Notes of the WACKER Group

Accounting Principles and Methods

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

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

www.wacker.com/annual-report

Wacker Chemie AG and its subsidiaries are included in the consolidated financial statements of Dr. Alexander Wacker Familiengesellschaft mbH, Munich. The consolidated financial statements of Dr. Alexander Wacker Familiengesellschaft, Munich are disclosed to the publisher of the online German Federal Bulletin.

The Executive Board and Supervisory Board of Wacker Chemie AG submitted the declaration concerning the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) and made it accessible to the shareholders on WACKER's website.

www.wacker.com/corporate-governance

The Executive Board and Supervisory Board of Siltronic AG submitted the declaration concerning the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) and made it accessible to the shareholders on Siltronic's website.

www.siltronic.com/int/en/investor_relations/corporate_governance/corporate_governance_1.jsp

Wacker Chemie AG's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and the supplementary rules in Section 315 a (1) of the German Commercial Code (HGB). The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are applicable to the current fiscal year have also been applied.

The fiscal year corresponds to the calendar year. Assets and liabilities are reported in the statement of financial position in line with their maturities. The Group classifies assets and liabilities as current if it expects to realize or settle them within 12 months of the reporting date. The statement of income is prepared using the cost-of-sales method. To improve the clarity of presentation, various items in the statement of income and the statement of financial position have been combined. These items are shown and explained separately in the Notes.

The Group's functional currency is the euro. All amounts are shown in millions of euros (€ million) unless otherwise stated. There may be slight deviations in the additions as all amounts have been rounded up to the nearest whole number after the decimal point.

Material events occurring after the balance sheet date are described in detail in the Supplementary Report. The Executive Board of Wacker Chemie AG authorized the consolidated financial statements on February 27, 2017. They will be submitted to and approved by the Supervisory Board at its meeting on March 7, 2017.

New Accounting Standards

The new or revised accounting standards applied for the first time in these consolidated financial statements concern:

- Annual improvements to IFRSs (2010–2012 cycle and 2012–2014 cycle)
- Amendments to IAS 1 (Disclosure Initiative)
- Amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations)

These did not, however, have a substantial impact on WACKER's earnings, net assets or financial position, nor any substantial impact on the presentation of its financial statements. Other standards and interpretations to be applied for the first time are not applicable due to the absence of relevant circumstances.

Accounting Standards/Interpretations Not Applied Prematurely

The International Accounting Standards Board (IASB) has published the following standards, interpretations, and changes to existing standards the application of which is not yet mandatory and which WACKER is not applying earlier than required. Only those standards that are relevant to WACKER are mentioned. WACKER continually evaluates every new standard to determine its impact on the consolidated financial statements.

Accounting Standards Published by the IASB, But Not Yet Applied

Standard / Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 14	Regulatory Deferral Accounts	Jan. 30, 2014	Jan. 1, 2016	Not to be adopted into EU law	None
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	Jan. 19, 2016	Jan. 1, 2017	Expected in Q2 2017	The amendments provide clarification concerning the recognition of deferred tax assets for measurement differences in relation to debt instruments classified as available for sale. Further, the amendments illustrate how to estimate future taxable profit, which serves as evidence of the value of deferred tax assets for loss carryforwards. This change does not have any impact on WACKER's earnings, net assets or financial position.
Amendments to IAS 7	Statement of Cash Flows – Disclosure Initiative	Jan. 29, 2016	Jan. 1, 2017	Expected in Q2 2017	The Notes should include a reconciliation – between the opening and closing balances for liabilities arising from financing activities – that discloses cash and non-cash changes. The disclosures in the Notes will be expanded to include this reconciliation.
IFRS 9	Financial Instruments	July 24, 2014	Jan. 1, 2018	Nov. 22, 2016	The revised version of IFRS 9 introduces a single approach to the classification and measurement of financial assets. This approach is driven by cash flow characteristics and the business model in line with which the assets are managed. Further, the standard provides a new impairment model that is based on expected credit losses. IFRS 9 also introduces new rules for hedge accounting with enhanced focus on an entity's risk management activities, especially with regard to managing non-financial risks. WACKER is currently examining the impact of applying IFRS 9 to its consolidated financial statements. We expect any impact on earnings, net assets and financial position to be insignificant in scope. Our disclosure obligations will increase.
IFRS 15	Revenue from Contracts with Customers	May 28, 2014	Jan. 1, 2018	Sept. 22, 2016	IFRS 15 sets out that an entity shall recognize revenue whenever the customer obtains control of, and can draw an economic benefit from, the promised goods and services. The transfer of significant risks and rewards of ownership is no longer of primary importance, as was still the case under the old IAS 18 "Revenue" rules. Revenue must be recognized in an amount that reflects the consideration to which an entity expects to be entitled. The new model provides a five-step framework for recognizing revenue, which first identifies the contract with a customer and the performance obligations it entails, and then determines and allocates the transaction price. The revenue must be recognized for each individual performance obligation when the customer obtains control of the good or service. WACKER is currently looking into the impact of the new standard. Its effects cannot be determined at present. The new standard will result in broader disclosure details in WACKER's financial statements.
Amendments to IFRS 15	Clarification of IFRS 15	April 12, 2016	Jan. 1, 2018	Q2 2017	None
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	June 20, 2016	Jan. 1, 2018	2nd half of 2017	None
Amendment to IFRS 4	Application of IFRS 9 in conjunction with IFRS 4	Sept. 12, 2016	Jan. 1, 2018	2017	None

