other hand, the IMF is forecasting a declining growth rate of 0.7 percent in 2020 compared to the previous year (2019: 1.0 percent expected). For China, the IMF forecasts slightly weaker growth of 6.0 percent (2019: 6.1 percent expected).

Due to current uncertainties about the further course of the Covid-19 spread, market research institutes are revising their forecasts for the expected development of wafer area in 2020. Therefore, a reliable assumption cannot be made at present.

Sources: IMF (World Economic Outlook update, January 20, 2020)

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 was 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 has therefore replaced ROCE as a measure of earnings.

Since 2019, the most important financial performance indicators are:

- EBITDA margin
- EBIT
- Net cash flow

The recent development of the corona virus (Covid-19) has significantly impacted the forecast for Siltronic.

Prior to the latest developments, we assumed a slightly higher wafer area in 2020 with declining average selling prices. The EBITDA margin would then have been slightly below the previous year, EBIT would have been significantly lower than in the previous year due to higher scheduled depreciation, and net cash flow would have reached the level of 2019 despite high capital expenditure.

If Covid-19 continues to spread, wafer area could be lower than in the previous year, as demand from our customers in the regions of importance to us is likely to decline. Taking the aforementioned into account, the key performance indicators for Siltronic Group in 2020 would probably develop as follows:

– EBITDA margin would fall significantly below the previous year.
– EBIT would also be significantly below the previous year.
– Net cash flow would be significantly below the previous year.

EBITDA margin
Expectation before Covid-19: EBITDA margin 2020 slightly below previous year

Expecatation considering spread of Covid-19: EBITDA margin 2020 significantly below previous year

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

Sales
Expectation of wafer volume and sales before Covid-19: slightly higher wafer area and sales slightly below previous year

Expecatation considering spread of Covid-19: wafer area below previous year and sales significantly below previous year

Exchange rates of EUR/USD of 1.11 and EUR/JPY of 120 are assumed.

Excluding currency hedging transactions, a deviation of 1 USD cent in the EUR/USD exchange rate from the planned rate results in a change in sales of around +/- EUR 6 million and a change in EBITDA of around +/- EUR 4.5 million in the financial year.

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. We assume that in 2020 we will at least be able to compensate for the negative effects of inflation and salary increases

Depreciation (no impact from Covid-19)

As a result of the investments made, depreciation will increase by approximately EUR 30 million to approximately EUR 140 million.

EBIT

EBIT will be burdened by higher depreciation.

Expectation before Covid-19: EBIT 2020 significantly below previous year.

Expecatation considering spread of Covid-19: EBIT 2020 significantly below previous year.

Tax rate (no impact from Covid-19)

The tax rate is expected to be around 10 percent.

Investments (no impact from Covid-19)

We plan to invest around EUR 200 million in 2020. The capacity expansion projects already started will be completed during the first quarter of 2020. The majority of the investments will flow into automation projects and capabilities in order to maintain our technological leadership.

Net cash flow

Due to the high investments in the fourth quarter of 2019, cash flow will be burdened by related payments of around EUR 40 million, especially in the first quarter of 2020.

Expectation before Covid-19: clearly positive, in the range of 2019.

Expecatation considering spread of Covid-19: significantly below previous year.

Earnings per share

Expectation before Covid-19: significantly below 2019.

Expecatation considering spread of Covid-19 significantly below 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 2019, the Executive Board expects Siltronic to continue to operate successfully in the market in 2020.

We expect a slow start in 2020. Despite initial positive news from our customers about their expected business development in 2020, we still see high inventories, especially among customers in the memory business. In addition, the beginning of the year is still marked by political and macroeconomic uncertainties and, in addition, by the outbreak of the corona virus. The recent spread of the virus considerably impairs the delivery of a forecast. If the effects of the corona virus intensify, the economic environment will deteriorate significantly. However, we are convinced of the underlying long-term growth trend in the wafer industry due to the wide variety of end applications.

Forecast for 2020

	before Covid-19	in case of further spread of Covid-19
EBITDA margin	Slightly below previous year	Significantly below previous year
Sales	Slightly below previous year	Significantly below previous year
Depreciation and amortization	Around EUR 140 million	Around EUR 140 million
EBIT	Due to higher depreciation significantly below previous year	Due to higher depreciation significantly below previous year
Tax rate	Around 10 percent	Around 10 percent
Capital expenditure	Around EUR 200 million, mainly in automation and capabilities	Around EUR 200 million, mainly in automation and capabilities
Net cash flow	Clearly positive in the range of 2019 around EUR 40 million burden from carry-over of (unpaid) 2019 investments	Significantly below preivious year, around EUR 40 million burden from carry-over of (unpaid) 2019 investments
Earnings per share	Significantly below previous year	Significantly below previous year

Compensation report

The following compensation 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 Supervisory Board plenum at the proposal of the Executive Committee and regularly reviewed for suitability. For the fiscal year 2020, the Supervisory Board has decided to adjust the compensation system in key points (see 59).

The compensation system for the Executive Board valid up to and including the fiscal year 2019, consists of the following main 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, among others, the provision of a company car, attorneys' fees to be reimbursed, 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 set by the Supervisory Board for each fiscal year at the beginning of the fiscal year. Unless otherwise specified, the performance targets relate to the performance categories "plan net cash flow" (25 percent), which is normalized for non-operating effects, 'plan 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 performance category. The target set by the Supervisory Board for the performance category 'EBITDA margin' 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 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 (in particular taking extraordinary developments into account). 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 compensation: LTI

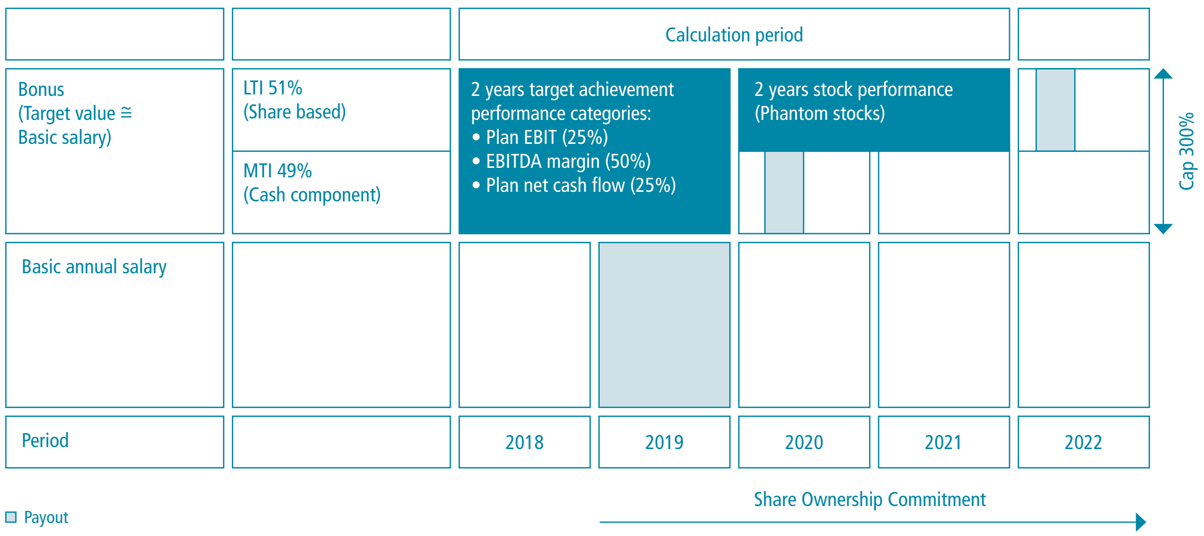
51 percent of the bonus basis is initially converted into phantom stocks as LTI, based on the average weighted Xetra closing price of the Company's shares on the last 30 trading days of the compensation year. The phantom stocks are held for a period of two years from the end of the compensation year. 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 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 fiscal 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 fixed annual basic salary was agreed upon. The resulting maximum amount of compensation for the compensation year 2019 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 Executive Board remuneration 2019



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 on which the Executive Board member service agreements that 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 Executive Board acquires claims against the Company according to the regulation of the additional occupational pension scheme in its current version. An eligible income within the meaning of the regulation 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 fiscal 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 expenses 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 salary 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 are granted to members of the Executive Board.

Commitments in connection with the termination of the activity as 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 service 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 service 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 service relationship ends as a result of death or permanent invalidity, a premature payout will be made.

In all other cases of termination of service, 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.

Outlook on the compensation system 2020

The Executive Board compensation system that has been applied to the members of the Executive Board since the fiscal year 2017 ("2017 Compensation System") 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. The Supervisory Board has taken the concerns expressed by institutional investors and voting rights advisors as an opportunity to comprehensively review and revise the compensation system – also because of the Act Implementing the Shareholders' Rights Directive (ARUG II) coming into force. The Supervisory Board – on the recommendation of the Executive Committee – adopted the new compensation system on March 4, 2020 ("2020 Compensation System"). It applies to all members of the Executive Board retroactively as of January 1, 2020 and in case of new appointments and reappointments. It is intended to submit the new compensation system to the Annual General Meeting in April 2020 for approval. The following section explains how the Supervisory Board addresses the concerns expressed by institutional investors and voting rights advisors with the Compensation System 2020:

– **Increase of the share of performance-related components:** In the 2017 Compensation System, the fixed base compensation was 50 percent, the MTI was 24.5 percent and the LTI was 25.5 percent of the target salary (excluding fringe benefits and company pension plans). It was suggested that the proportion of the variable compensation should be increased, as a basic compensation of 35 percent – 40 percent of the target salary would be in line with market practice. In addition, the long-term variable compensation should clearly exceed the amount of the short-term compensation. In the 2020 Compensation System, the share of variable compensation is therefore increased to 60 percent and consists of an annual bonus (STI) amounting to 25 percent of the target salary, and a long-term share-based element (LTI) amounting to 35 percent of the target salary (in each case excluding fringe benefits and company pension plans).

– **Removal of the discretionary factor:** In accordance with the 2017 Compensation System, the Supervisory Board was able to increase or reduce the bonus basis at its reasonable discretion on the basis of an overall assessment of all circumstances (see 56). The adjustment could be made with a maximal factor of 0.7 to 1.3. Institutional investors are critical of discretionary elements and recommend a limited use of discretionary factors, if at all. The 2020 Compensation System therefore no longer provides for this adjustment option.

– **Introduction of non-financial targets:** Previously, the bonus was based exclusively on the average of the target achievement levels of purely operational performance categories in the year of compensation and the previous year. Investors suggested implementing strategic and non-financial objectives and removing the retrospective assessment basis. In the future, the annual bonus (STI) will be based exclusively on the performance in the year of compensation. In addition to operating performance criteria (in the future: planned net cash flow and planned EBIT, 40 percent each), 20 percent of the annual bonus will be based on non-financial targets. These should include strategic goals, which can also be individually determined, and ESG performance targets based on the sustainability goals defined by the Company.

– **Extension of the holding period for share-based compensation and introduction of a performance factor:** The performance period or holding period for the long-term share-based compensation (LTI) was criticized as being too short with two years. Investors have also suggested introducing a performance factor that takes into account a comparison with competitors and Company performance in addition to the share price development. The 2020 Compensation System considers these points. In the future, the performance period will be four years. The number of phantom stocks granted is multiplied by a target achievement factor between 0 and 2. This is based in equal parts on the change in the Company's EBITDA margin compared to its major competitors over the four-year performance period and on the average of the annual plan EBIT over the four-year performance period.

– **Cap/maximum compensation:** In the 2017 Compensation System, the bonus (MTI and cash settlement for the LTI) was limited to 300 percent of the annual base salary relevant for the respective bonus. The target compensation in the 2020 Compensation System increases arithmetically due to the increased share of variable compensation elements. However, the Supervisory Board wishes to ensure that the maximum amounts are not increased. Therefore, the cap for the STI and the LTI is reduced to 200 percent of the target amount each. Furthermore, in accordance with the requirements of ARUG II, a maximum compensation is determined which – unlike in the past – includes pension expense (service costs) and fringe benefits.

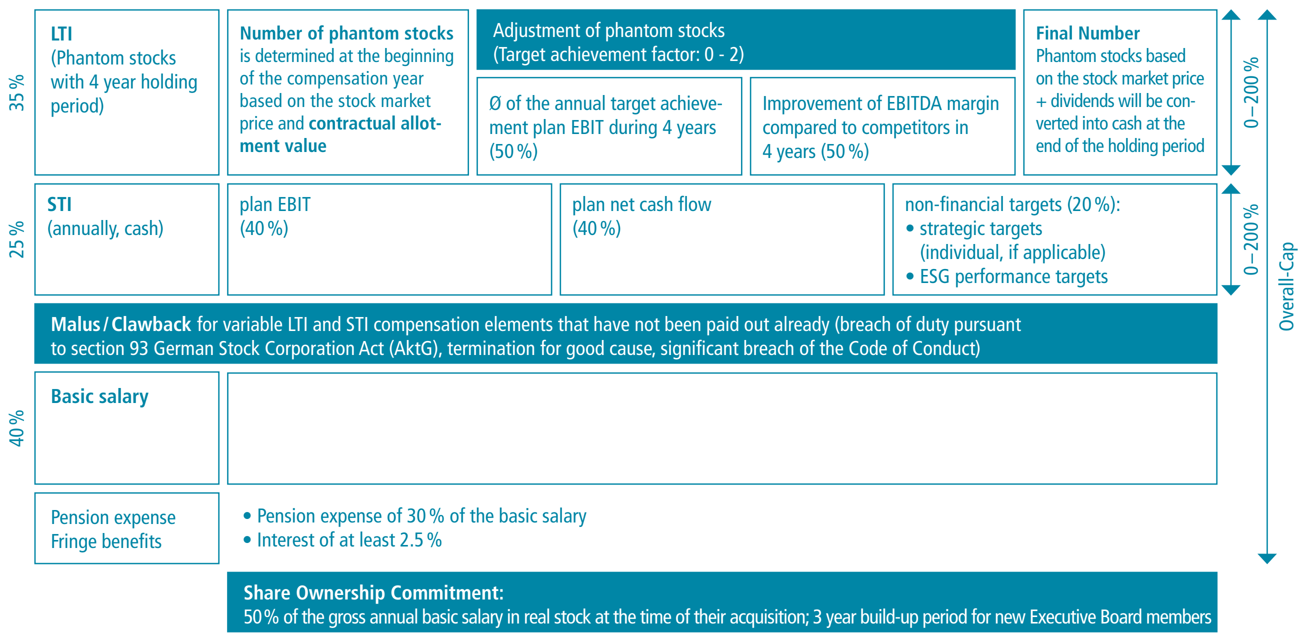
- **Extended malus/clawback rule:** In the future, the Supervisory Board, within the scope of its due discretion, can reduce the amount of the variable compensation elements paid by up to 100% in case the service relationship of the Executive Board member is terminated by the Company for good cause, in case the Executive Board member breaches a duty within the meaning of Section 93 of the German Stock Corporation Act (AktG) or significantly breaches the Code of Conduct of the Company during the respective assessment period. Since the LTI holding period is four years, up to four tranches of the long-term bonus can be reduced or not paid out under the malus/clawback rule - in addition to the reduction of the annual bonus (STI).

- **Increased transparency:** The defined targets and the degree of target achievement should be published ex-post, provided that they do not contain any confidential or competitively relevant information, in order to further increase the transparency of compensation for the Executive Board.

- **Definition of peer group:** In the past, the Supervisory Board has already regularly evaluated the customary compensation of the Executive Board by means of a horizontal comparison. In accordance with the new recommendation G.3 of the German Corporate Governance Code, the Supervisory Board has now defined a specific peer group in order to assess the customary level of specific total compensation for members of the Executive Board. It was not possible to use competitors to form this peer group, as they do not publish sufficient compensation information and are not listed in Europe. The Supervisory Board has therefore formed a peer group of German listed companies that are listed on the MDAX, TecDax or SDAX and have similar ratios. These companies include Carl Zeiss Meditec AG, Fuchs Petrolub SE, Gerresheimer AG, Jenoptik AG and Sartorius AG.

- **Independence of the members of the Executive Committee:** As of January 1, 2020, Dr. Hermann Gerlinger took over as Chairman of the Executive Committee of the Supervisory Board. In addition, the committee was expanded by Michael Hankel, a further member on the shareholder side. The Supervisory Board has held Dr. Gerlinger and Mr. Hankel as independent (see 71).

Model adjusted compensation system



Total compensation of the Executive Board members for the fiscal year 2019

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 by the Supervisory Board in its meeting on March 4, 2020 at 1.11 percent and 111 percent (average based on the total target achievement in 2019 amounting to 0.21 percent and the 2018 total target achievement of 2.0 percent) as the bonus basis. 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 fiscal year 2019. The table below shows the value of benefits granted for the fiscal year 2019. Due to rounding it is possible that individual numbers do not add up exactly to the given sum.