Standard/ Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 16 – Leases	Lease accounting	Jan. 13, 2016	Jan. 1, 2019	2nd half of 2017	The new standard requires all lease arrangements held by the lessee to be recognized as finance transactions. A lease arrangement gives the lessee control over the use of an asset for a period of time in exchange for a consideration. Under the new definition, a leasing arrangement embedded in a supply contract for goods (IFRIC 4) should no longer be treated as a finance lease. In the future, a right-of-use is to be capitalized and the corresponding obligation posted as a liability. Straight-line depreciation of the right-of-use asset and application of the effective interest method to the liability result in depreciation and interest expense. In the Notes, WACKER currently reports operating lease obligations totaling €185 million. As yet, we have not evaluated the impact of the new standard. Under the new standard, disclosures will be more extensive in the Notes to WACKER's financial statements.
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	Sept. 11, 2014	Postponed	Post-poned – awaiting IASB exposure draft	None
Amendments to IAS 40	Transfers of Investment Property	Dec. 8, 2016	Jan. 1, 2018	2nd half of 2017	None
Annual improve-ments	Annual improve-ments to IFRS Standards (2014–2016)	Dec. 8, 2016	Jan. 1, 2017/ Jan. 1, 2018	2nd half of 2017	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Dec. 8, 2016	Jan. 1, 2018	2nd half of 2017	The interpretation determines the exchange rate to be used on initial recognition of a foreign currency transaction in an entity's functional currency when the entity pays or receives consideration in advance for the related asset, expense or income (or parts thereof). WACKER makes investment-related advance payments to a minor extent only. The advance payments received for polysilicon deliveries were all denominated in euros. Other advance payments are made on only a minor scale. As yet, we have not evaluated the clarification's impact. We expect only a marginal change in earnings, net assets and financial position.

Scope of Consolidation

The consolidated financial statements include the financial statements of Wacker Chemie AG and all companies over which Wacker Chemie AG has direct or indirect control as defined in IFRS 10, or can exercise common control as defined in IFRS 11. Depending on their structure, companies over which Wacker Chemie AG can exercise common control are included in the consolidated financial statements either proportionately (line-by-line) or accounted for using the equity method. In the absence of other limiting contractual agreements, holding a majority of the voting rights usually leads to control. Common control generally exists when voting rights are equally balanced, except if other (contractual) rights result in control by one shareholder. Currently, no companies are included in the consolidated financial statements on a proportionate basis.

Associated companies in which Wacker Chemie AG can exercise significant influence as defined in IAS 28 are likewise accounted for using the equity method. Significant influence is presumed if Wacker Chemie AG directly or indirectly holds 20 percent of the voting rights in the investment, unless it can be clearly demonstrated that this is not the case.

Structured entities are also consolidated in the manner described in IFRS 10 if the economic substance of the relationship indicates the existence of control. WACKER includes one structured entity in its consolidated financial statements. This is a special trust to which Wacker Chemie AG has contributed funds. This trust fund was established exclusively for WACKER, and all shares in the fund are held by WACKER. Contractual provisions of this fund qualify it as a structured entity as defined in IFRS 10.

Companies in which Wacker Chemie AG has a shareholding of less than 20 percent or does not exercise significant influence are shown as other investments under noncurrent financial assets.

As it had no substantial impact on the Group's earnings, net assets or financial position, the W.E.L.T. Reisebüro GmbH subsidiary was not consolidated. In 2015, both its sales and its total assets were below €0.5 million.

A detailed list of the companies included in the consolidated financial statements and of Wacker Chemie AG's entire shareholdings is shown in the Breakdown of Shareholdings in accordance with Sections 285 and 313 of the German Commercial Code.

➪ See Note 21 to the Consolidated Financial Statements

Composition of the Group

Number	2016	2015
Fully consolidated subsidiaries (incl. parent company)	**57**	**53**
Germany	17	14
International	40	39
Companies consolidated using the equity method	**2**	**3**
Germany	–	–
International	2	3
Non-consolidated affiliated companies	**1**	**1**
Germany	1	1
International	–	–
Total	**60**	**57**
Germany	18	15
International	42	42
Structured entities	**1**	**1**
Germany	1	1
International	–	–

A total of 60 companies were included in the consolidated financial statements as of December 31, 2016 (Dec. 31, 2015: 57 companies). Compared with December 31, 2015, the scope of consolidation changed as follows:

Change in the Scope of Consolidation

%	
Disposals / mergers of fully consolidated subsidiaries	
Siltronic Asia Pte. Ltd., Singapore (merged into Siltronic Singapore Pte. Ltd., Singapore, as of Jan. 1, 2016)	100
Wacker Chemicals Trading (Shanghai) Co. Ltd., China (liquidation as of May 31, 2016)	100
Additions of fully consolidated subsidiaries	
Wacker-Chemie Zehnte Venture GmbH, Germany (Feb. 1, 2016)	100
Wacker-Chemie Elfte Venture GmbH, Germany (Feb. 1, 2016)	100
Wacker-Chemie Zwölfte Venture GmbH, Germany (Feb. 1, 2016)	100
PT. Wacker Chemicals Indonesia, Indonesia (Oct. 1, 2016)	100
Wacker Biosolutions León, S.L.U., León, Spain (Dec. 15, 2016)	100
Reclassification of companies consolidated using the equity method as fully consolidated companies	
Wacker Asahikasei Silicone Co. Ltd., Japan (Oct. 1, 2016)	50

WACKER Biosolutions León S.L.U., León, Spain acquired large-scale fermentation lines from Antibioticos de León by means of an asset deal in December 2016. The purchase price for the facilities amounted to a low double-digit million euro figure, which was capitalized in property, plant and equipment.

On October 1, 2016, WACKER took control of Wacker Asahikasei Silicone Co. Ltd., Tokyo, Japan by contractually agreeing a purchase option to acquire an additional stake in the company. Due to the vested purchase option, exercisable at any time, WACKER has the right to increase its share from 50 percent to 51 percent. Previously accounted for using the equity method, WACKER now recognizes this joint venture as a subsidiary in accordance with IFRS 10. The effect of the change in the scope of consolidation on the Group's earnings, net assets and financial position is presented in the Acquisitions and Majority Takeovers in Fiscal 2016 section of the Notes.

➪ See p. 130 of the Notes

Legal, contractual or regulatory restrictions and protective rights concerning non-controlling interests can limit the Group in its ability to retain access to assets, transfer these to or from other companies unhindered within the Group, and to settle Group debts. The distribution of dividends can be limited by the prioritization of retirement of shareholder loans. At the reporting date, there were no significant restrictions due to protective rights to the benefit of non-controlling interests. For more information, please refer to the Notes (Equity/Non-Controlling Interests/Capital Structure Management).

See Note 10

In certain countries, regulatory requirements or local corporate-law stipulations can limit the Group's ability to transfer assets to or from other companies within the Group. Cash and cash equivalents are subject to local foreign-exchange restrictions in some Asian and South American countries. Capital may be exported from such countries only with prior approval from government authorities and by means of capital measures (dividends, capital reductions). There are no other significant limitations on assets utility within the Group.

Consolidation Methods

The consolidated financial statements are based on the separate financial statements of Wacker Chemie AG and its consolidated subsidiaries, joint arrangements and structured entities. The balance sheet date for all of these companies is December 31.

All key reporting data of these companies was audited by independent auditors prior to inclusion in the consolidated financial statements.

Business combinations are recognized by applying the purchase method as defined in IFRS 3. The acquisition cost is shown as the sum of fair values at the date of purchase of the assets transferred, of the liabilities incurred or assumed, and of any equity instruments issued in exchange for control of the acquiree. In addition, it contains the fair values of assets and liabilities arising from contingent consideration arrangements. Assets, liabilities and contingent liabilities identified as part of the acquisition during initial consolidation are measured at fair value as of the acquisition date.

For each acquisition, the individual option exists of measuring any shares not acquired either at fair value or at the proportionate share of the fair value of the acquiree's net assets. These non-controlling interests are recognized in the statement of financial position under the line item of the same name.

Costs associated with the business combination are recognized as expenses, insofar as these do not concern costs of issuing debt instruments or equity securities.

Goodwill is the acquisition-date value resulting from the surplus of acquisition costs, from any existing non-controlling interests and from the fair value of any previously held equity interests in excess of the acquiree's net assets measured at fair value. Negative differences are recognized in profit or loss immediately after undertaking an additional review of the purchase price allocation.

Investments accounted for using the equity method are initially measured at cost when the acquisition is made. If the cost exceeds the pro rata share of equity, the difference (goodwill) is included in the carrying amount of the investment. The carrying amount has to be tested for possible impairment losses as of the balance sheet date. If the cost is lower than the share of equity at the time of acquisition, this difference is included in the carrying amount and recorded in the statement of income as income from investments in joint ventures and associates. The carrying amounts for these companies are increased or decreased annually to reflect their pro rata earnings, dividend payouts or other changes in equity. If there is any indication that the value of the investment has been permanently reduced, an impairment is recognized in profit or loss. Long-term interests that, in substance, form part of the investor's net investment in the entity are included in the statement of changes in equity.

Interim results, sales, expenses, income, receivables and liabilities between the consolidated companies, as well as pro rata profits and losses resulting from transactions with associated companies, are eliminated. For those consolidation entries affecting income, the income tax effect is taken into account and deferred taxes are included.

Estimates and Assumptions Used in Acquisitions and Consolidation

The determination of the fair values of the acquired assets and liabilities requires certain estimates and assumptions, especially concerning the acquired intangible assets and property, plant and equipment, as well as the liabilities assumed and the useful lives of the acquired intangible assets, property, plant and equipment.

Measurement is based to a large extent on anticipated cash flows. If actual cash flows vary from those used in calculating fair values, this may affect future net income.

For significant business combinations, the purchase price allocation is carried out with assistance from independent third-party valuation specialists. The valuations are based on information available at the acquisition date.

Various judgments can be made whenever it is necessary to evaluate whether control, common control or significant influence exists for entities in which WACKER holds less than 100 percent of the voting rights. Primarily in cases where WACKER holds 50 percent of the voting rights, it must be assessed whether there are additional contractual rights or, in particular, factual circumstances that could result in WACKER having the right to make decisions regarding the potential subsidiary, or whether common control exists.

Changes to the contractual agreements or factual circumstances are monitored and assessed in terms of their possible impact on the evaluation of whether control or common control exists.