Value of benefits granted for the fiscal year 2019

	Dr. Christoph von Plotho Chief Executive Officer				Rainer Irle Member of the Executive Board			
EUR	2018	**2019**	**2019 Minimum**	**2019 Maximum**	2018	**2019**	**2019 Minimum**	**2019 Maximum**
Fixed components								
Fixed compensation (annual basic salary)	550,000	550,000	550,000	550,000	360,000	360,000	360,000	360,000
Fringe benefits	73,331	26,881	26,881	26,881	37,686	26,582	26,582	26,582
Total	**623,331**	**576,881**	**576,881**	**576,881**	**397,686**	**386,582**	**386,582**	**386,582**
Performance-related components								
One-year variable compensation	–	–	–	–	–	–	–	–
Long-term incentive components								
Multi-year variable compensation non-share based: MTI [1]	471,625	439,285	188,650	700,700	308,700	287,532	123,480	458,640
Multi-year variable compensation share based: LTI	490,875	457,215	0	949,300	321,300	299,268	0	621,360
Total	1,585,831	1,473,381	765,531	2,226,881	1,027,686	973,382	510,062	1,466,582
Pension expense (service costs) [2]	68,122	87,122	87,122	87,122	147,481	157,896	157,896	157,896
Total compensation (GCGC)	**1,653,953**	**1,560,503**	**852,653**	**2,314,003**	**1,175,167**	**1,131,278**	**667,958**	**1,624,478**
Transition [3]	−747	−227,262			−103,381	−249,624		
Total compensation according to DRS 17	**1,653,206**	**1,333,241**			**1,071,786**	**881,654**		

[1] The multi-year nature of the MTI relates to the two-year basis for assessment (2019 and 2018). 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 fiscal year 2018 and for 2019 a minimum value of 0% as well as a discretionary factor of 0.7 or a maximum value of 200 percent 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 fiscal year 2019 amounts to EUR 2,214,895 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 fiscal year 2019 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	**2019**	2018	**2019**	2018
Fixed components				
Fixed compensation (annual basic salary)	550,000	550,000	360,000	360,000
Fringe benefits	26,881	73,331	26,582	37,686
Total	**576,881**	**623,331**	**386,582**	**397,686**
Performance-related components				
One-year variable compensation	–	–	–	–
Long-term incentive components				
Multi-year variable compensation, non-share-based (MTI) – amount paid [1]	299,145	539,000	195,804	352,800
Multi-year variable compensation, share-based (LTI), amount paid for tranche 2016/2017	306,128	–	209,916	–
Total	**1,182,154**	**1,162,331**	**792,302**	**750,486**
Pension expense [2]	87,122	68,122	157,896	147,481
Total compensation (GCGC 2019)	**1,269,276**	**1,230,453**	**950,198**	**897,967**

[1] The multi-year nature of the MTI refers to the two-year basis for assessment (2019 and 2018). 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 cost 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 fiscal year 2019 relevant for determining the number of virtual shares was EUR 81.75 (previous year: EUR 74.91).

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 31, 2019 in EUR**
Dr. Christoph von Plotho	Tranche (2017/2018–2020)	561,000	74,91	7,489	711,455
	Tranche (2018/2019–2021)	311,355	81,75	3,809	342,810
Rainer Irle	Tranche (2017/2018–2020	367,200	74,91	4,902	465,690
	Tranche (2018/2019–2021)	203,796	81,75	2,493	224,370

Pension commitments

The following table shows the pension expense and the benefit obligations of the pension commitments for the fiscal year 2019.

	Benefit obligations		Pension expense	
EUR	**2019**	2018	**2019**	2018
Dr. Christoph von Plotho	2,973,463	2,099,262	87,122	68,122
Rainer Irle	3,130,381	2,265,353	157,896	147,481

As of December 31, 2019, the pension obligations for active Executive Board members amounted to EUR 6,103,844 (PY: EUR 4,364,615) and the pension obligations for former Executive Board members and their surviving dependents amounted to EUR 7,892,388 (PY: EUR 6,756,980).

Other Information

Compensation paid to former Executive Board members and their surviving dependents amounted to EUR 221,253 (previous year: EUR 217,617) in the reporting year.

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 is 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 the Supervisory Board members in the fiscal year 2019

The compensation paid to Supervisory Board members for the fiscal year 2019 comprises the following:

Supervisory Board member	**Annual remuneration 2019 in EUR[3]**	**Atendance fee 2019 in EUR**	**Total remuneration 2019 in EUR**	Annual remuneration 2018 in EUR[3]	Attendance fee 2018 in EUR	**Total remuneration 2018 in EUR**
Mandy Breyer[2]	30,000	10,000	40,000	21,123	10,000	31,123
Prof. Dr. Gabi Dreo	30,000	10,000	40,000	21,123	10,000	31,123
Klaus-Peter Estermaier[1]	30,000	10,000	40,000	21,123	10,000	31,123
Sieglinde Feist	30,000	10,000	40,000	30,000	12,500	42,500
Gebhard Fraunhofer[2]	45,000	20,000	65,000	40,562	20,000	60,562
Dr. Hermann Gerlinger	45,000	11,250	56,250	45,000	17,500	62,500
Johann Hautz[2]	60,000	13,750	73,750	60,000	11,250	71,250
Michael Hankel	30,000	7,500	37,500	21,123	10,000	31,123
Bernd Jonas	60,000	20,000	80,000	60,000	22,500	82,500
Jörg Kammermann[2]	18,329	7,500	25,829	–	–	–
Gertraud Lauber[2]	30,000	10,000	40,000	30,000	12,500	42,500
Dr. Tobias Ohler	90,000	22,500	112,500	90,000	28,750	118,750
Harald Sikorski[2]	10,438	2,500	12,938	34,479	15,000	49,479

1) For the representative of the executive employees on the Supervisory Board, the regulations of the Verband angestellter Akademiker und leitender Angestellter der chemischen Industrie e. V. apply (VAA).
2) These employee representatives on the Supervisory Board as well as the trade union representatives on the Supervisory Board have declared that their compensation will be paid to the Hans Böckler Foundation in accordance with the guidelines of the German Trade Union Federation.
3) Taking into account the applicable factors for specific functions.

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 Executive Board compensation system in force until 2019 and the Executive Board 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 during the term of their appointment as Executive Board members. As of the fiscal year 2020, the members of the Executive Board are obliged to purchase 50 percent of their fixed annual basic salary (gross amount) and to hold it for the duration of their appointment. The value of the shares at the time of purchase is decisive. The members of the Executive Board continue to have voting and dividend rights during the holding period. Further details can be found in the compensation 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 (Munich, Germany): 30.83 percent
– Dr. Alexander Wacker Familiengesellschaft mit beschränkter Haftung (Munich, Germany): 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 Co-Determination 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:

– in order to remove fractional amounts arising from the pre-emption right;
– 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 not applied 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.

Report and declaration on corporate governance

The Executive Board – also on behalf of the Supervisory Board – reports subsequently on corporate governance in accordance with article 3.10 of the German Corporate Governance Code as well as Section 289f of the German Commercial Code (HGB). Retaining the trust and confidence of our customers, business partners and investors is an essential factor in achieving sustained growth in corporate value. The essential basis for this 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 fiscal year 2019, the Executive Board and the Supervisory Board dealt intensively with the Company's corporate governance and the recommendations of the German Corporate Governance Code in its version as of February 7, 2017. On September 26, 2019, the Executive Board and the Supervisory Board issued the following Declaration of Conformity which is permanently available to the public on the Company's website (*https://www.siltronic.com/en/investors/corporate-governance.html)*:

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

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

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

b) Maximum Limits for the Remuneration of Executive Board Members (Article 4.2.3 para. 2 sentence 6 of the Code) and Determination of a Targeted Pension Level (Article 4.2.3 para. 3 of the Code)
Pursuant to the Code, the remuneration of Executive Board members shall be capped, both in the aggregate and for individual remuneration components. The contracts of Executive Board members foresee maximum amounts for fixed and variable remuneration components. Therefore, the recommendation of the Code is fulfilled with regard to the major part of the remuneration. Regarding the pension benefits, 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 pension benefits is declared.

2. Past-related declaration
Since the last declaration of conformity dated 13 September 2018, 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).

Munich, September 26, 2019
Siltronic AG

The Executive Board The Supervisory Board"

Relevant information 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 part of the management and supervision responsibilities at Siltronic. The Supervisory Board, in particular the Audit Committee, regularly addresses compliance topics and reviews the compliance management system.

The compliance management system is designed to prevent, identify, and sanction violations in the corporate context. It is regularly reviewed and improved by the Siltronic 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 subject of compliance and are contact persons for questions and training.

Employees who have contact to business partners are required to complete an e-learning course on compliance. Production employees receive a presence training tailored to their needs by managers. All employees in sales and marketing must also 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. Siltronic also takes any disciplinary measures if 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 has appointed an external ombudsman to whom employees and third parties can anonymously report violations of statutory regulations. Retaliation of any kind against persons who report compliance incidents in good faith is prohibited. The contact details of the ombudsman are published on our homepage.

Code of Conduct

The Code of Conduct of Siltronic provides a binding framework for the legal and responsible conduct of the employees in their daily work. It applies worldwide in all companies of the Siltronic Group. The Code of Conduct is intended to raise awareness among the employees regarding legal risks and support them in ethical issues. 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 its Code of Conduct, Siltronic is also committed to responsible corporate governance and sustainable action. 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*.

As a supplier to the electronics industry, Siltronic is also guided by the code of conduct of the Responsible Business Alliance, with which leading companies in the electronics industry aim to promote social and ecological responsibility and ethical business practices worldwide. Further information on the initiative and its code of conduct can be found on the internet at *http://www.responsiblebusiness.org*.

Siltronic also implements the ten principles of the United Nations' Global Compact initiative to protect human rights, social and environmental standards and the fight against corruption. The ten principles of the UN Global Compact are available on the Internet at *www.unglobalcompact.org*.

Siltronic has also joined the "Charter of Diversity". Siltronic is committed to actively implement and promote equal opportunities and diversity. Information on the Charter can be found on the Internet 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

Siltronic AG has a dual management system, as required by the German Stock Corporation Act (AktG). It consists of the Executive Board, which manages the Company, and the Supervisory Board, which monitors and advises the management. The two bodies are strictly segregated from each other in terms of their membership as well as their competencies.

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 transactions with third parties. Its actions and decisions are determined by the interests of the Company and are geared towards creating sustainable growth in the corporate value. To this end, the Executive Board determines the Group's strategy and manages and monitors it by allocating financial and other resources and capacities as well as by supporting and supervising the operating business. The Executive Board ensures compliance with legal provisions and provides for an appropriate risk management and risk control.

The members of the Executive Board are jointly responsible for the executive management of the Company. The individual member of the Executive Board is responsible for managing the areas of responsibility assigned to him or her. The Executive Board holds regular meetings which are convened and chaired by the CEO. Board meetings must be held whenever the interests of the Company require it. The Executive Board generally adopts its resolutions by simple majority. As long as the Executive Board consists of only two persons, resolutions can only be passed unanimously; the CEO has no casting vote.

Close collaboration between the Executive Board and the Supervisory Board

The Executive Board and Supervisory Board work closely together to ensure the long-term and sustainable success of the Company. Their common goal is the sustainable development of the Company and its value. The Executive Board reports to the Supervisory Board regularly, promptly and comprehensively 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 maintains close contact with the Executive Board between meetings, in particular with the CEO of the Executive Board, and discusses issues of importance. The Executive Board explains to the Supervisory Board if the 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 adoption of the annual budget, including financial and investment planning, the acquisition and disposal of equity investments, the commencement of new and the discontinuation of existing production and business activities, and the raising of major long-term loans.

Supervisory Board

In accordance with the Articles of Association, the Supervisory Board consists of twelve members. In accordance with the German Co-Determination Act (MitbestG), it is composed of equal numbers of shareholder and employee representatives. The term of office of the members is regularly five years. They can be re-elected. An overview of the members of the Supervisory Board in office during the reporting period and their other mandates on supervisory boards or comparable bodies required to be formed by law is available on 156. 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 on the further development of the Company require the approval of the Supervisory Board. The rules of procedure of the Supervisory Board are published on the Company's website.

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

In 2017, the Supervisory Board adopted the objectives for its composition, including a competence profile for the entire 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 considered the objectives for the composition and competence profile in the selection process and the nomination of candidates for the Supervisory Board most recently when proposing the election of 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 published on Siltronic's website. In its view, the Supervisory Board in its current composition meets all of the aforementioned compositional objectives and covers the competence profile. The Supervisory Board members have all the qualifications deemed necessary. The members of the Supervisory Board in their entirety are familiar with the sector in which the Company operates, i.e. the semiconductor industry, and possess the skills, experience and knowledge relevant for Siltronic's activities. Several members of the Supervisory Board have relevant experience with regard to the international strategy of the Company. The regulation on the age limit as well as the standard limit for the regular membership of the Supervisory Board of three full terms of office (15 years) are taken into account. Diversity is appropriately reflected in the Supervisory Board. In the fiscal year 2019, the Supervisory Board had four female members, two of whom were shareholder representatives and two of whom were 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 (or C.1) 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 efficiently, the Supervisory Board has established four professionally qualified committees. Reports on the work of the committees are regularly presented to the full Supervisory Board.

Executive Committee

Chair:
Dr. Tobias Ohler (until December 31, 2019);
Dr. Hermann Gerlinger (from January 1, 2020)

Members:
Dr. Hermann Gerlinger (until December 31, 2019 ordinary member, from January 1, 2020: Chairman)
Johann Hautz
Michael Hankel (from January 1, 2020)
Dr. Tobias Ohler (from January 1, 2020 ordinary member)

Responsibilities:
Until December 31, 2019, the Executive Committee consisted of three members. Effective January 1, 2020, the committee will be expanded to four members and will consist in the future of three shareholder representatives and one employee representative. 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 the service contracts of the Executive Board and the Executive Board compensation system, on the basis of which the full Supervisory Board determines the compensation of the Executive Board members. The Executive Committee regularly discusses the long-term succession planning for the Executive Board.

Nomination Committee

Chair:
Dr. Tobias Ohler

Member:
Dr. Hermann Gerlinger

Responsibilities:
The Nomination Committee consists of two members of the shareholder representatives. The Nomination Committee is responsible for proposing suitable candidates to be elected as shareholder representatives on the Supervisory Board to the Supervisory Board for its election proposals to the Annual General Meeting. In doing so, it considers the objectives regarding the composition of the Supervisory Board, including the defined competence profile and the diversity concept.

Audit Committee

Chair:
Bernd Jonas

Members:
Dr. Tobias Ohler
Gebhard Fraunhofer

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 accounting or auditing and internal control procedures; the members in their entirety 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 of Siltronic AG and the approval of the consolidated financial statements, as well as the proposal for a resolution by the Executive Board on the appropriation of profits. For this purpose, it is responsible for a preliminary review of the annual financial statements of Siltronic AG, the consolidated financial statements, the management reports or the combined management report, the non-financial report and the proposal for the appropriation of profits. It also deals with the review of the half-yearly interim consolidated financial statements and the discussion of the quarterly reports, as well as with issues concerning risk management and compliance. In particular, it monitors accounting processes, compliance and the effectiveness of internal control, risk management and auditing systems. The Audit Committee also monitors the external audit of the financial statements. It takes appropriate measures to determine and monitor the independence of the external auditor and to monitor 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, to the extent these contracts do not involve prohibited non-audit services. Such contracts also 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 designated auditor that the statutory independence requirements are being met. Following the resolution of the Annual General Meeting, it issues the audit engagement letter to the auditor. The Audit Committee agrees the fees with the auditor – in compliance with the statutory

provisions on audit fees – and determines the main points of the audit. The Audit Committee also engages an auditor in order to issue a "limited assurance" for the non-financial report. The Chairman of the Audit Committee has specialized knowledge and experience in the areas of accounting and auditing.

Conciliation Committee

Chair:
Dr. Tobias Ohler

Members:
Gebhard Fraunhofer
Johann Hautz
Sieglinde Feist

Responsibilities:
The Conciliation Committee to be formed pursuant to section 27 (3) of the German Co-Determination Act (MitbestG) comprises the Chairman of the Supervisory Board, his deputy and two further members elected with a majority of the votes cast. One of the two members is elected by the Supervisory Board members representing the employees and the other is elected by those Supervisory Board members representing the shareholders. The Conciliation Committee has the task assigned to it by law, i.e. submitting proposals for the appointment or removal of members of the Executive Board if the required two-thirds majority of the votes of the Supervisory Board members is not obtained in the first ballot.

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 required by law to set targets for the proportion of women on the Executive Board and on the two management levels below the Executive Board. In the fiscal year 2017, targets to be achieved by June 30, 2020 were set as follows:

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 has 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 overall fulfilment of the gender quota. With a share of 33.3 percent women and 67.7 percent men, the Supervisory Board in its current composition meets the legal requirements for minimum quotas.

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

	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)

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 within the framework of the procedure for the appointment of the Executive Board. When selecting candidates or appointing members of the Executive Board, the Supervisory Board and/or the Supervisory Board's Executive Committee observes the requirements set out in the diversity concept.

There were no changes in the composition of the Executive Board in the reporting year. In its current composition, the Executive Board meets all the requirements of the diversity concept.

The Supervisory Board as well as the Supervisory Board's Nomination Committee take the diversity concept into account when proposing suitable candidates for the Supervisory Board's election proposals to the Annual General Meeting for the shareholder representatives. The Supervisory Board most recently did so in its election proposals for the 2018 Annual General Meeting. In its current composition, the Supervisory Board fulfils the composition objectives and covers the competence profile and the diversity concept.

Further information on corporate governance

Transparent information for shareholders and the general public

Siltronic strives to provide all of the Company's targeted groups, whether shareholders, shareholder representatives, analysts, the media, employees or the interested public, with equal and timely information. We publish important Company dates in a financial calendar on our homepage. Capital market participants are in close contact with the investor relations team of the Company. Investors and analysts are informed about current and future business developments in telephone conferences on the respective quarterly reports. Siltronic regularly attends roadshows and investor conferences. Once a year an analysts' conference is held. Where legally required, information in the form of ad hoc announcements are published. For this purpose, an ad hoc committee has been formed, on which both members of the Executive Board, the Head of Investor Relations & Communications and the Head of Legal & Compliance are represented to examine matters for their ad hoc relevance. This way it is ensured that possible insider information is handled in accordance with the law.

Key presentations can be viewed and downloaded online without restriction. All press releases and ad hoc announcements in German and English can also be found as well as annual reports and all interim reports and quarterly announcements. Further information can be found at *http://www.siltronic.com*.

Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting. Among other things, the Annual General Meeting resolves on the appropriation of profits, the discharge of the members of the Executive Board and the Supervisory Board and the appointment of the auditor. Amendments to the Articles of Association and measures to change the capital are resolved by the Annual General Meeting and implemented by the Executive Board. The Annual General Meeting also serves to inform all shareholders efficiently and comprehensively about the situation of the Company. Even before the Annual General Meeting, shareholders receive important information about the past fiscal year in the annual report. In the invitation to the Annual General Meeting, the items on the agenda and the conditions of participation are explained. The convening notice and all reports and documents required by law, including the annual report (which includes the consolidated financial statements and the combined management report) as well as the annual financial statements of Siltronic AG, are also available on the website. When shareholder representatives are elected to the Supervisory Board, a detailed curriculum vitae is published for each candidate. Following the Annual General Meeting, the attendance and voting results are published online. Siltronic facilitates the personal exercising of its shareholders' rights and to vote by proxy. Authorized proxies are available to exercise shareholders' voting rights in accordance with instructions.