Acquisitions and Majority Takeovers in Fiscal 2016

On October 1, 2016, WACKER and Asahikasei Corporation signed an agreement for the purchase of a call option for an additional 1 percent of the shares in the subsidiary Wacker Asahikasei Silicone Co. Ltd., Japan (AWS) at a value of one Japanese yen. Up until that point in time, both shareholders had held 50 percent in the company and operated it as a joint venture. Due to this call-option agreement and the resulting potential voting rights, WACKER is deemed under IFRS 10 to have assumed control over this company, which had previously been accounted for using the equity method. The company was fully included in WACKER's consolidated financial statements as of October 1, 2016. AWS produces various silicone products for Asian markets, in particular for Japan. The call option secures WACKER the possibility of acquiring control of the company in order to exert greater influence on its future growth.

The carrying amount of the stake previously accounted for using the equity method totaled €6.6 million as of October 1, 2016. A business valuation carried out by an external expert using an actuarial model resulted in a positive value adjustment of this stake in the amount of €9.9 million. The valuation was based on the company's cash flow planning. Remeasurement as part of the deemed disposal of the previously held equity interests and currency-translation effects previously recognized within other comprehensive income resulted in other operating income of €10.0 million.

The purchase price allocation was concluded on December 31, 2016. At the acquisition date, the fair value of the acquired assets totaled €48.7 million, with €23.2 million in noncurrent assets and €25.5 million in current assets. The fair value of the acquired liabilities amounted to €22.2 million, with €11.1 million in noncurrent liabilities and €11.1 million in current liabilities. The transaction resulted in a small amount of goodwill of €3.2 million.

Full consolidation had no substantial impact on the Group's sales and earnings. In Q4 2016, AWS posted sales of €12.9 million, EBITDA of €0.9 million and net income for the year of €0.7 million. The acquired receivables had a fair value of €7.8 million and solely comprised trade receivables. The fair value corresponded to the gross value of the receivables. Asahikasei's non-controlling interest amounted to €13.2 million as of October 1, 2016.

Foreign Currency Translation

In the Group companies' separate financial statements, all of the receivables and liabilities in foreign currencies are translated at the rate prevailing on the balance sheet date, regardless of whether or not they have been hedged. Forward contracts that, from an economic point of view, are used for hedging are reported at fair value. The resulting translation differences are recognized in profit or loss or, if cash flow hedges are in place, recognized directly in equity under other equity items.

The financial statements of consolidated companies that are prepared in foreign currencies are translated on the basis of the functional currency principle using the modified reporting date rate method, in which balances are translated from the functional currency to the reporting currency using the average rates of exchange prevailing on the balance sheet date, while income statement amounts are translated using the average exchange rates of the period. As the Group's subsidiaries conduct their business from an autonomous financial, economic and organiza-

tional point of view, their functional currencies are basically identical to the respective local currency. Any net gains or losses arising from the translation of equity are recognized directly in equity under other equity items. Translation differences resulting from divergent exchange rates in the statement of income are likewise included there. If Group companies are removed from the scope of consolidation, any translation difference is reclassified from equity to profit or loss.

The exchange rates between the most important currencies reported in these financial statements and the euro were as follows:

	ISO code	Exchange rate as of		Average exchange rate	
		Dec. 31, 2016	Dec. 31, 2015	2016	2015
US dollar	USD	**1.05**	1.09	**1.11**	1.11
Japanese yen	JPY	**123.15**	131.41	**120.08**	134.27
Singapore dollar	SGD	**1.52**	1.54	**1.53**	1.52
Chinese renminbi	CNY	**7.31**	7.09	**7.35**	6.97

Estimates and Assumptions Used in Preparing Consolidated Financial Statements

The preparation of the consolidated financial statements in compliance with IFRS necessitates assumptions and estimates affecting the amounts and the reporting of the recognized assets and debts, income and expenses, and contingent liabilities. These assumptions and estimates comply with the conditions and appraisals prevailing on the balance sheet date. In this regard, they also impact the amount of income and expenses reported on for the fiscal years in question. The assumptions on which the estimates are based relate primarily to the uniform determination of useful lives throughout the Group, the ascertainment of fair values of financial instruments, the recognition and measurement of provisions, the realizability of future tax benefits, and determination of discounted cash flows made in connection with impairment tests and purchase price allocations.

In individual cases, the actual values may differ from the assumptions and estimates that were made. Changes in value are recognized as soon as they become apparent and affect the net results for the period when the change occurred and, if applicable, in future reporting periods.

Intangible Assets and Property, Plant and Equipment / Investments in Associates Accounted for Using the Equity Method

The expected useful life of intangible assets and of property, plant and equipment, together with their amortization / depreciation schedules, are based on past experience, plans and estimates. This includes estimates of the period and allocation of future cash inflows derived from the investments made, as well as future technical advancements and ongoing replacement and development cycles.

Impairment tests are performed for assets if specific indicators point toward a possible impairment loss or reversal of an impairment loss. In the case of a possible impairment, an estimate must be made of the recoverable amount of the affected asset that corresponds to the higher of either the fair value less costs to sell or the value in use. When determining the recoverable amount during the impairment test, it is necessary to make estimates based on share prices, on prices of comparable transactions, or on the net present value method or other valuation methods or combinations thereof. That, in turn, calls for estimates and assessments by management. To ascertain the value in use, the discounted future cash flows of the affected asset must be determined. The estimate of the discounted future cash flows contains significant assumptions such as, in particular, those regarding future selling prices and sales volumes, costs, and discount rates. Although WACKER is assuming that the estimates of the relevant expected useful lives and of discounted future cash flows, as well as the assumptions regarding the general economic conditions and the development of the economic sectors are reasonable, a change in the assumptions or circumstances might necessitate a change in the analysis. This could result in significant deviations from the figures posted, which may lead to additional impairments or reversals of impairment losses.

▷ See Note 04

Financial Instruments

Financial instruments are recognized at fair value, while other assets and liabilities are disclosed at fair value in the notes to the financial statements. Calculation of the fair value of financial instruments may require making extensive estimates. The level of estimates is determined by the extent to which non-observable input parameters are taken into account. When calculating fair value, WACKER strives to include as many observable input parameters as possible and to keep the use of non-observable factors to a minimum. If the fair value cannot be reliably determined, the carrying amount is taken as an approximate value to determine fair value.

In accordance with IFRS 13, financial instruments that are measured or recognized at fair value in the consolidated financial statements must be measured and classified according to the fair value hierarchy. This hierarchy consists of three levels, to which the input parameters are assigned in accordance with the extent to which they are observable during the corresponding measurement process.

➪ See Note 18

Provisions

Significant risks inherent in environmental protection provisions and in provisions for damages and onerous contracts are possible changes in future cost/benefit estimates, changes in the likelihood of their utilization, and enhanced statutory rules concerning the elimination and prevention of environmental damage. Changes in the discount rate also lead to changes when determining noncurrent provisions. The current environment of low interest rates leads to increases in the carrying amount of noncurrent provisions.

➪ See Note 12

Pensions and similar obligations are accounted for in accordance with actuarial valuations, which are based on statistical and other factors in order to anticipate future events. The factors include the discount rate, expected salary and pension increases, the mortality rate and rate increases for preventive healthcare. If market and economic conditions change, these assumptions could vary considerably from actual developments, consequently leading to major changes in pension and similar obligations, as well as the associated future expenses. In particular, the current environment of low interest rates had an impact on the carrying amount of pension provisions.

➪ See Note 11

The pension-obligation amount is determined by discounting the WACKER-specific, expected future cash flows. The discount rate is derived from the yield curve of high-grade, fixed-interest corporate bonds with maturities matching the pension obligations, as calculated at the balance sheet date. The bonds are all denominated in the same currency as their underlying pension obligations and have a rating of at least AA from one of the three major rating agencies. In Germany, the basis is a bond portfolio determined as of the closing date using Bloomberg and with a maturity that nearly matches the maturity of the pension obligation.

Provisions for uncertain tax positions are established whenever the probability of their occurrence exceeds 50 percent. WACKER reassesses contributions to provisions for uncertain tax positions annually, based on past experience.

Deferred Taxes

At the end of each reporting period, the Group assesses whether the probability of future tax benefits being realized is sufficient to recognize deferred tax assets. Among other things, this requires that management evaluate the tax benefits resulting from currently available tax strategies and future taxable income, as well as taking additional positive and negative factors into account. In the case of companies that have posted tax losses in the past, deferred tax assets are capitalized only in exceptional cases if substantial indications of their realization exist.

Accounting and Valuation Methods

The financial statements of Wacker Chemie AG and its German and international subsidiaries are prepared in accordance with uniform accounting and valuation principles.

The accounting methods correspond to those used for the last consolidated financial statements as of the end of the previous fiscal year. They have been supplemented by new accounting standards to be applied for the first time in the reporting year. The Group's consolidated financial statements are based on acquisition and production costs (historical costs), with the exception of the items reflected at fair value, such as available-for-sale financial assets, derivatives, and plan assets within the scope of pension obligations.

Sales

Sales encompass the fair value of the consideration or receivable for the goods and services that were sold within the scope of ordinary activities. These are reported net of VAT and other taxes incurred in connection with sales and without discounts and price reductions. Sales revenues are recognized when the goods and services owed have been delivered and the main opportunities and risks of ownership have passed to the purchaser. Usually, this takes place when the goods are transferred to the customer or as stipulated in the agreed transport conditions. Sales from services are recognized once services are rendered. Sales are not reported if there are risks attached to the receipt of the consideration. Provisions are recognized for risks from returns of finished goods and merchandise, warranties and other complaints using the principle of individual evaluation. Information on the development of sales by division and region is provided in the section on segment reporting. WACKER does not conduct any business that requires recognizing sales as long-term production contracts.

Functional Costs

Cost of goods sold shows the costs of the products, merchandise and services sold. In addition to directly attributable costs, such as material costs, personnel expenses and energy costs, it includes indirect costs including depreciation and inventory writedowns. This item also includes the cost of outward freight. Selling expenses include costs incurred by the sales organization and the cost of advertising, market research, and application support on customers' premises. This item also includes commission expenses. General administrative expenses include the pro rata payroll and material costs of corporate control functions, human resources, accounting and information technology, unless they have been charged as an internal service to other cost centers and thus, in certain circumstances, to other functional areas.

Research and Development Expenses

Research and development expenses include costs incurred in the development of products and processes. Research costs in the narrow sense are recognized as expenses when they are incurred, and are not capitalized. Development costs are capitalized only if all the prescribed recognition criteria have been met, the research phase can be separated clearly from the development phase, and the costs incurred can be allocated to the individual project phases without any overlaps. Additionally, there must be sufficient certainty that future cash inflows will take place.