Reporting obligations for managers

Pursuant to article 19 of the EU Market Abuse Regulation (MAR) No. 596/2014, the members of the Executive Board and Supervisory Board of Siltronic AG and persons closely associated with them are required to report proprietary trading in Siltronic AG shares or debt instruments of Siltronic AG or related derivatives or other related financial instruments to Siltronic AG and the German Federal Financial Supervisory Authority (BaFin). In 2019, Siltronic AG was not notified of any transactions requiring statutory disclosure under article 19 MAR. Any transactions reported are published on the Siltronic AG website.

Information on share-based incentive schemes

51 percent of the Executive Board members' performance-related bonus is granted as a share-based long-term incentive (LTI) in the form of virtual shares. 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 based on the average weighted market price of the Company's share on the last 30 trading days of the second financial year following the year of compensation. Details can be found in the compensation report on 🗋 56. There are currently no other securities-based incentive systems, for example 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 regularly identify and monitor significant risks and opportunities. 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 opportunities and risk management system is continuously developed and adapted to changing conditions. Details are available in the Risk and Opportunity Report on 🗋 44.

Financial reporting and auditing of financial statements

Siltronic's consolidated financial statements for 2019 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The 2019 financial statements of Siltronic AG were prepared in accordance with the provisions of the German Commercial Code (HGB). The accounts for 2019 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich. In accordance with the provisions of the Corporate Governance Code, the Supervisory Board agreed with the auditor that the Chairman of the Supervisory Board will be informed immediately of any grounds for exclusion or partiality arising during the audit. In addition, the auditor also reports immediately on all significant findings and circumstances that affect the duties 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 Supervisory Board are committed solely to the interests of the Company. In making their decisions, they may not pursue personal interests or exploit of business opportunities to which the Company is entitled. The rules of procedure for the Executive Board and the Supervisory Board stipulate that any conflicts of interest must be disclosed immediately. In the event of material and not only temporary conflicts of interest, the relevant Supervisory Board member is required to resign from office. All transactions between the Company on the one hand and a member of the Executive Board or a relative of that member on the other hand 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.

Self-evalutaion

At its meeting on September 26, 2019, the Supervisory Board conducted a self-evaluation of the effectiveness of the Supervisory Board and its committees in accordance with the German Corporate Governance Code (formerly: efficiency review). On the basis of a questionnaire and related documentation sent out in advance to the Supervisory Board meeting, the self-evaluation was carried out as part of a general discussion.

Age limit for board members

According to the rules of procedure for the Supervisory Board, when preparing personnel decisions of the Supervisory Board, the Executive Committee shall take into account that the members of the Executive Board may in general not be older than 67 years.

According to the rules of procedure for the Supervisory Board, Supervisory Board members who have reached the age of 75 shall resign from office at the end of the Annual General Meeting following the 75th birthday of the respective Supervisory Board member. Any deviation from this rule shall be discussed with the members of the Executive Committee and – if a member of the Executive Committee is affected – additionally with the members of the Audit Committee.

Long-term succession planning

Long-term succession planning is the subject of regular consultations of the Executive Committee. In particular, the Chairman of the Supervisory Board is in regular dialogue with the Executive Board on this subject.

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 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. As a supplier in the electronics industry we observe the principles of the industry initiative Responsible Business Alliance (RBA), which we have been actively supporting as a member since May 2019.

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 non-financial report 2019

We see sustainability as the positive impact of our current activities on future conditions in the ecological, economic, and social spheres. 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 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 2019 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), is aligned to the Sustainable Development Goals of the United Nations and refers to the Code of Conduct of Responsible Business Alliance (RBA). 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 apponited an audit firm to conduct 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 in Germany, Singapore and USA 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 in Asia (China, Japan, South Korea and Taiwan) and Europe (France and Italy). **GRI 102-4, -6, -9**

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**

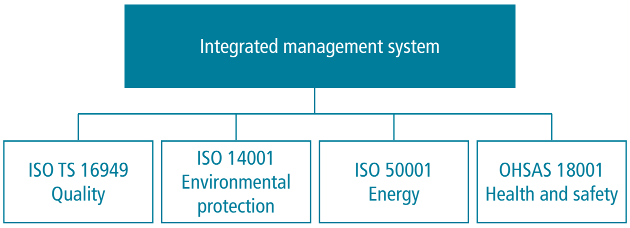
- Code of Conduct: We have drawn up a Code of Conduct for our Group that sets out binding rules for responsible and law-abiding con-duct, which all Siltronic employees are required to observe. The Code of Conduct deals in particular with the topics of behavior towards one another, leadership as an example, 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. In 2017, Siltronic also became a signatory to the 'Diversity Charter' by which Siltronic is committed 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. Siltronic joined the Responsible Business Alliance (RBA) as a member in May 2019. **GRI 102-12, -13**

The impact of ethical principles on the organization and processes 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 management 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'.

Compliance system: 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. With the groupwide responsibility of the parent company in Germany for quality and sustainability topics, this department defines groupwide systems and guidelines. This department reports 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 Report on Corporate Governance and the Report of the Supervisory Board. Information on the remuneration of the Executive Board and the Supervisory Board is available in the compensation 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.

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 six performance indicators through which it is informed in the course of routine reporting. Each of these indicators has a goal for the fiscal year. The six non-financial indicators and goals relating to the field of sustainability are as follows: **Section 289c para. 3 number 5 of the German Commercial Code**

- Goal 1 | Management of raw materials
  The specific use of silicon shall remain above 2016 level.
- Goal 2 | Management of energy and climate
  The specific energy consumption shall decrease by 1.5 percent.
- Goal 3 | Management of waste
  The waste recyclingrate shall increase by 1.5 percent.
- Goal 4 | Management of water
  The specific water withdrawal shall decrease by 1.5 percent.
- Goal 5 | Occupational safety
  The loss time injury frequency rate shall remain below 1.8 (Injuries with loss time per 1 million working hours).
- Goal 6 | Occupational safety
  No injuries with loss time with chemicals shall occur.

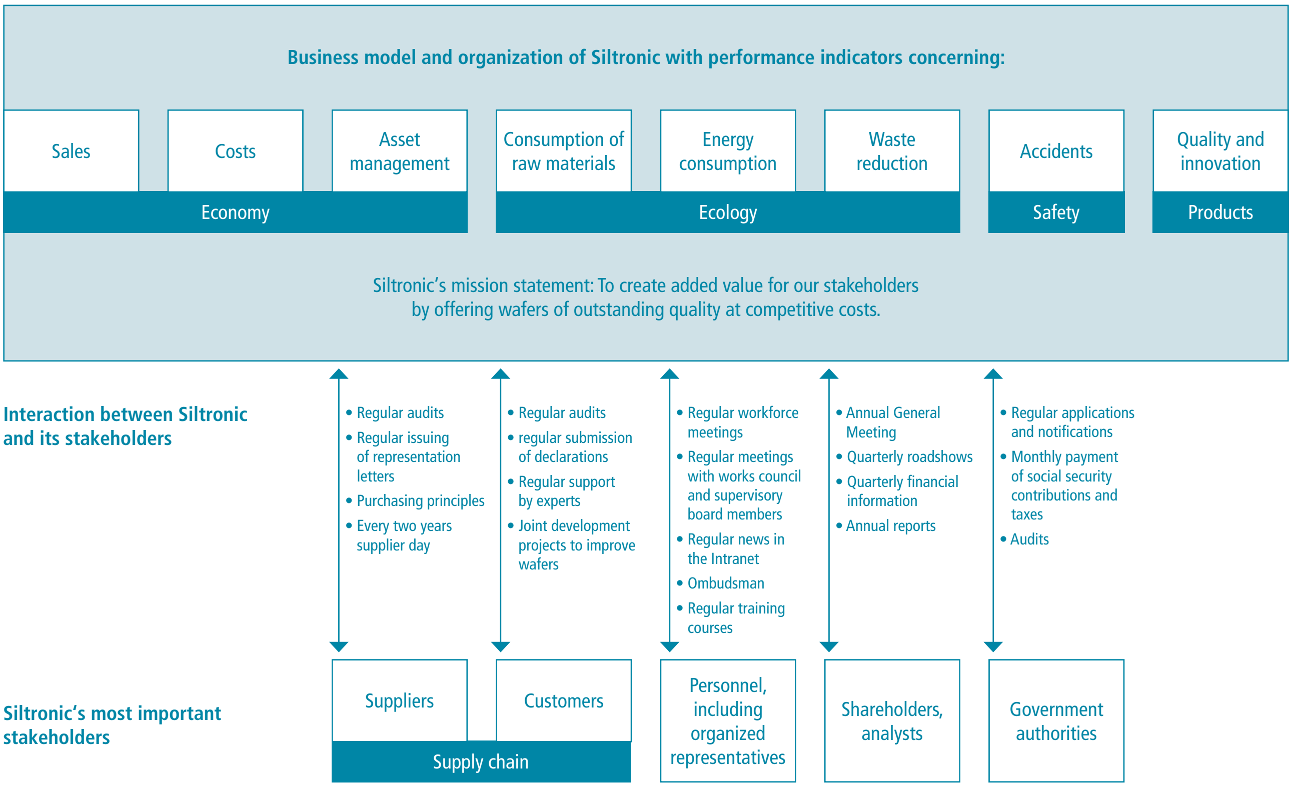
Non-financial performance indicators are reviewed during the year and in the case of negative variances the cause for the development is analyzed in order to introduce improvement measures.

3. Determining the content of this report

Siltronic's most important stakeholders

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

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



Determining the content 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:

- Ten principles of the United Nations Global Compact
- United Nations Sustainable Development Goals
- the requirements of the initiative Responsible Business Alliance (RBA)
- customer requirements and evaluations
- specifics of our company and industry
- requirements and evaluations by rating agencies
- exchange with network partners within German Global Compact Network and working groups within Responsible Business Alliance (RBA)

The second step entailed prioritizing the topics according to materiality, which also involved a risk assessment. Each topic was then allocated to a general aspect. The risk assessments conducted did not reveal any reportable risk in the reporting year 2019.

In a final 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**

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

4. Environmental aspects

Section 289c para. 1 of the German Commercial Code
Sustainable Development Goals 6, 7, 8, 12, 13
Global Compact Principles 7, 8, 9; Responsible Business Alliance Code of Conduct Topic C

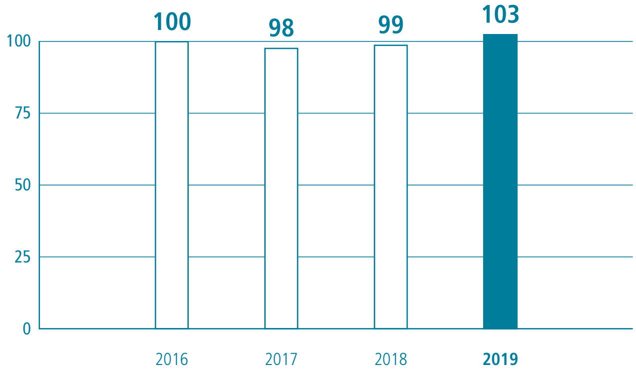
Management of raw materials and supplies

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 element found in the Earth's crust and is 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.

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

Development of the efficient use of silicon
in %



With the higher sophisticated physical and chemical product specifications by our customers, the less electricity is needed for smartphones, tablets, computers, monitors and all other devices with chips during usage. The main reason is that our customers can produce chips with reduced electrical resistance based on our wafers with higher sophisticated technical specifications. Due to the effect of electrical resistance, chips with a reduced demand for electricity will be more powerful. The reduced electricity demand with increased power applies for the full lifecycle of chips.

Increased requirements on technical specifications have a negative effect on the efficiency of silicon use. We therefore need to use more silicon to produce wafers to fulfill the stricter specifications. However, not all types of wafers are effected by increasing specification requirements. In addition, the product mix of customer orders influences the efficiency of silicon use. The higher sophisticated specifications and the product mix resulted in not achieving the target for raw material efficiency in 2017 and 2018. Against this backdrop, the target for raw material efficiency for 2019 was to maintain at least the level of 2016. This target was achieved and, compared with the base year 2016, the efficient use of raw materials has increased by 3 percent. Despite this target achievement, our activities are aimed at further reducing the use of silicon.

Apart from the raw material silicon, chemicals, gases, and polishing agents used as supply materials also 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 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

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 2019, energy consumption totaled 686 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.

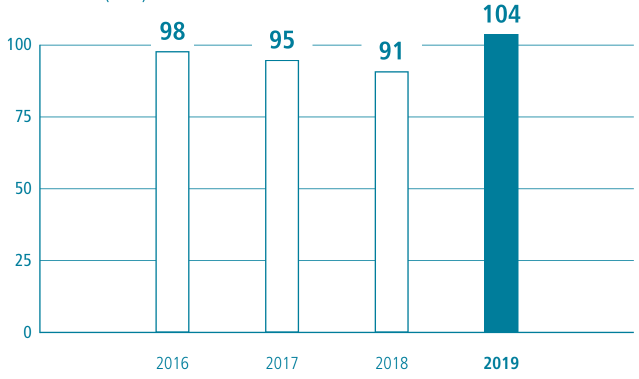
Energy consumption

in GWh	2016	2017	2018	2019
Electricity consumption	586	601	608	571
Steam, heat	75	75	71	69
Natural gas	42	39	35	43
Fuel oil	7	6	5	4
Total	**710**	**721**	**719**	**686**

Siltronic purchases electricity from the public grid. About 54 percent of the electricity is consumed in Germany. According to the Federal Association of the Energy and Water Industry (BDEW), 43 percent (previous year: 38 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 wafer area

Basis 2015 (100)



In order to reduce energy intensity, projects are being initiated and implemented to lower the specific electricity consumption. Sustainable changes were achieved in recent years especially through improvement projects in the areas of lightning, adjusting of cooling water demand and further process optimizations.

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

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

The annual target of 1.5 percent on average was not met in 2019. Numerous activities have contributed to increase our energy efficiency and reduce our energy consumption by 4.5 GWh. The targeted improvement against the previous year was not met due to reduced production volumes compared with 2018. The energy supply of our production is in single plants relatively independent of produced wafer amounts, especially in clean rooms.

The companywide energy management system is certified in accordance with ISO 50.001:2011 at our sites in Burghausen, Freiberg and Munich.

Management of waste

Reuse of product packaging

In order to reduce packaging waste we use already since 2006 a system of reuseable packaging to transport our wafers to our customers. This system applies mainly to 300 mm wafers. The reuseable packagingsystem consists of an inner packaging with a box to carry the wafers ((FOSB Front Opening Shipping Box) and a transport box (Hybox), which can contain upto 12 FOSB. As both elements of this reusable packagingsystem affects customer processes, customers need to accept the application of this system.

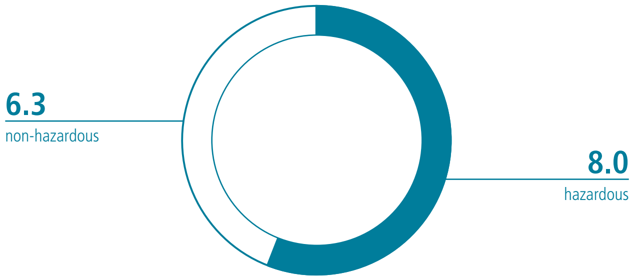
Transportbox (Hybox) – Meanwhile nearly 95 percent of our 300 mm wafers are dispatched to our customers with reuseable transport systems. With this reuse concept we were able to reduce transport volume by 17,039 m³ and avoid 1,608 tons of waste from single packaging in 2019.

Inner packaging (FOSB) – In addition we aim to increase the rate of reuseable wafer boxes (FOSB). The target of 20 percent in the reporting year was exceeded at 26 percent. As these boxes are also used in cleanrooms, the technological obstacle to use reuseable wafer packaging is very high. It will be therefore a continuing challenge to achieve this goal.

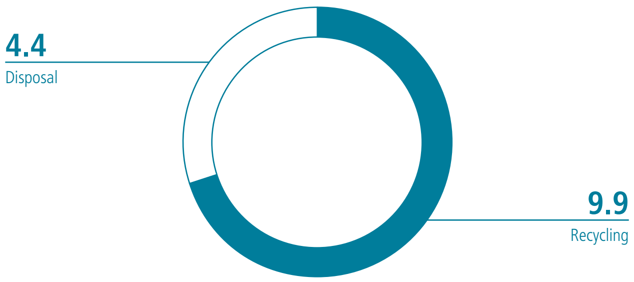
Waste recycling and waste disposal

We distinguish between waste treatment methods and waste hazardousness. Disposal of hazardous waste is particularly relevant. The composition of waste and disposal methods in the reporting year are shown in the charts below:

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



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



Disposal methods as well as the classification of waste into the categories 'hazardous' and 'non-hazardous' are based on local legal or quasi-legal regulations.

The strategic goal to increase the recycling ratio by 1.5 percent in 2019 was not achieved; mainly due to increased amounts of disposal waste as part of the production enhancement project in Singapore.

In 2019, a total of 14,346 tons of waste was treated or disposed of at the production sites. Some 38 percent of the total waste was caused by Siltronic AG. The waste recycling ratio was 69.2 percent.

Waste recycling ratio

in % of waste volume	2016	2017	2018	2019
Recycling ratio	66.2	69.0	70.0	69.2

At our Singapore site we introduced a campaign entitled "BYO Let plastics go" to raise awareness among our staff.