Income Taxes

This item includes current income taxes as well as deferred taxes. Current income taxes are calculated based on the respective national tax results and regulations applicable in the reporting year. These taxes also contain adjustment amounts for any incurred tax payments or tax refunds from outstanding tax returns and from tax audits from prior years. Discretion must be exercised when determining income tax provisions. WACKER determines appropriate provisions for expected risks from tax audits (uncertain tax positions).

Deferred tax assets and liabilities are recognized for temporary differences between tax bases and carrying amounts, and for consolidation measures recognized in the statement of income. The deferred tax assets include tax relief entitlements resulting from the anticipated use of existing loss carryforwards in future years, the realization of which is assured with sufficient probability. Deferred taxes are determined on the basis of the tax rates which, under current law, are applicable or anticipated in the individual countries when they are realized. The deferred tax assets and liabilities are netted out only to the extent possible under the same tax authority. Deferred tax assets and liabilities are recognized in the statement of income. In cases where profits or losses are recognized directly in equity, the deferred tax asset or liability is likewise posted under other equity items.

Intangible Assets

Pursuant to IAS 38, acquired and internally generated intangible assets are capitalized if it is probable that a future economic benefit can be associated with the use of the asset and the costs of the asset can be determined reliably. They are measured at cost and, if their useful lives can be determined, amortized on a straight-line basis. The useful life is taken to be between three and 15 years unless otherwise indicated, e.g. by the life of a patent. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. Amortization of intangible assets is allocated to the functional areas that use the assets. Intangible assets with indefinite useful lives undergo an annual impairment test. At present, no intangible assets with indefinite useful lives have been capitalized.

Goodwill is not amortized. Existing goodwill undergoes an annual impairment test. If the impairment test indicates a recoverable amount that is lower than the carrying amount, the goodwill is reduced to its recoverable amount and an impairment loss is recognized. Furthermore, the intrinsic value is examined when events or circumstances indicate possible impairment. Impairments of goodwill are presented under other operating expenses.

Property, Plant and Equipment

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over its expected economic life. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. In addition to the purchase price, acquisition costs include incidental acquisition costs as well as any costs incurred in the demolition, dismantling, and/or removal of the asset in question from its site and in the restoration of that site. Any reductions in the price of acquisition reduce the acquisition costs. The cost of internally generated assets includes all costs directly attributable to the production process as well as an appropriate portion of the production-related overheads. Financing costs that were incurred in connection with particular, qualifying assets and which can be attributed directly or indirectly to them are capitalized as part of acquisition or production costs until the assets are used for the first time.

Day-to-day maintenance and repair costs are expensed as incurred. Costs for replacing parts or carrying out major overhauls of property, plant and equipment are capitalized if future economic benefits are likely accrue to the Group and if the costs can be measured reliably.

Grants from third parties reduce acquisition and production costs. Unless otherwise indicated, these grants (investment subsidies) are provided by government bodies. Income grants for which there are no future expenses are recognized as income. Until the funds have been received, grants are recognized as separate assets.

If property, plant and equipment is permanently shut down, sold or given up, the acquisition or production costs are derecognized, along with the corresponding accumulated depreciation. Any resulting gain or loss from the difference between the sale proceeds and the residual carrying amount is recognized under other operating income or expenses.

Property, plant and equipment also includes assets relating to leasing transactions. Items of property, plant and equipment financed by means of finance leases are recognized at fair value at their time of addition, unless the present values of the minimum lease payments are lower. The assets are depreciated on a straight-line basis over the expected useful life or the contractual term, if shorter. The obligations resulting from future lease payments are recognized under financial liabilities. The lease installments to be paid are split up into a redemption component and an interest component, in accordance with the effective interest method.

Depreciation of property, plant and equipment is generally based on the following useful lives:

In years	Useful life
Production buildings	10 to 40
Other buildings and similar rights	10 to 30
Technical equipment and machinery	6 to 12
Motor vehicles	4 to 10
Factory and office equipment	3 to 12

The impairment is tested when relevant events or changes in circumstances indicate that it might no longer be possible to realize the net carrying amount of intangible assets, and property, plant and equipment. At the end of every reporting period, WACKER checks whether there are triggering events for recognizing (or reversing) impairments. An impairment loss is then recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of either the fair value less costs to sell or the value in use. The value in use results from the present value of the estimated future cash flows from the use of the asset. In order to assess this value, pre-tax interest rates are used that have been adjusted to reflect the segment-specific risk. In order to determine the cash flow, assets are combined at the lowest level for which cash inflows can be identified separately (cash-generating units). If the reasons for recognizing impairments no longer exist, impairment losses are reversed as required. The revised amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. Impairments are reported under other operating expenses and reversals of impairment losses under other operating income.

Investment Property
Like property, plant and equipment, investment property is measured in accordance with the cost model. It consists of land and buildings that are held to earn rental income or for capital appreciation. The fair value of this property is regularly measured through external property valuations.

Leases
Leasing transactions are classified either as finance leases or as operating leases. Assets used under an operating lease are not capitalized. Lease payments to be made are recognized in profit or loss in the period in which they fall due. A finance lease is a leasing arrangement in which essentially all of the risks and rewards inherent in the ownership of the property are transferred to the lessee. Assets used under a finance lease are recognized at the present value of the minimum lease payments. Leasing contracts can be embedded within other contracts. If there is a separation obligation for an embedded leasing arrangement in accordance with IFRS rules, the contractual components are separated, and recognized and measured according to the respective rules.