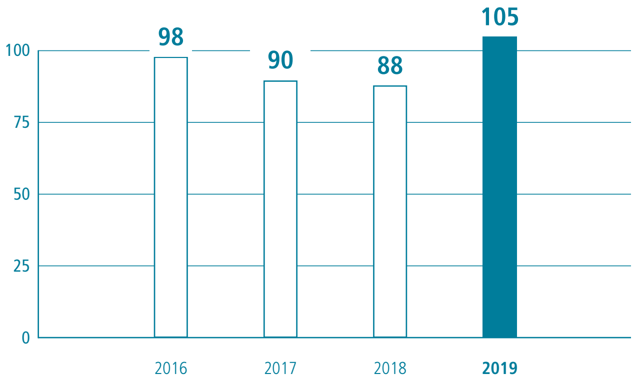
Management of water

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 obliged to use water especially carefully at our Singapore location. In 2019, essential improvements were implemented as part of our enhancement project with water restraints. We were also able to improve the rinsing water processing there. At our Burghausen site, we minimized the usage of ground water by optimizing internal processes.

Usage of water

The following chart shows a multi-year development of the indicator "Water usage in production" (base year 2015, normalized):

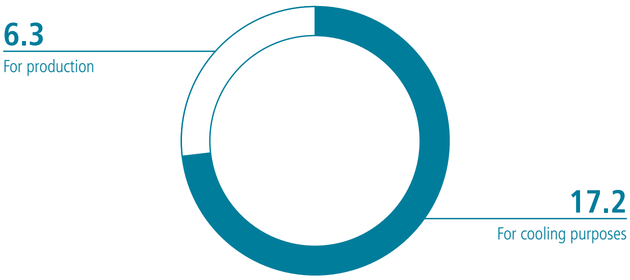
Development of water usage



The strategic goal to reduce the amount of water used in production processes in relation to amounts of wafers produced is 1.5 percent per year.

The specific usage of water increased sharply in 2019 with a slight reduction in the amount of water used and a substantial reduction in the amounts produced. A considerable amount of water is required irrespective of the wafer amounts produced in our production processes. Despite this and several measures to conserve and reuse water, we were not able to achieve this goal.

Use of water
in million m^3



Recycling of water

In order to use water more than once, we add water used in a production process to other processes wherever possible. In 2019, the volume of water recycled in this way amounted to 2.3 million m^3, compared to 2.4 million m^3 in the previous year.

The water recycling ratio was calculated as 36.1 percent (compared to 38.2 percent in 2018).

Discharge of wastewater

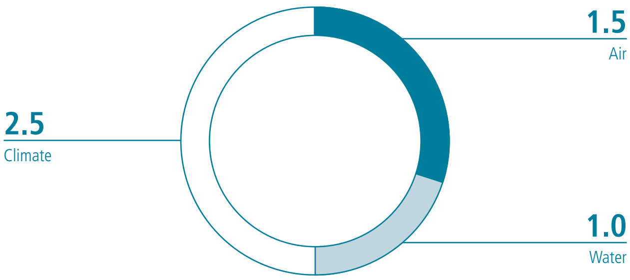
In 2019, we discharged a total of 6.6 million m^3 process waste water (without cooling water) in external waste water treatment plants. The German production sites accounted for about 57 percent of the process waste water.

Environmental aspects and environmental protection measures

On an annual basis, we evaluate our environmental aspects using an ABC analysis and implement this on a site level with due regard to relevant aspects of improvement goals and programs. In 2019, we determined the following relevant environmental aspects: air: NOx-emissions; water: water withdrawal; soil: waste amount and contamination; energy: electricity consumption.

Environmentally related investments totaled approximately EUR 5.0 million in 2019 (previous year: EUR 4.6 million). We allocated these investments according to typical environmental aspects, of which EUR 1.0 million accounted for water (previous year: EUR 1.9 million), EUR 1.5 million for air (previous year: EUR 1.5 million) and EUR 2.5 million for climate protection (previous year: EUR 1.2 million).

Distribution of environmental investments in 2019
(in EUR million)



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 (for the year 2017), we evaluated additional indirect emissions along the value chain for the first time and measured them for individual categories.Scope 3 emissions for relevant categories were determined in 2019 (for the year 2018). We analyzed the data and intend to enhance our greenhouse gas reporting.

Greenhouse gas emissions (in t CO_2 equivalents)

Description according GHG protocol, causes and main sources (in t CO_2 equivalents)			2016	2017	2018	2019
Scope 1	Direct emission	Natural gas, fuel, climate-impacting gases	17,352	12,512	11,952	12,579
Scope 2 (location based)	Indirect emissions	Electricity, heat	280,345	268,528	268,208	242,408

The collection methodology complies with the guidelines of the GHG Protocol for scope 1 and 2, as well as scope 3. To calculate greenhouse gas emissions, we use current emission factors from IEA, DEFRA UK, EPA, UBA and the IPCC 5th assessment report.

For the calculation all group companies are included.

Scope 1: Direct emissions arise on our sites mainly thru combustion of fuel oil and natural gas. Further greenhouse gases account only for a marginal portion of scope 1 emissions. Nevertheless, we are continuously working on more effective use and substitution with gases, which have a lower greenhouse effect.

Scope 2: Indirect emissions arise with the generation and provision of energy (electricity and heat) at our energy suppliers. Our internal activities to reduce these emissions mainly focus on the improvement of our efficiency of energy use. With these activities we were able to reduce CO_2 emissions (scope 1 and 2) per produced wafer area by 2.1 percent annually (compared with 2015). The total amount of CO_2 emissions could be reduced by 3.4 percent annually.

Scope 3: These indirect emissions for all 15 categories of the GHG protocol were calculated for first time for 2018. For the individual categories we applied hybrid methods, average data methods and spend based methods. As a result the following relevant categories were determined: 3.1 Purchased goods and services, 3.10 Processing of sold products and 3.11 Use of sold products. For emission categories, which are directly influenceable by us we will improve the data quality and determine reduction potentials afterwards.

In addition, we motivate our employees to commute environmentally friendly to our workplaces. The company supports employees with a bike leasing offer and offers commuter buses for workers on our site in Burghausen. 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

In 2019, NO_X emissions amounted to 85 tons (previous year: 104 tons), NMVOC to 41 tons (previous year: 57 tons) and dust to 1,7 tons (previous year: 2,1 tons). Further air emissions were not relevant.

In order to minimize NO_X-emissions we use dust extraction and washer systems. In our production site in Burghausen we installed a new NO_X-washer and a new NO_X-measuring device.

Air emissions in t	2016	2017	2018	**2019**
NO_x	79	90	104	85
NMVOC	44	53	57	41
Dust	2.2	2.2	2.1	1.7

Influence of climate change

The demand for wafers is mainly driven by demand in the areas 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
Sustainable Development Goals 3, 4, 5, 8, 10
UN Global Compact principles 1, 2, 3, 4, 5, 6, 10; Responsible Business Alliance Code of Conduct Topic A, B

Headcount and personnel planning strategy

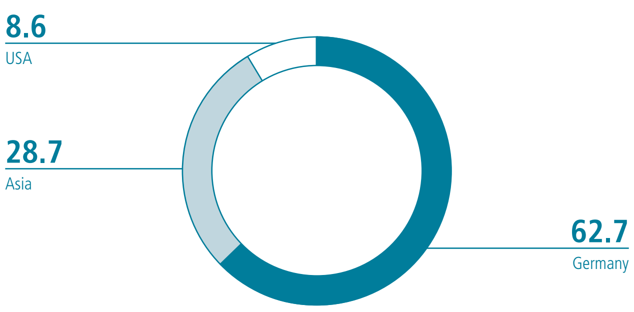
On December 31, 2019, Siltronic Group employed 3,669 people (previous year: 3,914), with 62.7 percent of whom were employed by Siltronic AG in Germany, 28.7 percent in Asia, and 8.6 percent in the USA.

Headcount as at December 31, 2019 **GRI 102-8**

	Men	Women	Total	Share of total
Germany	**1,827**	**472**	**2,299**	**62.7 %**
Of which on permanent contracts	1,826	468	2,294	
Of which on temporary contracts	1	4	5	
Singapore and other Asian countries	**749**	**305**	**1,054**	**28.7 %**
Of which on permanent contracts	748	300	1,048	
Of which on temporary contracts	1	5	6	
USA	**230**	**86**	**316**	**8.6 %**
Of which on permanent contracts	230	86	316	
Of which on temporary contracts	0	–	–	
Employees in the Group	**2,806**	**863**	**3,669**	**100 %**

A total of 3,190 employees worked full-time (previous year: 3,502) and 479 employees worked part-time (previous year: 412). Of the part-time workers, 48 percent were women (previous year: 54 percent), and 99 percent of the part-time workers were in permanent employment (previous year: 100 percent). **GRI 102-8**

Breakdown of employees by region (excluding temporary workers)
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, 2019, Siltronic employed a total of 283 temporary workers (previous year 715), therof 209 men and 74 women (previous year 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

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. 63 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, 2019, 12 women and one man were either on maternity or parental leave.

As of December 31, 2019 we employed in total 537 workers from Malaysia, (mainland) China and India at our production site in Singapore. In accordance with the industry initiative Responsible Business Alliance (RBA) we apply rules on working hours and fees, that go far beyond legal requirements. We committed ourselves to cover relevant expenses incurred by foreign workers, especially travel expenses, expenses for medical examinations or visa fees.

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. In 2019, Siltronic AG, the largest of the Group's companies, employed people of 30 different nationalities.

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 external 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 2019, 2 of 15 positions (previous year 2 of 17) one level below the Executive Board and 3 of 35 positions (previous year 2 of 36) in the second management level were represented by women. The Report on Corporate Governance provides more information on the proportion of women.

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

Gender distribution (as of December 31, 2019)

	Men	Women	**Total**
Employees in the Group at management level	45	5	**50**
In percent	*90*	*10*	***100***
Of which first level below Executive Board	13	2	**15**
In percent	*87*	*13*	***100***
Of which second level below Executive Board	32	3	**35**
In percent	*91*	*9*	***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 women should be at least 18 percent in the first level of management and at least 8 percent in the second level.

After joining the Charta of Diversity in 2018, Siltronic AG signed in 2019 also the charta of equality by the labor union (IGBCE). By signing of this charta Siltronic commits itself to actively implement and promote equal opportunity. A corporate culture is maintained, which is shaped by mutual respect and trust.

Advanced training and demographic trends in Germany

Competent employees keep the company both innovative and competitive. We encourage our employees to learn 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.

On our sites in Burghausen and Freiberg 10 young person started their apprenticeship within Siltronic with focus on mechatronics, automation engineering or logistics. For new employees we offer onboarding trainings to get familiar with the company and its culture.

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

In 2019, employees attended approximately 2,000 seminars, further education or similar events and participated in just under 14,500 e-learning courses.

At the end of 2019, the average age of the typical employee was 44 years. The following table shows the age structure of Siltronic employees worldwide.

Age structure (as of December 31, 2019)

	Male	Female	**Total**
Upto 30 years of age	15 %	16 %	**15 %**
31 to 50 years of age	47 %	54 %	**49 %**
Over 50 years of age	38 %	30 %	**36 %**
Total	**100 %**	**100 %**	**100 %**

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 benefit is available to employees covered by collective agreements and non-pay-scale agreements. 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 comprise 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 2019, 271 employees (previous year: 601) were hired, of whom 89 (previous year: 231) were in Germany and 182 (previous year: 370) abroad. These hires accounted for 7 percent of the workforce as of the balance sheet date. Some 391 (previous year: 291) employees left the company. This corresponds to 11 percent of the workforce as of the balance sheet date. Germany was affected in 38 (previous year 40) cases and other countries in 353 (previous year: 251) cases. Fluctuation was low in Germany, regionally typical higher in Asia and higher due to reduced production volume in USA.

In 2019, several employees received awards for their up to 40 years of service to the company. On our site in Singapore 25 employees received awards for their 20 year anniversary. In total already 258 employees in Singapore are with Siltronic for more than 10 years.

We regard it as important to treat temporary workers fairly. We pay at a minimum 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 2019 for the year 2018. The payment was based on the financial performance of the company.

Occupational health and safety

Responsibility towards the entire workforce in the area of occupational health and safety plays a major role at Siltronic and is primarily reflected in extensive preventive measures. In addition, 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.

Working accidents

	2016	2017	2018	2019
Injury frequency rate (LTIF) [1]	3.3	1.9	1.9	2.5
Injuries involving chemicals [2]				
-Number of employees affected	0	1	0	5

[1] Injury frequency: number of injuries (employees and temporary workers) with lost time per 1 million working hours
[2] Number of injuries (employees and temporary workers) with lost time involving chemicals

The targets for 2019 were 1.8 for the injury frequency rate (LTIF) and 0 for injuries involving chemicals.

For both indicators we did not reach our goals in 2019. 18 accidents with loss days occurred. Four employees were affected without health damages by a substance release event. No fatal incidents occurred in the last years.

The number of accidents has increased first time again in a multiyear comparison. Our internal cause analysis show that most accidents are behavior based.

Therefore we introduced initiatives, which specifically address these causes. These initiatives include awareness-raising campaigns around the topic Slip, Trip, Fall and program for reporting safety-critical situations. Furtheron we enhanced training measures of new employees, as our internal reportings for this group indicate a higher risk in the first few months.

In 2019, we implemented a safety expert workshop on our German sites. In several workshops the safety experts exchanged their knowledge and experiences and were provided information on current topics. In two specific workshops the safety experts developed safety guidelines for Siltronic AG.

To reduce the injury frequency we developed a global system to report near miss. With the systematic analysis of these events we aim to reduce real working accidents.

The company supports programs for health prevention of our employees. On our Freiberg site we organized the annual "Health days" under the topic "relax instead of high pressure". On all German sites the company offers the prevention program "Fit in job" or the participation in offsite "Health weeks".

Employee satisfaction

Under the motto "Your Opinion Counts" an employee survey was conducted at the German sites in 2018. In 2019 the results were evaluated and actions derived with a special focus on the areas of idea management and feedback culture. On our site in Singapore an employee survey was conducted and the results are currently evaluated.

Siltronic AG was awarded as "Leading Employer 2020 in Germany" and ranked on position 6 (out of 450 companies) within the semiconductor industry. The company achieved 4 of 5 stars in a German rating of companies in the area of family friendliness.

6. Supply chain

Sustainable Development Goals 7, 8, 9
UN Global Compact principles 1-10
Responsible Business Alliance Code of Conduct Topic E.12

Supplier relationship

In 2019, our purchasing volume totaled almost EUR 845 million (previous year: EUR 728 Mio.). We cooperate with more than 3,500 suppliers worldwide, nearly 300 of whom constitute some 90 percent of our purchasing volume. The volume purchased in Europe accounts for around 59 percent, around 34 percent are sourced from Asia, and North America accounts for 7 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. In 2019, we joined as a member of Responsible Business Alliance (RBA), a global industry coalition with the goal of implementing social responsibility in global supply chains.

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.

In 2019, Siltronic conducted a "Supplier´s day" with the topic of "Global supply chain excellence", where targets and measures in the field of Corporate Social Responsibility were also tackled.

Conflict minerals

The Siltronic AG does not purchase 3TG conflict minerals (gold, tantal, tungsten, tin) from any mines in relevant conflict regions. (§1502 Dodd-Frank-Act).

Siltronic limbers up to be "Fit for the NAP"

The company was participating in the qualification program of the German network of Global Compact in the context of the Business and Human Rights National Action Plan (NAP) and has prepared itself on the implementation of the NAP. Up until now Siltronic has not been selected in the spotchecks for self assessments.

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 5 and 6 percent of our sales on research and development in recent years.

7. Social responsibility and social aspects

Section 289c para. 2 numbers 3/4/5 of the German Commercial Code
Sustainable Development Goals 16, 17; UN Global Compact principles 1-5, 10
Responsible Business Alliance Code of Conduct Topic D

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 the 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.
- We commit ourselves in our Code of Conduct and in dealings with customers to uphold human rights and to exclude any abuses thereof.

Non-profit purposes and "corporate volunteering"

In 2019, Siltronic supported overall 29 activities in Germany, Singapore and in the USA.

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.

At our Portland/USA location, our employees have been supporting needy families in the region for more than 20 years. In 2019, Siltronic Portland also supported local schools and education centers and funded selected students.

At our Singapore site, the company supported 4 students within the "Singapore Scholar Sponsorship". Since 2017 Siltronic has been partnering within this program and has supported ten students.

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 of which we are a member. Siltronic has not participated in legislative procedures. **GRI 415-1**

Taxes

In 2019, Siltronic's effective income tax expense amounted to EUR 21.9 million (previous year: 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) or tax payments.

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 Award for No Pretreatment Violations" and the "Silver level for Sustainability at Work" by the Certification Bureau of Sustainability from the city of Portland, Oregon.

At the site Freiberg (Germany) employees are committed to "Weltoffenheit" and joined the initiative "Wirtschaft für ein weltoffenes Sachsen" in March 2019. This network initiative aims to actively assist the integration process of migrants in order to enhance the economic power of Saxonia.

Partnerships and membership in associations and initiatives

We have taken part in the following initiatives:

CDP Climate change, Water Security (Investor, Supply chain)

In 2019, we participated for the second time as an individual company in the rating initiatives of CDP on Climate Change and Water Security.

Program	2018	2019
CDP climate change	C	**B**
CDP water security	C	**B-**

UN Global Compact

Since 2017 Siltronic has participated in the UN Global Compact and published a "Communication on progress" report for the first time in 2019.

In addition, the company has participated in local programs of the German Global Compact Network (peer-learning group on climate strategy; program "Fit for NAP – National Action Plan on Business and Human rights")

Responsible Business Alliance (RBA)

Siltronic AG has been a member of the initiative Responsible Business Alliance (RBA) since April 2019.