Investments, Associated Companies and Joint Ventures
Shares in non-consolidated affiliated companies and investments are measured at cost, unless divergent market values are available. Changes in market values are posted to the statement of income upon realization through disposal or if the market value falls below the acquisition cost. Loans are measured at amortized cost, except for non-interest-bearing and low-interest loans, which are recognized at their present value.

Investments in joint ventures and associates are accounted for using the equity method, with the carrying amount generally reflecting the Group's pro rata share of equity. Pro rata net results are posted to the consolidated income statement, and the carrying amount is increased or decreased accordingly. Any changes in equity recognized directly in the investee's equity are also recognized directly in equity in the consolidated financial statements. Dividends paid by joint ventures and associates reduce their equity and, therefore, reduce the carrying amount without affecting profit. If a joint venture or associate faces losses that have exhausted its equity, no further losses are taken into account unless there are noncurrent unsecured receivables against the company, or the Group has entered into additional obligations or made payments for the company. The carrying amount is not increased until the loss carryforward has been compensated for and the equity is positive again.

Additionally, an impairment test is carried out in the presence of corresponding indications and, where necessary, an impairment is recognized. The recoverable amount is determined in accordance with IAS 36 regulations. Impairment losses are reported in the result from investments in joint ventures and associates.

Financial Instruments
Financial assets and liabilities are recognized in the consolidated financial statements when WACKER becomes a contracting party to the financial instrument. They are derecognized when the contractual rights or liabilities are fulfilled or rescinded or when they expire.

In the case of regular way purchases or sales, however, the settlement date – i.e. the date on which the asset is delivered to or by WACKER – is relevant for initial recognition and derecognition. In general, financial assets and financial liabilities are not netted. A net amount is presented in the statement of financial position if, and only if, the entity currently has a right to net the recognized amounts and intends to settle on a net basis. Where financial instruments are combined, borrowed capital and equity components are separated and shown separately by the issuer.

Financial instruments are measured at fair value on initial recognition. The transaction costs directly attributable to the acquisition must be taken into account for all financial assets and liabilities not subsequently measured at fair value through profit or loss. The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets and liabilities. If these are not directly available, they must be calculated using standard valuation models on the basis of current market parameters.

Financial assets at WACKER comprise, in particular, cash and cash equivalents, trade receivables, loans granted and other receivables, held-to-maturity financial investments, and primary and derivative financial assets held for trading. Financial liabilities must generally be settled using cash or another financial asset. Financial liabilities include, in particular, the Group's own bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes (German Schuldscheine) and derivative financial liabilities.

WACKER makes no use of its option to measure financial assets and liabilities at fair value through profit or loss on initial recognition (fair value option).

The manner in which financial assets and liabilities are subsequently measured depends on how a financial instrument is classified into the following categories pursuant to IAS 39: financial instruments can be "held for trading" or "held to maturity" and assigned to the "available for sale" or "loans and receivables" category.

Financial instruments held for trading are measured at fair value through profit or loss. This category also includes all derivative financial instruments that do not qualify for hedge accounting.

If it is both intended and, in economic terms, to be expected with sufficient certainty that a financial instrument will be held to maturity, the instrument in question is measured at amortized cost using the effective interest method. Held-to-maturity financial investments include current and noncurrent securities, and components of items reported under other financial assets.

Loans and receivables are non-derivative financial assets that are not quoted in an active market. They are measured at amortized cost using the effective interest method. This category comprises trade receivables, the receivables and loans included in other financial assets, fixed-term deposits and cash and cash equivalents.

All other primary financial assets, if they are not loans and receivables, must be classified as available for sale and are reported at fair value if it can be determined reliably. Basically, these assets comprise equity instruments, and also debt instruments not being held to maturity. Unrealized gains and losses are recorded taking account of deferred taxes and are recognized in other equity items with no effect on income. If equity instruments have no price quoted on an active market and if their fair value cannot be determined reliably, they are measured at cost.

If the fair value of available-for-sale financial assets falls below the acquisition costs or there are objective signs that an asset's value has been impaired, the cumulative loss recognized directly in equity is reversed and shown in the statement of income. The company bases its assessment of possible impairments on all available information, such as market conditions and prices, investment-specific factors, and the duration and extent of the drop in value below acquisition costs. Impairments affecting a debt instrument are reversed in subsequent periods, provided that the reasons for the impairment no longer apply. When the financial instruments are disposed of, the cumulative gains and losses recognized in equity are included in the statement of income.

Primary financial liabilities are subsequently measured at amortized cost using the effective interest method.

Derivative Financial Instruments

Derivative financial instruments are used for hedging purposes with the sole aim of reducing the Group's exposure to foreign-currency exchange rates, interest rates, and commodity price risks arising from operating activities and the resultant financing requirements. Derivative financial instruments are recognized as of the trade date. They are always recognized at fair value, irrespective of the purpose or intention for which they were concluded. Positive fair values are recognized as receivables and negative fair values as liabilities. Differences resulting from fair value measurement are recognized in profit or loss.