United Nations Global Compact – Communication on Progress 2019

Siltronic is a participant of the UN Global Compact since 2017 and hereby reports on its progress. This overview gives a reference between the ten principles of the UN Global Compact and the progress in the individual topics of this report in the year 2019. **GRI 102-12**

Ten principles of the UN Global Compact	Relevant headings in this report	Selected measures and progress in the reporting year 2019
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	The Siltronic Code of Conduct was updated, where we commit to the ten principles of the UN Global Compact, the requirements of the initiative Responsible Business Alliance (RBA) as well as the UN Guiding Principles on Business and Human Rights. Siltronic joined the industry initiative Responsible Business Alliance as member. Within Responsible Business Alliance we conducted selfassessments and audits on our production sites. We have trained our employees in generell and according their job tasks to observe global human rights. Siltronic has purchased only materials and services from suppliers and contractors, who commit themselves to comply with the human rights. This is part of our purchasing guidelines. As part of our suppliers day we presented our principles of social responsibility. Siltronic committed itsself in our dealings with customers 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 **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	The Siltronic Code of Conduct was updated, where we commit to the ten principles of the UN Global Compact, the requirements of the initiative Responsible Business Alliance (RBA) as well as the UN Guiding Principles on Business and Human Rights. As a supplier to the electronics industry, Siltronic observed the code of conduct set out by the Responsible Business Alliance RBA. Siltronic became a member of Responsible Business Alliance. Together with Responsible Business Alliance we conducted selfassessments and audits on our production sites. A majority of employees are working on production sites with independent employee representations. Siltronic participated in the "Charta of Diversity" and the "Charta of Equality". Siltronic implemented processes, where employees or affected business partners are able to report any case of violations against labor standards to internal or external functions. In addition to the supervisor these cases can be reported to the HR department, works council or compliance officers per site and to an external ombudsman. Siltronic committed itsself against customers to ensure freedom of association, abolition of all types of forced labor and child labor and elimination of discrimination.
Environmental protection **Principle 7:** Precautionary environmental protection **Principle 8:** Initiatives for improved 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	Relevant investments to improve environmental protection were implemented in the aspects of air, water and climate protection. The Siltronic managementsystem is certified globally against the standards ISO 9001 and ISO TS 16949 for Quality, ISO 14001 for Environment, OHSAS 18001 for Safety; and ISO 50001 for Energy at the German sites. Non-financial goals were implemented with the ambition to reduce the specific use of raw materials, the specific energy consumption, and to increase the waste recycling rate. The annual sustainability report was prepared and verified by external auditors (non-financial report). Siltronic offered commuting buses for employees and supported the use of public transport. Siltronic created with the research and development of technologies the base for manufacturing smaller and more energy-efficient components, which can contribute to preserve resources and to protect the climate.
Anticorruption **Principle 10:** Measures to fight corruption	• Corporate ethics at Siltronic • Combating legal violations, particularly corruption and bribery	The Siltronic Code of Conduct was updated, where we commit to the ten principles of the UN Global Compact, the requirements of the initiative Responsible Business Alliance (RBA) as well as the UN Guiding Principles on Business and Human Rights. We have trained our employees in generell and according their job tasks to observe anticorruption rules. Siltronic implemented processes, where employees or affected business partners are able to report any case of violations against labor standards related to corruption to internal or external functions. In addition to the supervisor these cases can be reported to compliance officers per site, works council, human resources department or an external ombudsman.

Limited Assurance Report of the Independent Auditor regarding the Combined Separate Non-Financial Report[1]

To the Supervisory Board of Siltronic AG, Munich

We have performed an independent limited assurance engagement on the combined non-financial report (further: „Report") of Siltronic AG, Munich, (further: "Siltronic") and the group according to §§ 315b and 315c in conjunction with 289b to 289e HGB (German Commercial Code) for the business year from January 1 to December 31, 2019.

Management's Responsibility
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 entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

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

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

We conducted our 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 January 1 to December 31, 2019 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 Freiberg (Germany)
- Assessment of the overall presentation of the disclosures

[1] Our engagement applied to the German version of the Report 2019.
This text is a translation of the Independent Assurance Report issued in the German, whereas the German text is authoritative.

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, 2019 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 4, 2020

KPMG AG Wirtschaftsprüfungsgesellschaft

Hell ppa. Graff

Consolidated financial statements

Consolidated statement of profit or loss

from January 1 to December 31, 2019

In EUR million	Note	2019	2018
Sales	01	1,270.4	1,456.7
Cost of sales	01	−812.8	−824.8
Gross profit		**457.6**	**631.9**
Selling expenses		−36.9	−35.0
Research and development expenses		−68.4	−68.1
General administration expenses		−27.8	−27.5
Other operating income	01	40.3	74.7
Other operating expenses	01	−66.4	−78.3
Operating result		**298.3**	**497.7**
Interest income	02	8.6	4.0
Interest expenses	02	−2.2	−0.8
Other financial result	02	−2.0	−12.5
Financial result		**4.4**	**−9.3**
Result before income tax		302.7	488.4
Income taxes	03	−41.7	−87.8
Result for the period		**261.0**	**400.6**
of which			
attributable to Siltronic AG shareholders		*225.6*	*373.2*
attributable to non-controlling interests		*35.4*	*27.4*
Result per common share in EUR (basic/diluted)	13	7.52	12.44

Consolidated statement of financial position

as of December 31, 2019

In EUR million	Note	Dec. 31. 2019	Dec. 31. 2018
Intangible assets	04	22.7	22.2
Property. plant and equipment	05	951.4	683.9
Right-of-use assets	06	48.7	–
Securities and fixed-term deposits	09	52.1	31.3
Other financial assets	08	0.1	0.1
Other non-financial assets	08	0.7	–
Deferred tax assets	03	4.6	25.3
Non-current assets		**1,080.3**	**762.8**
Inventories	07	152.8	148.6
Trade receivables	08	127.7	156.3
Contract assets	08	14.6	19.4
Securities and fixed-term deposits	09	337.8	403.8
Other financial assets	08	2.7	46.8
Other non-financial assets	08	20.8	21.2
Income tax receivables	08	7.6	1.8
Cash and cash equivalents	09	200.7	257.5
Current assets		**864.7**	**1,055.4**
Total assets		**1,945.0**	**1,818.2**

In EUR million	Note	Dec. 31. 2019	Dec. 31. 2018
Subscribed capital		120.0	120.0
Capital reserves		974.6	974.6
Retained earnings and net Group result		109.0	33.4
Other equity items		−338.6	−240.8
Equity attributable to Siltronic AG shareholders		**865.0**	**887.2**
Equity attributable to non-controlling interests		65.2	28.5
Equity	10	**930.2**	**915.7**
Pension provisions	11	491.5	362.3
Other provisions	12	68.2	82.0
Income tax liabilities	12	10.2	14.0
Deferred tax liabilities	03	3.4	1.7
Customer prepayments	13	152.5	175.2
Lease liabilities	06	45.5	–
Other financial liabilities	13	–	0.2
Non-current liabilities		**771.3**	**635.4**
Other provisions	12	16.2	14.5
Income tax liabilities	12/13	19.5	27.8
Trade liabilities	13	126.8	96.6
Customer prepayments	13	28.6	56.5
Lease liabilities	06	3.8	–
Other financial liabilities	13	3.8	16.9
Other non-financial liabilities	13	44.8	54.8
Current liabilities		**243.5**	**267.1**
Total liabilities		1,014.8	902.5
Total equity and liabilities		**1,945.0**	**1,818.2**

Consolidated statement of cash flows

from January 1 to December 31, 2019

In EUR million	Note	2019	2018
Result for the period		261.0	400.6
Depreciation/amortization of non-current assets, including impairment losses and reversals thereof		110.4	91.6
Other non-cash expenses and income		−9.4	12.7
Result from disposal of non-current assets		1.6	1.4
Interest income		−6.4	−3.2
Interest paid		−1.6	−0.3
Interest received		7.3	2.7
Tax expense		41.7	87.8
Taxes paid		−36.3	−73.4
Changes in inventories		−1.6	−7.5
Changes in trade receivables		27.4	−4.3
Changes in contract assets		5.1	−1.2
Changes in other assets		45.2	−32.1
Changes in provisions		−14.2	-9.7
Changes in trade liabilities		10.4	4.3
Changes in other liabilities		−10.4	6.5
Changes in customer prepayments		−44.9	176.0
Cash flow from operating activities		**385.3**	**651.9**
Payments for capital expenditures (including intangible assets)		−349.0	−238.5
Proceeds from the disposal of property, plant and equipment and intangible assets		0.1	3.0
Payments for the acquisition of fixed-term deposits and securities		−495.5	−593.1
Proceeds from fixed-term deposits and securities		550.5	278.0
Cash flow from financing activities		**−293.9**	**−550.6**
Dividends		−150.0	−75.0
Principal portion of lease payments		−3.5	–
Cash flow from financing activities		**−153.5**	**−75.0**
Changes due to exchange-rate fluctuations		5.3	5.4
Changes in cash and cash equivalents	08	**−56.8**	**31.7**
at the beginning of the period		257.5	225.8
at the end of the period		**200.7**	**257.5**

Additional financial information (not part of the group financial statements and not audited)

In EUR million	2019	2018
Cash flow from operating activities	385.3	651.9
Cash-effective changes in customer prepayments	44.9	−176.0
Cash flow from investing activities	−348.9	−235.5
Net cash flow	**81.3**	**240.4**

Consolidated statement of comprehensive income

from January 1 to December 31, 2019

	2019		2018	
In EUR million	Before tax	After tax	Before tax	After tax
Result for the period		261.0		400.6
Items not reclassified to profit or loss: Remeasurement of defined benefit plans	−130.0	−130.0	−46.4	−49.4
Items reclassified to profit or loss:				
Difference from foreign currency translation adjustments	24.8	24.8	16.4	16.4
thereof recognized in profit or loss	–	–	–	–
Changes in market values of derivative financial instruments (cash flow hedge)	11.7	8.7	−26.5	−19.6
thereof recognized in profit or loss	*20.9*	*15.8*	*−7.8*	*−5.6*
Total of items reclassified to profit or loss	**36.5**	**33.5**	**−10.1**	**−3.2**
Other comprehensive income/loss	−93.5	−96.5	− 56.5	−52.6
Total comprehensive income/loss		**164.5**		**348.0**
of which				
attributable to Siltronic AG shareholders		*127.8*		*320.1*
attributable to non-controlling interests		*36.7*		*27.9*

Consolidated statement of changes in equity

as of December 31, 2019

In EUR million	Subscribed capital	Capital reserves	Variance from foreign currency valuation	Impact 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 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	–	–	–
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**
Result for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**373.2**	**373.2**	**27.4**	**400.6**
Other comprehensive income and loss	–	–	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**
Balance as of January 1, 2019	**120.0**	**974.6**	**5.6**	**−7.1**	**–**	**−8.4**	**−230.9**	**33.4**	**887.2**	**28.5**	**915.7**
Result for the period	–	–	–	–	–	–	–	225.6	225.6	35.4	261.0
Other comprehensive income and loss	–	–	23.5	–	–	8.7	−130.0	–	−97.8	1.3	−96.5
Total comprehensive income and loss	**–**	**–**	**23.5**	**–**	**–**	**8.7**	−130.0	**225.6**	**127.8**	**36.7**	**164.5**
Dividends	–	–	–	–	–	–	–	−150.0	−150.0	–	−150.0
Balance as of December 31, 2019	**120.0**	**974.6**	**29.1**	**−7.1**	**–**	**0.3**	**−360.9**	**109.0**	**865.0**	**65.2**	**930.2**

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, USA.

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

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, Germany.

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, 2019 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 4, 2020.

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 2019

The application of the following new standards, interpretations, and changes to existing standards is mandatory for the period starting on January 1, 2019. 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 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	none
IAS 19	Amendments to IAS 19 (plan amendment, curtailment or settlement of a defined benefit plan)	January 1, 2019	none
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
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

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 as well as SIC 27.

IFRS 16 introduces a uniform accounting model under which leases must be recognized in the lessee's balance sheet. A lessee recognizes 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. Siltronic recognizes both the right-of-use asset and the lease liability as separate items in the statement of financial position. The new accounting standard recognizes amortization of right-of-use assets and interest expenses on lease liabilities.

Siltronic applies the exemption regulations for short-term leases and low-value leases and recognizes these directly as lease expenses.

In addition, the following exemptions were applied at the time of transition:

– Short-term leases not recognized in the statement of financial position include leases that had a remaining term of less than 12 months as of January 1, 2019.
– Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application

Siltronic has applied IFRS 16 using the modified retrospective method and accordingly has not adjusted the comparative information for the fiscal year 2018. With the first-time adoption of IFRS 16, the Group recognized lease liabilities that were previously classified as 'operating leases' under IAS 17. In accordance with IFRS 16, these liabilities are measured at the present value of the remaining lease payments, with interest calculated at the incremental borrowing rate as of January 1, 2019. The (weighted) interest rate applied to the lease liabilities as of January 1, 2019 is 3.7 percent. Siltronic did not have any 'finance leases' under IAS 17.

In EUR million	
Obligations from operating leases as of December 31, 2018 at face value	**38.1**
Obligations from operating leases discounted using the incremental borrowing rate	21.5
Adjustment due to different estimates of extension options (present value)	25.7
Short-term leases and leases of low-value assets, expensed on a straight-line basis	–1.7
Lease liabilities recognized as of January 1, 2019	**45.5**
thereof	
short-term lease liabilities	*2.8*
long-term lease liabilities	*42.7*

Siltronic recognizes the right-of-use assets at the amount of the related lease liability, adjusted by any prepaid or accrued lease payments. At the time of first-time application, the value of the leasing liabilities corresponded to the rights of use. Valuation allowances for rights-of-use assets were not required.

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
IAS 1 and IAS 8	Amendments to IAS 1 and IAS 8 (Definition of Material)	January 1, 2020	basic importance
Framework	Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	basic importance

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
IFRS 9, IAS 39 and IFRS 7	Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform)	January 1, 2020	none
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

Scope of consolidation

As in the previous year, the consolidated entities as of the reporting date comprised seven subsidiaries as well as one structured entity.

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, 2019	Dec. 31, 2018
Europe		
Siltronic Holding International B.V., Rotterdam/The Netherlands	100.0	100.0
Structured Entity: Special Fund, Frankfurt	100.0	100.0
North America		
Siltronic Corp., Portland, Oregon, USA	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	100.0

Consolidation methods

The consolidated financial statements are based on the individual financial statements of the Company and its consolidated subsidiaries as well as the structured entity 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 preexisting 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	**2019**	2018	**2019**	2018
US dollar	USD	1.12	1.14	1.12	1.18
Japanese yen	JPY	122	126	122	130
Singapore dollar	SGD	1.51	1.56	1.53	1.59

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. 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.

Despite the fact that the assumptions and estimates are made to the best of management's knowledge based on current events and measures, actual results may differ from these estimates.

The following areas include significant estimates and assumptions and are therefore most likely to be affected if actual results differ from estimates:

- Recognition and recoverability of deferred tax assets:
  Assumptions regarding planned taxable income and the consideration of positive and negative factors for the assessment of tax benefits (see Note 03)
- Recoverability of property, plant and equipment and goodwill:
  Assumptions used in the impairment test to determine the recoverable amount (see Notes 04 and 05)
- Valuation of right-of-use assets and lease liabilities:
  Assumptions when using extension options (see Note 06)
- Recognition and valuation of provisions and contingent liabilities:
  Assumptions and estimates regarding the probability of occurrence, timing and amount of the benefit outflow (see Note 12)
- Determination of the fair value of financial instruments:
  Estimates related to non-observable input parameters (see Note 16)
- Valuation of defined benefit obligations:
  Actuarial assumptions (see Note 11)
  As of each reporting date, the net defined benefit liability must be reassessed and the discount factor newly determined. The derivation of the discount rate in Germany is based on a so-called 'bond universe'. The methodology for determining the 'bond universe' was changed in the first quarter of 2019 because the number of available data points was no longer sufficiently large. This change resulted in a reduction of the discount rate by 3 basis points as of June 30, 2019.

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 7
Production buildings	20 to 30
Other buildings	8 to 30
Machinery and equipment	4 to 10
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. The value in use is the present value of estimated future cash flows that are discounted using risk-adjusted pre-tax interest rates. For the purpose of determining cash flows, assets are summarized at the lowest level for which cash flows can be separately identified (so-called cash-generating units). If the reasons for impairment no longer exist, reversals of impairment losses are recognized if necessary. The reversal is limited to the carrying amount that would have resulted without impairment. Impairment losses are reported as other operating expenses, reversals thereof as other operating income.

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. The position raw materials and supplies also includes spare parts for the ongoing maintenance of production facilities. They are similarly valued on the basis of their storage period and inventory turnover rate.

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 financial 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.

For the subsequent measurement of financial assets, the company is required 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 amortized 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. 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 16 Financial Instruments.

Impairment of financial assets

For financial assets measured at amortized cost or at fair value with changes in other comprehensive income, Siltronic determines allowances for expected credit losses using the expected credit loss (ECL) model in accordance with IFRS 9.

The ECL model is mainly used for cash and cash equivalents, time deposits, securities measured at amortized cost, trade receivables, contract assets and other financial assets. The expected credit losses are adjusted at the respective closing date to reflect changes in credit risk since initial recognition. Further information are given in Notes 08 and 09.

Derivative financial instruments

Derivative financial instruments are generally measured at fair value, regardless of the purpose or intention for which they were entered into. Positive market values result in the recognition of a receivable, negative market values in the recognition of a liability. Derivative financial instruments are used primarily for hedging purposes in order 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 are treated as pending transactions.

Where derivative financial instruments are used to hedge risks from future cash flows, the Group applies hedge accounting in accordance with the requirements of IAS 39 where possible. Changes in the market value of derivatives used to hedge the risk of fluctuating cash flows denominated in a foreign currency ("cash flow hedge") were recognized in other comprehensive income, taking deferred taxes into account. The accumulated amount of other comprehensive income of the hedging instrument was not released in the statement of profit or loss until the hedge item was realized. Currency hedges of planned sales are reported in other operating income, while hedges of selected intragroup transactions are reported in other financial income. If a corresponding derivative is sold or if the conditions for a hedging relationship are no longer met, the change in value of the derivative remains in other comprehensive income until the underlying transaction occurs.

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. Contract assets are recognized if Siltronic has fulfilled its contractual obligations with customers and an unconditional right to receive consideration from the customer does not yet exist. Contract assets are recognized at the transaction price.

Risks are accounted for by appropriate write-downs, which are recorded as value adjustments. Please refer to Notes 08 and 09 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.

Income Taxes

Income taxes include all domestic and foreign taxes based on the taxable result. They include both current income taxes and deferred taxes. The current income taxes are based on the respective national tax results and regulations of the year. Also included are adjustments for any subsequent tax payments or refunds from outstanding tax returns from previous years and from tax audits.

Liabilities for taxes are accounted in the event that amounts recognized in the tax returns may not be realized (uncertain tax positions).

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.

Deferred tax assets from deductible temporary differences and tax loss carryforwards which exceed deferred tax liabilities from taxable temporary differences are only recognized to the extent that it is probable that the respective Group company will generate sufficient taxable income to realize the corresponding benefit. In the case of companies that have reported a number of tax losses in the near past, deferred tax assets are only capitalized in exceptional cases. For this to be the case, there must be substantial evidence of realizability. The Group reviews deferred tax assets for impairment at each Group reporting date.

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 as-sets. 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 financial result.

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

Siltronic generates revenues primarily from the sale of high-purity silicon wafers. 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

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.

Leases, right-of-use assets and lease liabilities

Leasing transactions were classified as either finance leases or operating leases until December 31, 2018. Assets used under operating leases were not capitalized. The lease payments to be made were recognized in the statement of profit and loss in the period they were incurred. In the financial years presented, no finance leases existed.

As of January 1, 2019, leases will be accounted for in accordance with IFRS 16. The Group assesses whether the contract contains a lease. The Group assesses whether the contract contains a lease. This is the case if the agreement entitles the Group to control the use of an identified asset for a specified period of time against consideration. If an agreement contains both leasing and non-leasing components, the Group allocates the contractually agreed remuneration on the basis of the relative individual sales prices, where possible and practicable.

On the date of allocation, the Group recognizes an asset for the right of use granted and a lease liability. The lease liability is recognized as a liability at the present value of the lease payments not yet paid. Lease payments include fixed payments as well as variable payments linked to an index or interest rate, residual value guarantees and purchase, termination and extension options if the Group is sufficiently certain that it will be able to exercise them.

The present value of the lease payments is determined using the interest rate underlying the lease. If this cannot be determined easily, the Group's incremental borrowing rate is used. This takes into account the nature of the asset and the lease terms.

The lease liability is valued at amortized cost using the effective interest method. A revaluation is carried out if there is a change in future lease payments or new information and estimates regarding residual value guarantees and the exercise of purchase options, termination or extension options exist.

The right-of-use asset is recognized at cost, which corresponds to the initial valuation of the leasing liability. Payments made before the allocation date, lease incentives received, initial direct costs and estimated costs for dismantling or restoring the asset are taken into account.

Subsequently, the right-of-use asset is depreciated on a straight-line basis from the date of allocation until the end of the lease period. If the exercise of a purchase option is deemed sufficiently certain, the asset is depreciated over its entire useful life. In addition, the right of use is adjusted for impairment losses where necessary and adjusted if the lease liability is revalued.

The Group has decided not to recognise right-of-use assets and lease liabilities for low-value leases and for short-term leases. As a result, the payments relating to these leases are expensed on a straight-line basis over the term of the lease. Furthermore, the Group does not apply IFRS 16 to leases of intangible assets.

Timing of recognition of income and expenses

Operating expenses are reported as expenses when the service is utilized and interest income is accrued using the effective interest rate.

Notes to the statement of profit or loss

01 Sales, cost of sales, other operating income, and other operating expenses

In EUR million	2019	2018
Sales	**1,270.4**	**1,456.7**
thereof sales of contracts with customers	*1,270.4*	*1,456.7*
Cost of sales	**−812.8**	**−824.8**
thereof inventory valuation allowance	*−12.3*	*−7.9*
thereof reversal of valuation allowance	*0.6*	*1.5*
Other operating income		
Currency transactions	33.1	68.3
Grants for research	0.7	0.6
Reversal of provisions and liabilities	4.0	0.2
Write-up of property, plant and equipment	–	1.8
Gains from disposal of property, plant and equipment	0.1	0.2
Reversal of valuation allowances for receivables	0.1	0.1
Other	2.3	3.5
Total	**40.3**	**74.7**
Other operating expenses		
Currency transactions	−60.1	−67.6
Impairment of property, plant and equipment	−4.3	−0.1
Losses from disposal of property, plant and equipment	−1.6	−1.6
Other	−0.4	−9.0
Total	**−66.4**	**−78.3**

Sales are generated almost entirely (EUR 1,269.3 million, prior year: EUR 1,455.5 million) by the sale of wafers. A breakdown of revenues by region can be found in Note 17.

Depreciation and amortization, personnel expenses, cost of materials

Depreciation and amortization expenses amount to EUR 110.4 million in 2019 (prior year: EUR 93.4 million).

Personnel expenses amount to EUR 311.8 million in 2019 (prior year: EUR 321.2 million), of which EUR 247.7 million was attributable to salaries (prior year: EUR 257.7 million), EUR 23.1 million to social security (prior year: EUR 24.0 million), and EUR 41.0 million to pensions (prior year: EUR 39.5 million). The cost of materials came to EUR 352.0 million (prior year: EUR 351.2 million).

02 Interest income and expenses/ other financial result

In EUR million	2019	2018
Net interest income		
Interest income	8.6	4.0
Interest expenses	−2.2	−0.8
Total	**6.4**	**3.2**
Other financial result		
Interest cost on provisions	−8.5	−8.7
Other financial income	7.3	0.8
Other financial expenses	−0.8	−4.6
Total	**−2.0**	**−12.5**

Interest income was generated mostly by financial investments 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 %	2019	2018
Weighted average trade income tax rate	12.1	12.1
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	27.9

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 459.8 million (prior year: EUR 404.5 million) is available for distribution.

The tax expenses reported for 2019 were EUR 41.7 million (prior year: EUR 87.8 million). Applying the German tax rate on the result before tax would result in tax expense of EUR 84.6 million (prior year: EUR 136.5 million). The difference between the expected tax expense and the actual tax expense of EUR 42.9 million (prior year: EUR 48.7 million) in the year under review, as in the previous year, is primarily caused by variances in tax rates and changes in valuation allowances on deferred tax assets. Given the development of the earnings situation, particularly at Siltronic AG and Siltronic Corp, the valuation allowances on deferred tax assets declined in the previous year and increased in the current year. Expenses due to valuation allowances on deferred tax assets amounted to EUR 7.3 million throughout the Group in the current year (prior year: EUR 1.8 million income due to the reversal of valuation allowances). In 2019, temporary differences resulted in expenses of EUR 12.5 million (prior year: income of EUR 16.2 million). There were no deferred tax expenses or income due to changes in tax rates in the reporting year (prior year: expense of EUR 0.7 million).

Income tax comprises current income taxes for prior years with an amount of EUR 7.2 million (prior year: EUR 5.3 million) and current tax expenses for prior years of EUR 1.6 million (prior year: EUR 1.5 million).

Tax expense

In EUR million	2019	2018
Current taxes, Germany	−9.9	−64.1
Current taxes, foreign	−12.0	−41.0
Total current taxes	**−21.9**	**−105.1**
Deferred taxes, Germany	−8.7	8.2
Deferred taxes, foreign	−11.1	9.1
Total deferred taxes	**−19.8**	**17.3**
Total income taxes	**−41.7**	**−87.8**
Reconciliation of effective tax rate		
Result before taxes	302.7	488.4
Expected income tax rate for Siltronic AG in %	27.9	27.9
Expected tax expense (–)/benefit (+)	**−84.6**	**−136.5**
Variance in tax rate	53.8	47.5
Effect of non-deductible expenses	−0.8	−3.0
Effect of tax-free income	0.5	3.0
Taxes relating to other periods (current earnings)	3.4	3.8
Effect due to unrecognized deferred tax assets	−14.1	8.3
Other variances	0.1	−10.9
Total income taxes	**−41.7**	**−87.8**
Effective tax rate in %	**13.8**	**18.0**

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 0.1 million (prior year: EUR 6.7 million).

The amount of valuation allowances applicable to deferred tax assets depend on the expected realization of potential tax benefits in the future.

The following table shows the allocation of deferred taxes to the assets and liabilities:

Allocation of deferred taxes

In EUR million	As of December 31, 2019 Deferred tax assets	As of December 31, 2019 Deferred tax liabilities	As of December 31, 2018 Deferred tax assets	As of December 31, 2018 Deferred tax liabilities
Intangible assets	–	–	0.1	–
Property, plant and equipment	1.8	2.8	2.4	2.3
Right-of-use assets	–	2.9	–	–
Current assets	4.0	6.0	16.6	4.2
Provision for pensions	1.0	–	0.4	–
Other provisions	–	0.3	5.5	0.3
Liabilities	6.3	–	4.5	–
Loss carryforward	0.1	–	0.9	–
Total	**13.2**	**12.0**	**30.4**	**6.8**
Netting	−8.6	−8.6	−5.1	−5.1
Deferred taxes reported in the statement of financial position	**4.6**	**3.4**	**25.3**	**1.7**

Deferred tax assets and deferred tax liabilities are netted only in the case 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 19.8 million (prior year: EUR 17.3 million) were fully taken to profit or loss, while EUR 2.9 million (prior year: EUR 2.5 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 110.6 million (prior year: EUR 103.6 million). Thereof, the tax loss carryforwards expire in the following years as shown below:

Tax loss carryforwards

In EUR million	2019	2018
Within 1 year	0.1	–
Within 2 years	39.8	0.2
Within 3 years	10.1	38.6
Within 4 years	9.8	9.8
Within 5 years or later	50.8	55.0
Total	**110.6**	**103.6**

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 0.2 million (prior year: 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 33.7 million (prior year: EUR 31.1 million).

As of December 31, 2019, no deferred tax assets were recognized for deductible temporary differences in the amount of EUR 572.8 million (prior year: EUR 417.2 million).

Notes to the statement of financial position

04 Development of intangible assets

In EUR million	2019			
	Goodwill	Customer relationship	Other	**Total**
Cost				
January 1	20.5	10.8	45.2	76.5
Additions	–	–	1.6	1.6
Disposals	–	–	–0.1	–0.1
Transfers	–	–	0.2	0.2
Effect of movements in exchange rates	–	0.3	0.5	0.8
December 31	**20.5**	**11.1**	**47.4**	**79.0**
Amortization				
January 1	–	10.6	43.7	54.3
Additions	–	0.2	1.1	1.3
Effect of movements in exchange rates	–	0.3	0.4	0.7
December 31	**–**	**11.1**	**45.2**	**56.3**
Carrying amount as of December 31	**20.5**	**0.0**	**2.2**	**22.7**

In EUR million	2018			
	Goodwill	Customer relationship	Other	**Total**
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**	**54.3**
Carrying amount as of December 31	**20.5**	**0.2**	**1.5**	**22.2**

Goodwill and customer relationship acquired through business combinations result from the consolidation of SSW in the year 2014.

The customer relationship is amortized based on management's expectation of the term of the 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 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 present value of the CGU exceeds the EUR 20.5 million with which the goodwill is accounted for plus the book value of the property, plant and equipment of the CGU by more than half a billion euros.

The key assumptions used for the calculation of the present value are a remaining useful life of the leading asset of the CGU, a long-term EBITDA number, necessary investments and a discount rate.

The remaining useful life of the asset dominating the CGU is derived from buildings specifically designed for the production of wafers. The 20-year remaining useful life reflects historically achieved average useful lives.

Long-term EBITDA is determined on the basis of the production capacities taking into account investments that have already been triggered, actual utilization rates of production capacities achieved over five years and lower prices. The long-term EBITDA thus estimated following the three-year medium-term plan is intended to reflect the cyclical fluctuations in our business. No growth rate was applied. External sources of information on EBITDA are only available for some components of EBITDA.

Necessary investments are derived from historical numbers and the discount rate was determined from an after-tax indicator based on the historical industry average of the weighted cost of capital. The present value was calculated using a rate of close to 13 percent.

Due to the long remaining useful life, Siltronic's three-year medium-term plan is not decisive for calculating the recoverability of goodwill (the drivers for the cash flows in the medium-term plan are EBITDA and investments).

The following analyses describe the sensitivity of the result to EBITDA and the discount rate: It is possible that EBITDA will be higher or lower due to over-/undercapacity in our industry or due to significant changes in exchange rates. If EBITDA were to be 51 percent lower than in the reporting year, this would result in an impairment loss. If the average discount rate is higher than expected, an 11 percentage point increase in the discount rate would result in 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
	2019				
Cost					
January 1	592.8	2,560.4	129.8	208.1	3,491.1
Additions	12.1	163.0	4.1	182.1	361.3
Disposals	−0.1	−40.8	−4.9	–	−45.8
Transfers	9.4	120.3	3.5	−133.4	−0.2
Effect of movements in exchange rates	8.6	29.6	0.6	5.2	44.0
December 31	**622.8**	**2,832.5**	**133.1**	**262.0**	**3,850.4**
Depreciation and impairment losses					
January 1	394.1	2,293.1	120.0	–	2,807.2
Additions	13.9	81.8	5.0	–	100.7
Impairment loss	0.1	3.7	–	0.5	4.3
Disposals	−0.1	−39.2	−4.9	–	−44.2
Effect of movements in exchange rates	4.7	25.7	0.6	–	31.0
December 31	**412.7**	**2,365.1**	**120.7**	**0.5**	**2,899.0**
Carrying amount as of December 31	**210.1**	**467.4**	**12.4**	**261.5**	**951.4**

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**	**2,807.2**
Carrying amount as of December 31	**198.6**	**267.4**	**9.8**	**208.1**	**683.9**

06 Right-of-use assets and leasing liabilities

Siltronic enters into leasing agreements mainly for land, buildings, machinery and technical equipment and IT equipment. The leasing contracts vary greatly in terms of their term and some of them have extension and termination options. In addition, many contracts are subject to an annual indexation. Such contractual terms are used to ensure maximum operational flexibility for Siltronic. When determining the term of leasing agreements, Siltronic takes into account all facts and circumstances that provide an economic incentive to exercise renewal and termination options. Options are considered if they are only available to Siltronic and their exercise is deemed sufficiently certain.

Lease agreements for office space (reported under buildings) and IT equipment usually have fixed terms of less than five years. Technical equipment and machinery are leased over a term of up to ten years. In addition, there are four long-term agreements for leasing of land, for which the right-of-use assets are depreciated over a period of more than twenty years. Part of Siltronic's production and administration buildings are located on these land plots. For three of these contracts, the Executive Board has determined that a 30-year extension option is sufficiently certain.

The development of the carrying amounts of the right-of-use assets for leases recognized for the first time in the year 2019 is shown below:

Development of right-of-use

	2019					
In EUR million	Land	Buildings	Machinery and technical equipment	Cars	IT and other equipment	**Total**
Carrying amount as of Jan. 1	35.7	2.1	6.9	0.6	0.2	45.5
Additions	–	0.9	2.8	0.3	2.2	6.2
Depreciation	−0.9	−1.3	−1.3	−0.3	−0.3	−4.1
Effect of movements in exchange rates	0.9	0.1	0.1	–	–	1.1
Carrying amount as of Dec. 31	**35.7**	**1.8**	**8.5**	**0.6**	**2.1**	**48.7**

A new contract for the rental of an office in Munich will begin in the 2020 financial year. The contract has a term of ten years.

The following leasing expenses were recognized in the statement of profit and loss:

Leasing expenses

In EUR million	**2019**
Interest expenses for leasing liabilities	1.6
Expenses for short-term leases	1.8
Leasing expenses for low value leases that are not short-term leases	0.9

Leasing agreements with a term of less than 12 months are classified as short-term leases. Assets of low value at Siltronic include for instance computers and bicycles.

Income from the subleasing of right-of-use assets and expenses for variable lease payments, which were not included in the measurement of the lease liability, exist only to a very limited extent.

Total lease payments in 2019 have amounted EUR 5.1 million.

The breakdown of lease liabilities by maturity is shown below:

Maturity of leasing liabilities

	As of December 31, 2019	
In EUR million	short-term	long-term
Lease liability	3.8	45.5
of which > 5 years	–	*36.4*

07 Inventories

In EUR million	2019	2018
Raw materials and supplies	87.3	74.5
Finished and unfinished products	65.5	74.2
Total	**152.8**	**148.6**
of which recorded at net realizable value	*0.0*	*0.0*

As of December 31, 2019, unfinished products amounted to EUR 38.7 million (prior year: EUR 40.5 million). The cost of sales were largely attributable to expenses related to inventories.

08 Trade receivables, contract assets, other financial and non-financial assets as well as income tax receivables

	As of December 31, 2019			As of December 31, 2018		
In EUR million	Total	of which non-current	of which current	Total	of which non-current	of which current
Trade receivables	**127.7**	**–**	**127.7**	**156.3**	**–**	**156.3**
Contract assets	**14.6**	**–**	**14.6**	**19.4**	**–**	**19.4**
Derivative financial instruments	2.2	0.1	2.1	2.1	0.1	2.0
Compensation claims against insurances	–	–	–	44.1	–	44.1
Other	0.6	–	0.6	0.7	–	0.7
Other financial assets	**2.8**	**0.1**	**2.7**	**46.9**	**0.1**	**46.8**
Prepaid expenses	5.7	0.7	5.0	3.1	–	3.1
Other tax receivables	9.1	–	9.1	13.7	–	13.7
Other	6.7	–	6.7	4.4	–	4.4
Other non-financial assets	**21.5**	**0.7**	**20.8**	**21.2**	**–**	**21.2**
Other financial and non-financial assets	**24.3**	**0.8**	**23.5**	**68.1**	**0.1**	**68.0**
of which maturity > 5 years	*0.5*	*0.5*	–	–	–	–
Income tax receivables	**7.6**	**–**	**7.6**	**1.8**	**–**	**1.8**
of which maturity > 5 years	–	–	–	–	–	–

Contract assets
Contract assets relate to the revenue recognition for customers with whom Siltronic maintains a consignment stock. The amount of contract assets as of December 31, 2019 was affected by an impairment of less than EUR 0.1 million (prior year: 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. According to this, 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 12) in the amount of EUR 43.5 million (EUR 40.0 million non-current, EUR 3.5 million current). 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.

The compensation claim was settled in the financial year 2019. The provision was partially used and still amounts to EUR 39.5 million as of December 31, 2019 (EUR 34.9 million non-current, EUR 4.6 million current).

Valuation allowances

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.

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 as well as to all financial assets measured at amortized cost (see Note 16). 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 90 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 127.7 million), other financial assets (EUR 0.6 million) and contract assets (EUR 14.6 million) measured at amortized cost by risk class in fiscal year 2019:

Overdues of receivables

in EUR million	As of December 31, 2019					
Risk assessment	Corresponds to external rating	Internal rating by Siltronic	Loss rate (weighted average) in percent	Gross carrying amount	Valuation allowance	Impaired creditworthinesst
Low	AAA to BBB–	1 to 3	0 %	141.6	0.0	No
Medium	BB– to BB+	4	0 %	1.3	0.0	No
High	C to D	5 to 6	0 %	–	0.0	Yes
Total			0 %	142.9	0.0	

in EUR million	As of December 31, 2018					
Risk assessment	Corresponds to external rating	Internal rating by Siltronic	Loss rate (weighted average) in percent	Gross carrying amount	Valuation allowance	Impaired creditworthinesst
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	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 as of December 31, 2018 amounted to EUR 0.1 million. In fiscal year 2019, the valuation allowance changed only marginally, as there were no significant changes. At the end of the fiscal year, the valuation allowance was less than EUR 0.1 million.

09 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 287.3 million and cash and cash equivalents of EUR 188.8 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 S&P Global Ratings rating.

The estimated valuation allowance for cash and cash equivalents and fixed-term deposits was calculated on the basis of expected losses over the entire remaining term. 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.

The valuation allowance amounts to EUR 0.1 million as of December 31, 2019 (prior year: EUR 0.1 million)

Siltronic manages its securities under two different business models. A large portion of the securities in the amount of EUR 82.7 million (prior year: EUR 66.9 million) is classified in the special fund as at fair value through profit or loss, as the management and measurement of the special fund's performance is based on fair value. In addition, in the year under review, securities were acquired whose business model consists of collecting contractual interest and principal payments. These securities in the amount of EUR 31.7 million are measured at amortized cost.

10 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).

11 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.

Since the previous year, the pension obligations from direct commitments, deferred compensation and the pension adjustments of the basic pension (previously unfunded defined benefit obligations) is partially funded by cash paid into a fiduciary fund. 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. The defined benefit obligations are only continued for old commitments. 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 in the United States 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, 2019			As of December 31, 2018		
In EUR million	Germany	Foreign	**Total**	Germany	Foreign	**Total**
Present value of the at least partially fund-financed defined benefit obligations	1,022.6	136.2	1,158.8	850.8	115.7	966.5
Fair value of plan assets	559.2	116.6	675.8	521.7	89.6	611.3
Funded status	**463.4**	**19.6**	**483.0**	**329.1**	**26.1**	**355.2**
Present value of unfunded defined benefit obligations	–	8.5	8.5	–	7.1	7.1
Provisions for pensions and similar obligations	**463.4**	**28.1**	**491.5**	**329.1**	**33.2**	**362.3**

Development of the net liability of defined benefit obligations

In EUR million	2019 Projected benefit plan obligation	2019 Fair value of plan assets	2019 Difference
As of January 1	**973.6**	**611.3**	**362.3**
Current service cost	21.3	–	21.3
Interest expenses and interest income	21.5	14.1	7.4
Administrative cost paid out of plan assets	–	– 0.3	0.3
Past service cost	0.1	–	0.1
Remeasurements			
Gains (–)/losses (+) from plan assets, excluding amounts recognized in interest income	–	32.4	–32.4
Gains (–)/losses (+) from changes in demographic assumptions	–0.9	–	–0.9
Gains (–)/losses (+) from changes in financial assumptions	164.8	–	164.8
Gains (–)/losses (+) from changes in experience-based assumptions	–1.5	–	–1.5
Effects of exchange-rate differences	2.5	1.9	0.6
Contributions by			
the Employer to the German pension fund	–	26.8	–26.8
Pension plan beneficiaries	5.0	5.0	–
Pension payments	–19.1	–15.4	–3.7
As of December 31	**1,167.3**	**675.8**	**491.5**

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**

Assumptions

The pension obligations are calculated by taking into account company-specific and country-specific biometric calculation principles and parameters. The calculations are based on actuarial valuations that factor in the following parameters:

Assumptions

In %	2019 Germany	2019 USA	2018 Germany	2018 USA
Discount rate	1.24	2.98	1.98	4.08
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 Germany Siltronic uses the '2018G mortality tables' by Prof. Dr. Klaus Heubeck. In the United States, the mortality table 'RP-2017' is applied.

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, 2019		As of December 31, 2018	
	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	**1,167**		**974**	
Present value of all pension obligations if				
the discount rate increases by 0.5 %	1,057	−9.5	885	−9.1
the discount rate decreases by 0.5 %	1,296	11.0	1,076	10.5
salaries increase by 0.5 %	1,176	0.7	982	0.8
salaries decrease by 0.5 %	1,160	−0.7	966	−0.8
future pension increases are 0.25 % higher	1,203	3.1	1,002	2.9
future pension increases are 0.25 % lower	1,133	−2.9	947	−2.8
life expectancy increases by one year	1,207	3.4	1,004	3.1

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, 2019			As of December 31, 2018		
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	–	96.8	96.8	–	95.1	95.1
Loans and fixed-income securities	219.5	85.4	304.9	202.0	79.3	281.3
Equities/equity funds/private equity	148.1	94.1	242.2	116.6	72.8	189.4
Cash and cash equivalents	–	31.9	31.9	–	45.5	45.5
Total plan assets	**367.6**	**308.2**	**675.8**	**318.6**	**292.7**	**611.3**
thereof own-used real estate		*0.6*	*0.6*		*0.6*	*0.6*

The Group was utilizing in the current and previous year EUR 0.6 million of plan assets for its own purposes. 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 2019, benefits in the amount of EUR 13.0 million (prior year: EUR 11.7 million) were paid into pension plans in Germany, and EUR 6.1 million (prior year: EUR 6.4 million) into pension plans outside of Germany. For the 2020 financial year, the employer's contributions are expected to amount to only EUR 1.4 million, as most of them were already paid in advance in the current year. The expected term of pension obligations as of December 31, 2019 was 21.8 years (prior year: 21.1 years) in Germany and 16.9 years (prior year: 15.8 years) in the United States.

The following table shows the pensions benefits that the Group expects to pay from 2020 to 2024:

Projected payment periods for pension benefits

In EUR million	2020	2021	2022	2023	2024
	22.1	24.7	27.6	29.4	30.9

Composition of pension expenses by pension plan

In EUR million	2019	2018
Current service cost due to defined benefit plans	21.3	19.5
Past service cost/effects of settlements/transfers	0.1	0.5
Administrative cost paid out of plan assets	0.3	0.8
Net interest expenses due to defined benefit plans	7.4	8.0
Expenses due to defined contribution plans	1.0	1.0
Other pension expenses	0.2	0.3
Contributions to public pension schemes	18.1	17.4
Total retirement benefits	**48.4**	**47.5**

12 Other provisions and income tax liabilities

	As of December 31, 2019			As of December 31, 2018		
In EUR million	Total	of which non-current	of which current	Total	of which non-current	of which current
Personnel	35.3	32.9	2.4	37.8	35.1	2.7
Environmental protection	39.5	34.9	4.6	43.5	40.0	3.5
Onerous contracts	6.9	0.2	6.7	12.9	6.8	6.1
Other	2.7	0.2	2.5	2.3	0.1	2.2
Total	**84.4**	**68.2**	**16.2**	**96.5**	**82.0**	**14.5**
Income tax liabilities	**29.7**	**10.2**	**19.5**	**41.8**	**14.0**	**27.8**

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 prior year, 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 provision amounted to EUR 39.5 million as of December 31, 2019.

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 2019:

Development of other provisions

In EUR million	Jan. 1, 2019	Utilization	Reversal	Addition	Transfer to liabilities	Interest and exchange rate	Dec. 31, 2019
Personnel	37.8	−21.8	–	19.3	−0.4	0.4	35.3
Environmental protection	43.5	−5.0	−0.7	0.1	–	1.6	39.5
Onerous Contracts	12.9	−6.0	–	–	–	–	6.9
Other	2.3	−2.3	–	2.7	–	–	2.7
Total	**96.5**	**−35.1**	**−0.7**	**22.1**	**−0.4**	**2.0**	**84.4**

Income tax liabilities

The liabilities for taxes comprise all expected obligations from domestic and foreign entities. The main reason for the increase in comparison to the previous year was increased taxable profits and later payment dates.

The following table shows the development of the liabilities for income taxes:

Development of income tax liabilities

In EUR million	Jan. 1, 2019	Utilization	Reversal	Addition	Interest and exchange rate	Dec. 31, 2019
Income tax liabilities	41.8	−26.1	−5.5	18.7	0.7	29.7

13 Trade liabilities, customer prepayments, other financial and non financial liabilities

In EUR million	As of December 31, 2019 Total	of which non-current	of which current	As of December 31, 2018 Total	of which non-current	of which current
Trade liabilities	**126.8**	**–**	**126.8**	**96.6**	**–**	**96.6**
Customer prepayments	181.1	152.5	28.6	231.7	175.2	56.5
of which > 5 years	*29.9*	*29.9*	–	*29.9*	*29.9*	–
Other liabilities						
Derivative financial instruments	3.5	–	3.5	16.9	0.2	16.7
Other	0.3	–	0.3	0.2	–	0.2
Total	**3.8**	**–**	**3.8**	**17.1**	**0.2**	**16.9**
of which > 5 years	–	–	–	–	–	–
Other non-financial liabilities						
Other tax liabilities	2.3	–	2.3	4.3	–	4.3
Social security	2.1	–	2.1	2.5	–	2.5
Payroll	1.1	–	1.1	1.8	–	1.8
Profit-sharing and bonuses	33.6	–	33.6	37.5	–	37.5
Other personnel liabilities	5.7	–	5.7	8.7	–	8.7
Total	**44.8**	**–**	**44.8**	**54.8**	**–**	**54.8**
of which > 5 years	–	–	–	–	–	–

The customer prepayments are equivalent to the contract liabilities from contracts with customers in accordance with IFRS 15. The amount of EUR 63.2 million (prior year: EUR 41.2 million) reported under contract liabilities at the beginning of the period was recognized as sales in the current year. There were no notable 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 1.5 billion, of which 30 percent is expected in 2020. The remaining 70 percent are expected to be realized between 2021 and 2025. As permitted by IFRS 15, no information is provided on the remaining performance obligations as of December 31, 2019 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.

14 Other financial obligations and contingencies

Due to the first-time application of IFRS 16 Leases in the financial year, further information can be found in Note 06.

Expenses for operating leases according to IAS 17 in the prior year amounted to EUR 5.6 million and were primarily related to minimum lease payments. Subleases existed in 2018 only to an insignificant extent.

Other financial obligations

In EUR million	Dec. 31, 2019
Obligations from operating lease agreements	
due within 1 year	5.9
due between 2 to 5 years	12.7
due after 5 years and more	19.5
Total	**38.1**

As of December 31, 2019, obligations from purchase commitments amounted to EUR 141.1 million (prior year: EUR 293.1 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 71.0 million (prior year: EUR 63.1 million) as of December 31, 2019.

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. For further information see Note 12.

Contingent liabilities may arise in the future as a result of leases that are subject to annual indexation (see Note 06).

Other disclosures

15 Earnings per share

	2019	2018
Net result attributable to Siltronic AG shareholders (in EUR million)	225.6	373.2
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)	7.52	12.44
Dividend payment per common share (in EUR) for the prior year	5.0	2.5

For the financial year 2019, the Management Board and Supervisory Board propose to distribute a dividend of EUR 3.00 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 90 million will be distributed for the total number of 30,000,000 no-par value shares.

16 Financial instruments

The following tables show financial assets and liabilities by measurement categories and classes for the years 2019 and 2018, 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 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

In EUR million	Carrying amount as of Dec. 31, 2019	Measurement according to IFRS 9		Fair Value through other comprehensive income (Hedge Accounting)	Fair Value as of Dec. 31, 2019
		Amortized Cost (AC)	Fair Value through profit and loss (FVTPL)		
Securities	114.5	31.7	82.8	–	115.0
Trade receivables	127.7	127.7	–	–	127.7
Fixed-term deposits	275.4	275.4	–	–	275.5
Other financial assets	2.8	0.6	0.9	1.3	2.8
Other		0.6	–	–	
Derivatives for which hedge accounting is not used (FVTPL)		–	0.9	–	
Derivatives for which hedge accounting is used (Hedge accounting according to IAS 39)		–	–	1.3	
Cash and cash equivalents	200.7	–	–	–	200.7
Total financial assets	**721.1**				**721.8**
Trade liabilites	126.8	126.8	–	–	126.8
Other financial liabilities	3.8	0.3	2.4	1.1	3.8
Other		0.3	–	–	
Derivatives for which hedge accounting is not used (FVTPL)		–	2.4	–	
Derivatives for which hedge accounting is used (Hedge accounting according to IAS 39)		–	–	1.1	
Total financial liabilities	**130.6**				**130.6**

In EUR million	Carrying amount as of Dec. 31, 2018	Measurement according to IFSR 9		Fair Value through other comprehensive income (Hedge Accounting)	Fair Value as of Dec. 31, 2018
		Amortized Cost (AC)	Fair Value through profit and loss (FVTPL)		
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
Total financial assets	**895.8**	**–**	**–**	**–**	**895.8**
Trade liabilities	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 June 2021. The fair value for these financial instruments also approximates their carrying amount.

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 measurement categories according to IFRS 9. 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 IFRS 9 measurement categories.

Net result by measurement category

In EUR million	2019	2018
Assets/liabilities classified as at fair value through profit or loss	4.5	−9.0
Financial assets recognized at amortized cost	1.2	13.9
Financial liabilities recognized at amortized cost	−2.8	−1.6
Total	**2.9**	**3.3**

The net result of financial assets measured at amortized cost was primarily due to net losses and gains from curerncy translation, interest income from securities and 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 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 7.1 million in 2019 (prior year: EUR 3.8 million). This interest income relates to cash and cash equivalents and fixed-term deposits and in the year under review additionally from securities.

The application of the effective interest method to financial assets measured at amortised cost resulted in interest expense of EUR 0.1 million (prior year: EUR 0.0 million).

The interest expenses from financial liabilities which are not recognized at fair value through profit or loss were EUR 1.6 million in 2019 (prior year: EUR 0.0 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

	As of December 31, 2019			
In EUR million	Level I	Level II	Level III	**Total**
Financial assets, measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used	–	0.9	–	0.9
Securities	82.8	–	–	82.8
Fair value through other comprehensive income				–
Derivatives for which hedge accounting is used	–	1.3	–	1.3
Total	**82.8**	**2.2**	**–**	**85.0**
Financial liabilities, measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used	–	2.4	–	2.4
Fair value recognized directly in equity				
Derivatives for which hedge accounting is used	–	1.1	–	1.1
Total	**–**	**3.5**	**–**	**3.5**

	As of December 31, 2018			
In EUR million	Level I	Level II	Level III	**Total**
Financial assets, measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used	–	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				
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**

Market values are calculated using information available on the reporting date and based on counterparties' quoted prices or via appropriate valuation methods (currency forward exchange contracts and currency foreign exchange swaps: discounted cash-flow or well-established actuarial methodologies, such as the par method; currency option contracts: Black-Scholes-model).

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 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, currency forward exchange contracts, currency option contracts 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 of future foreign exchange cash flows from currency forward exchange contracts. 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). No cash flow hedge accounting is applied for strategic hedging through currency option contracts. Changes in the fair value of currency option contracts are recognized in the statement of profit and loss.

The reconciliation of the cumulative effects recognised in other comprehensive income (before tax) for the 2019 and 2018 financial years are as follows:

In EUR million	2019	2018
Accumulated effects from derivative financial instruments (cash flow hedge) before taxes as of January 1	−11.3	15.2
Changes in market values	−9.2	−18.7
Reclassification to the profit and loss statement (other operating income and expenses)	20.9	−7.8
Accumulated effects from derivative financial instruments (cash flow hedge) before taxes as of December 31	**0.4**	**−11.3**

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, 2019	
	Nominal values	Market values
Other financial assets	**280.6**	**2.2**
Foreign currency derivatives	118.8	1.7
thereof for strategic hedging (with hedge accounting)	*60.2*	*1.3*
Foreign currency options	147.1	0.4
Foreign currency swaps	9.0	–
Other derivatives	5.7	0.1
Other financial liabilities	**230.1**	**3.5**
Foreign currency derivatives	69.7	2.8
thereof for strategic hedging (with hedge accounting)	*28.7*	*1.1*
Foreign currency options	147.1	0.7
Foreign currency swaps	13.3	–

In EUR million	As of December 31, 2018	
	Nominal values	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 currency forward exchange contracts for strategic hedging by maturity as well as the average hedging rate per currency:

	As of December 31, 2019	
In EUR million	current (less than 1 year)	non-current (more than 1 year)
Nominal values	77.5	11.4
Average hedging rate		
EUR/JPY	120	122

	31.12.2018	
In EUR million	current (less than 1 year)	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	–

Apart from the currency forward exchange contracts for strategic hedging, all derivative financial instruments in the financial year and the previous year have a term of less than one year.

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, 2019					
	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	3.5	1.4	2.1	1.8	–	0.3
Derivatives with a negative market value	–4.8	–1.4	–3.4	–1.8	–	–1.6

	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

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 analyzes on the extent of those risks. The analyzes 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 analyzes 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 analyzes 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 by 10 percent as of December 31, 2019, the fair value of the derivative financial instruments would have decreased by approximately EUR 17.2 million. The change would have been fully recognized in the statement of profit and loss. If the US dollar against the euro would have been down by 10 percent, the fair value of the derivative financial instruments would have decreased by EUR 12.2 million. Of these changes EUR 3.8 would have been recognized in other comprehensive income and EUR 8.4 million in the statement profit or loss. The corresponding fair value changes as of December 31, 2018 would have decreased or increased by EUR 37.6 million. These changes would have been recognized with an amount of EUR 27.8 million in other comprehensive income and EUR 9.8 million in the statement of profit and loss.

If the yen had been up or down by 10 percent against the euro as of December 31, 2019, the fair value of the derivative financial instruments would have changed by approximately EUR 10.8 million. The change of EUR 8.9 million would have been recognized in other comprehensive income and EUR 1.9 million in the statement of profit and loss. The corresponding change in fair value as of December 31, 2018 would have been EUR 14.0 million, of which EUR 10.7 million would have been recognized in other comprehensive income and EUR 3.3 million in the statement of profit and loss.

If the Singapore dollar had been up or down by 10 percent against the euro in the prior year, the fair value of the strategic derivative financial instruments would have changed by approximately EUR 6.5 million. The change would have been fully recognized in other comprehensive income in the financial year 2018. At the end of financial year 2019, no material derivative financial instruments were open for the Singapore dollar.

Without taking currency hedging transactions into account, a deviation of 1 USD cent in the EUR/USD exchange rate compared to the planned exchange rate results in a change in sales of around +/- EUR 6 million and a change in EBITDA of around +/- EUR 4.5 million in the fiscal year.

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.

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 extra-ordinary concentration of risks. For further information on the default risk of financial assets and contract assets, see Notes 08 and 09. 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, 2019 or 2018.

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 June 2021.

17 Segment reporting

The Group has only one reportable segment, which includes the development, production, and marketing of semiconductor wafers with a wide variety of features satisfying numerous product specifications to meet customers' precise technical specifications, which are utilized in the manufacture of semiconductor devices. Based on the fact that in the wafer industry the allocation of resources is derived from a wide variety of specifications, the Group operates only in one segment. The products can differ between diameters, between polished and epitaxial wafer, between different pulling technologies and other features.

The geographical information during the reporting periods was as follows:

Segment information by region

	2019							
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	106.4	139.2	143.0	342.9	356.4	158.8	23.7	1,270.4
Additions to property, plant and equipment, and intangible assets	147.2	–	10.0	–	–	205.8	–	363.0
Non-current assets (December 31)	411.1	–	29.0	0.1	0.2	516.0	17.7	974.1

	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 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

In 2019, the Group realized sales with three customers with a share of 21 percent, 15 percent and 13 percent, respectively. In 2018, three customers constituted 16, 15 and 12 percent of consolidated sales.

18 Transactions with related companies and persons

The disclosure requirements according to IAS 24 refer to transactions (i) with its minority shareholder Wacker Chemie AG (until March 15, 2017 majority shareholder) and the ultimate controlling shareholder of Wacker Chemie AG, which is Dr. Alexander Wacker Familiengesellschaft mbH (holding more than 50 percent of the voting shares in Wacker Chemie AG), (ii) with Pensionskasse (pensionfund), 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	2019	2018
Sales	0.9	0.9
Purchased material and services (primarily cost of sales)	143.5	172.5

In 2019, sales include research and development services for EUR 0.9 million (prior year: EUR 0.9 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, 2019 and 2018:

Inventories, other assets and liabilities to related parties

In EUR million	Dec. 31, 2019	Dec. 31, 2018
Other assets	0.5	–
of which Wacker Chemie	*0.5*	–
Inventories	11.8	12.5
of which Wacker Chemie	*11.8*	*12.5*
Trade liabilities	6.4	12.8
of which Wacker Chemie	*6.4*	*12.8*

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	2019	963,463	494,949	567,180	335,617	2,361,209
	2018	1,021,017	891,800	894,630	301,148	3,108,595
Provisions for pensions for active Executive Board members	2019				6,103,844	6,103,844
	2018				4,575,714	4,575,714
Remuneration for former Executive Board members and their surviving dependants	2019				221,253	221,253
	2018				217,617	217,617
Provisions for pensions for former Executive Board members and their surviving dependants	2019				7,892,388	7,892,388
	2018				6,951,202	6,951,202
Supervisory Board remuneration	2019	658,369				658,369
	2018	705,114				705,114

Share-based payments with a fair value of EUR 0.8 million were granted to the members of the Executive Board on March 1, 2019.

Remuneration for pensions consists of service costs and interest costs.

Moreover there were no further significant transactions between Siltronic and related parties in the 2019 fiscal year beyond the existing employment, service, or appointment relationship or the contractual remuneration.

Detailed information on the remuneration of the Executive Boardmembers are included in the compensation report. The compensation report is part of the management report and includes disclosures which are part of the Notes under German commercial law.

19 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 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 compensation report. On the basis of the overall target achievement factors of the performance categories, 6,302 phantom stocks were allocated to the Executive Board (previous year: 12,391). The average price of the Siltronic share, which is decisive for the number of virtual shares, was EUR 81.75 (prior year: EUR 74.91). The fair value per phantom stock on the reporting date was EUR 90.00 (closing price 2018: EUR 72.20). This corresponds to a provision for virtual shares from 2018 and 2019 of EUR 1.7 million (prior year: EUR 1.3 million). The cash compensation for the phantom stocks from the financial year 2017 will be paid in the year 2020 at the average price from 2019, for which an other liability of EUR 0.5 million was recognized. The personnel expenses increased in the financial year 2019 by EUR 0.9 million (prior year: EUR 0.6 million).

20 Other information

The following table shows the personnel employed on average during the year.

Average number of employees

Amount	2019	2018
Germany	2,314	2,332
Singapore and other countries in Asia	1,096	1,114
United States	377	412
Total	**3,787**	**3,858**

The auditor's fees are divided into audits of financial statements, other certification services and non-audit services.

Audit fees

In EUR million	2019	2018
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 Siltronic Silicon Wafer Pte. Ltd. Apart from Siltronic Silicon Wafer Pte. Ltd., 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, 2019 non-current assets totaled EUR 496.6 million and current assets EUR 269.7 million, equity EUR 292.6 million, non-current liabilities EUR 388.4 million and current liabilities EUR 85.3 million.

In the year 2019, Siltronic Silicon Wafer Pte. Ltd. realized sales of EUR 352.7 million resulting in a net profit of EUR 159.2 million and a comprehensive income of EUR 165.2 million. In the year 2019, the balance of cash flows 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) resulted in an payments surplus of EUR −8.0 million.

The minority shareholder did not receive a dividend.

The list of shareholdings in affiliated companies as of December 31, 2019 is as follows (IFRS amounts):

List of shareholdings

	2019		
	Share capital in EUR million	Net income in EUR million	Equity share in %
Siltronic Holding International B.V., Rotterdam, Netherlands[1)]	351.8	1.3	100.0
Siltronic Singapore Pte. Ltd., Singapur[2)]	434.4	74.0	100.0
Siltronic Silicon Wafer Pte. Ltd., Singapur[2)]	292.6	159.2	77.7
Siltronic Corp., Portland (Oregon), USA[2)]	51.0	0.6	100.0
Siltronic Japan Corp., Tokio, Japan[2)]	−1.8	−0.3	100.0
Siltronic Korea Ltd., Seoul, Korea[1)]	0.9	0.5	100.0
Siltronic Shanghai Corp., Ltd., Shanghai, China[1)]	0.5	0.2	100.0
Structured entity: Special Fund, Frankfurt, Germany[1)]	82.2	5.0	100.0

1) Held directly by Siltronic AG
2) Held indirectly by Siltronic AG

21 Subsequent events

There were no significant events after the end of the fiscal year ending December 31, 2019.

Munich, March 4, 2020
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 2019, 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 2019, 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 2019. In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

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 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, 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. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the "Other Information" section of the auditor's report.

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 group 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 2019. 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

For information on the accounting methods applied please refer to the explanation in the "Income taxes" section of the accounting policies and for information on deferred tax assets and liabilities please refer to the "Income taxes" section in the notes to the consolidated financial statements

The Financial Statement Risk

Deferred tax assets in the amount of EUR 4.6 million are reported in the consolidated financial statements of Siltronic AG as at 31 December 2019.

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 assets determined, these are not recognised.

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.

The cyclical development of the wafer market has in the past led to volatile business performance for the Company. In addition, the current outlook for the Company's future development is influenced by economic uncertainties. Based on the Company's assessment of the amount of deductible temporary differences that are reasonably certain to be used, the Company recognised deferred tax assets arising from temporary differences after netting of EUR 4.5 million in financial year 2019. No deferred tax assets were recognised for deductible temporary differences of EUR 572.8 million, as the Company did not consider it reasonably certain that they would be realised.

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. In order to audit deferred taxes, we assessed the appropriateness and implementation of the internal controls relating to the calculation of deferred taxes. Furthermore, we 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 medium-term 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.

We had the Executive Board explain to us Siltronic AG's assessment of the future development 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.

Existence of additions to property, plant and equipment in the "300 mm" cash-generating unit and impairment testing of the assets of the "300 mm" cash-generating unit including goodwill

For information on the accounting policies for property, plant and equipment, please refer to the explanation in the sections "Intangible assets", "Property, plant and equipment" and "Depreciation and amortisation" of the accounting policies, as well as the explanatory notes on the individual statement of financial position items under "Development of property, plant and equipment" and "Development of intangible assets" in the notes to the consolidated financial statements.

The Financial Statement Risk
Investments in property, plant and equipment totalled EUR 361.3 million in the reporting year. In the current reporting year and in prior years, investments were predominantly made in expanding the capacities of 300 mm wafer production. In addition, there is goodwill in the amount of EUR 20.5 million attributable to the 300 mm cash-generating unit (CGU).

Due to the substantial investment volume, the carrying amount of property, plant and equipment in the "300 mm" segment increased substantially. In this regard, there is a general risk that additions to property, plant and equipment in the "300 mm" segment do not exist in the amount reported in the financial statements.

As items of property, plant and equipment generate no cash flows that are largely independent of other assets, it is checked whether there is any indication of impairment at the level of the "300 mm" CGU. In the course of the annual impairment test, the Company determines the recoverable amount of the "300 mm" CGU as at the reporting date and compares this with the carrying amount. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised. For the impairment test, the Company primarily determines the value in use.

Impairment testing of the assets of the "300 mm" CGU including goodwill is complex and based on a range of assumptions that require judgement. These include in particular forecasts of cash flows and the discount rates used.

Business in the semiconductor market is cyclical, meaning that demand for market prices has in the past fluctuated and market participants have experienced excess capacities. In light of this, there is a risk that the assets of the "300 mm" CGU, including the goodwill assigned to it, could be impaired.

Our audit approach
We obtained an understanding of the Company's process for recording additions to property, plant and equipment as well as for the determination of the recoverable amounts for the "300 mm" CGU based on explanations provided by members of the accounting department as well as an assessment of the group accounting guidelines. In addition, we assessed the effectiveness of the internal controls relating to the recording of additions to property, plant and equipment with regard to the verification of invoices and, in particular, the monitoring of the stage of completion of the investment projects.

We assessed the existence of the additions to property, plant and equipment in the "300 mm" segment based on a representative sample by comparing invoices with other documents such as acceptance protocols and incoming goods documents. In addition, we carried out a visual inspection of selected items of property, plant and equipment based on a risk-oriented sample.

With the involvement of our valuation specialists, we verified the computational accuracy of the Company's valuation model and assessed the appropriateness of the valuation method and the significant assumptions incorporated into the model. In addition, we also discussed the expected cash inflows with those responsible for planning. Reconciliations were made with other internal forecasts, e.g. for tax purposes, and with mediumterm budgets prepared by the Executive Board and approved by the Supervisory Board, to ensure consistency. The appropriateness of the assumptions was assessed considering external market assessments of the future development of the semiconductor industry.

We also confirmed the accuracy of the Company's forecasts to date by comparing the budgets of previous financial years with actual profits generated at a later point in time and analysing deviations.

We compared the assumptions and parameters underlying the discount rate – in particular the risk-free interest rate, the market risk premium, the specific risk premium and the beta coefficient – with our own assumptions and publicly available data.

In order to take account of forecast uncertainty, we also investigated the impact of potential changes to the discount rate and expected EBITDA on the recoverable amount by recalculating alternative scenarios of the client and comparing these with the Company's measurement figures (sensitivity analysis).

Our observations
The approach for recording the additions to property, plant and equipment in the "300 mm" segment is appropriate.

The approach to the impairment testing of the "300 mm" CGU, including the goodwill assigned to it, is consistent with the valuation policies. The assumptions and parameters used by the Company are appropriate.

Other information
The Executive Board and/or the Supervisory Board are/is responsible for the other information. The other information comprises:

- the non-financial statement and the corporate governance statement, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and the audited information in the 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 information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Board and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The Executive Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Executive Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Executive Board is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with Ger-man 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.
- 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 7 May 2019. We were engaged by the Supervisory Board on 12 December 2019. 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 to group entities the following services that are not disclosed in the consolidated financial statements or in the group 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 report.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Volker Specht.

Munich, March 4, 2020
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 4, 2020
The Executive Board of Siltronic AG

Dr. Christoph von Plotho (CEO)	Rainer Irle (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, 2019)
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	Exempted works council of Siltronic AG, Burghausen site	
Mandy Breyer[1)]	Deputy Chairwoman of the works council of Siltronic AG, Freiberg site	
Prof. Dr. Gabi Dreo Rodosek	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	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 and Distribution, Wacker Chemie AG, Munich	Chairperson 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	
Dr. Hermann Gerlinger	Managing Partner of the GeC GmbH (one-person company)	Member of the Board of Directors – VAT Group AG, Switzerland
Michael Hankel	Member of the Executive Board of ZF Friedrichshafen AG	Member of the Supervisory Board – ZF Gusstechnologie GmbH, Nuremberg (ZF Friedrichshafen-Group mandate)
Bernd Jonas	Independent lawyer	
Gertraud Lauber[1)]	Trade Union Secretary IG BCE, Economic and Energy Policy Division	Member of the Supervisory Board – Rütgers Germany GmbH, Castrop-Rauxel
Jörg Kammermann[1)] (since May 23, 2019)	District Chairman of the IG BCE, Altötting	Member of the Board of Directors – Wacker Chemie AG, Munich
Harald Sikorski[1)2)] (until May 7, 2019)	Head of the regional district Westphalia of IG BCE	Member of the Supervisory Board – Vivawest GmbH – Vivawest Wohnen GmbH – RAG AG – RAG Deutsche Steinkohle AG Deputy Chairman of the Supervisory Board – RAG Anthrazit Ibbenbüren GmbH

1) Employee representative
2) Mandates as of the day of withdrawal May 7, 2019

Supervisory Board committees

Conciliation Committee
Dr. Tobias Ohler (Chairman)
Gebhard Fraunhofer [1)]
Johann Hautz [1)]
Sieglinde Feist

Audit Committee
Bernd Jonas (Chairman)
Gebhard Fraunhofer [1)]
Dr. Tobias Ohler

Executive Committee
Dr. Tobias Ohler
(Chairman; from January 1, 2020
ordinary member)
Dr. Hermann Gerlinger
(from January 1, 2020 Chairman)
Johann Hautz [1)]
Michael Hankel (from January 1, 2020)

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
Procurement
IT
Personal
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 2019	Q3 2019	Q2 2019	Q1 2019
Statement of profit or loss					
Sales	In EUR million	304.3	299.8	311.8	354.4
EBITDA	In EUR million	90.0	91.5	100.0	127.2
EBITDA margin	In %	29.6	30.5	32.1	35.9
EBIT	In EUR million	56.7	63.6	74.6	103.4
EBIT margin	In %	18.6	21.2	23.9	29.2
Net profit	In EUR million	45.4	59.5	68.5	87.6
Earnings per share	In EUR	1.21	1.65	1.98	2.68
Capital expenditure and net cash flow					
Capital expenditure on property, plant and equipment, and intangible assets	In EUR million	96.4	88.6	105.1	72.8
Net cash flow	In EUR million	8.9	−8.8	0.4	80.8

Statement of financial position					
Total assets	In EUR million	1,945.0	1,909.0	1,852.4	2,002.6
Equity	In EUR million	930.2	809.0	803.7	968.3
Equity ratio	In %	47.8	42.4	43.4	48.4
Net financial assets	In EUR million	588.9	578.8	592.1	761.8

Multi-year overview

		2019	2018	2017	2016
Statement of profit or loss					
Sales	In EUR million	1,270.4	1,456.7	1,177.3	933.4
Gross profit	In EUR million	457.6	631.9	370.3	171.9
Gross margin	In %	36.0	43.4	31.5	18.4
EBIT	In EUR million	298.3	497.7	235.7	27.0
EBIT margin	In %	23.5	34.2	20.0	2.9
EBITDA	In EUR million	408.7	589.3	353.1	146.0
EBITDA margin	In %	32.2	40.5	30.0	15.6
Financial result	In EUR million	4.4	−9.3	−8.5	−11.1
Income taxes	In EUR million	−41.7	−87.8	−35.0	−7.2
Net profit/loss for the period	In EUR million	261.0	400.6	192.2	8.7
Earnings per share	In EUR	7.52	12.44	6.18	0.40
Capital expenditure and net cash flow					
Capital expenditure on property, plant and equipment, and intangible assets	In EUR million	363.0	256.9	123.2	88.8
Net cash flow	In EUR million	81.3	240.4	124.8	39.6
Statement of financial position					
Total assets	In EUR million	1,945.0	1,818.2	1,252.4	1,056.8
Equity	In EUR million	930.2	915.7	637.9	425.3
Equity ratio	In %	47.8	50.4	50.9	40.2
Net financial assets	In EUR million	588.9	691.3	342.1	175.0
Employees		**3,669**	**3,914**	**3,730**	**3,757**

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.

HAP
Hazardous air pollutants

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.

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

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 9, 2020	Annual Report 2019
April 23, 2020	Annual General Meeting, Munich
April 28, 2020	Interim Reporting Q1 2020
July 30, 2020	Interim Report Q2 2020
October 29, 2020	Interim Reporting Q3 2020

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Imprint

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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 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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