Where derivative financial instruments are used to hedge risks stemming from future payment flows and items in the statement of financial position, WACKER applies hedge accounting in accordance with the requirements of IAS 39. Changes in the market values of financial instruments used to hedge risks stemming from payment flows (cash flow hedges) are recognized in other equity items, taking deferred taxes into account, until the hedged item has been realized. The profit contribution of the hedging transaction is recognized in the statement of income under other operating income and expenses when the hedged item is realized. If such a derivative is sold or the hedging relationship is discontinued, the change in its value continues to be reported under other equity items until the underlying transaction occurs. Ineffective parts of the hedging transaction are immediately recognized in profit or loss. Fair value hedges of recognized assets or liabilities and/or unrecognized fixed contractual obligations entail the recognition in profit or loss of market value changes for both the hedged item and the financial derivative (as the hedging instrument). At the moment, WACKER does not hedge any net investments in foreign operations.

Contracts concluded in order to receive or deliver non-financial goods for the Group's own use are not accounted for as derivatives, but treated as pending transactions.

Currency hedges, e.g. for planned sales, are recognized under other operating income and expenses, while interest rate hedges are recognized in net interest income. Foreign exchange derivatives concluded to hedge financial liabilities assumed in foreign currencies are posted under other financial result. Changes in the fair value of raw-material hedges are recognized under cost of goods sold.

Inventories

Inventories are measured at cost using the average cost method. Lower net realizable values or prices as of the reporting date are taken into account by writing down inventories to the fair value less costs to sell. The cost of goods sold includes directly attributable costs, appropriate portions of indirect material and labor costs, and straight-line depreciation. Due to the relatively short-term nature of the production processes, financing costs are not included. For production-related reasons specific to the chemical industry, unfinished and finished goods are reported together. Raw materials and supplies also include spare parts for the day-to-day maintenance of production facilities. The latter are likewise measured according to their periods of storage and potential usability.

Emissions certificates allotted free of charge are measured at a nominal value of zero. Emissions allowances acquired against payment are carried at cost. If the fair value is lower as of the reporting date, the carrying amount is reduced accordingly. Utilization is determined via the running average value of certificates, whether they were allotted free of charge or acquired against payment, and recognized pro rata as expenses under cost of goods sold on the basis of the quarterly emissions.

Financial Assets and Income Tax Receivables

Trade receivables and other financial and non-financial assets, including income taxes paid (but excluding financial derivatives), are recognized at amortized cost. Risks are taken into account by means of appropriate valuation allowances in separate valuation-allowance accounts. Valuation allowances for uninsured receivables – or for the deductible in the case of insured receivables – are made whenever collection of such receivables is assessed to be no longer probable according to information available. If payment of a receivable is no longer expected under the factual and legal circumstances, the gross receivable is derecognized and any valuation allowances made are reversed. Expenses from valuation allowances and derecognition are reported under other operating expenses. Changes in income tax receivables are posted under income taxes in the statement of income. Non-current receivables that are non-interest-bearing or low-interest-bearing are discounted. WACKER is not a contractor for long-term production orders.

Cash and cash equivalents comprise cash in hand, demand deposits, and financial assets that can be converted into cash at any time and are subject to only slight fluctuations in value and have a residual term of up to three months. They are measured at amortized cost, which is equivalent to their nominal values.

Provisions for Pensions and Similar Obligations

Defined-benefit pension commitments are measured in accordance with the projected unit credit method. This method takes account not only of pensions and entitlements to future pensions known as of the balance sheet date, but also of estimated increases in salaries and pensions. Moreover, the measurement is based on actuarial valuations and takes account of biometric and financial calculation principles. The fair value of the plan assets is subtracted from the present value of the pension obligations (defined benefit obligation, DBO), resulting in either a net liability or net assets of the defined benefit plans. The prior year's underlying DBO assumptions are used to determine the current service cost. The net interest cost in the fiscal year is determined by applying the discount rate set at the beginning of the year to the net liability calculated at the same time. The net interest from the net pension liability is the difference between the calculated interest income from plan assets and the interest expense from the defined benefit obligation.

Remeasurements comprise actuarial gains and losses stemming from the difference between the estimate at the start of the period and actual developments during the period – or a newer estimate on the balance sheet date – in relation to probable mortality rates, retirement and salary trends and discount rates. They are recognized immediately in other comprehensive income. Similarly, differences between the interest income from plan assets calculated at the start of the period and the actual income from plan assets determined at the end of the period are recognized in other comprehensive income.

If the present value of a defined benefit obligation changes due to a plan modification or curtailment, WACKER recognizes the resultant effect as past service cost. This is immediately recognized through profit or loss when it occurs. The profits and losses resulting from settlement are also recognized immediately in the statement of income when settlement takes place. Administrative expenses that are not related to the management of plan assets are also recognized through profit or loss when incurred.

The expense from current and past service cost is allocated to the costs of the functional areas concerned. The net interest is posted under other financial result.

Provisions for phased early retirement and anniversaries are measured and set aside in accordance with actuarial appraisals. Owing to their structure, provisions for phased early retirement also constitute other noncurrent employee benefits in accordance with IAS 19 since they are linked to the rendering of future service. WACKER uses only a block model when structuring phased-early-retirement agreements. The corresponding provisions are recognized pro rata over the service period of the claim during the work phase.

Provisions

Provisions are recognized in the statement of financial position for present legal or constructive obligations toward third parties if an outflow of resources to settle these obligations is probable and its amount can be estimated reliably. The amounts recognized are based on the estimated amounts that will be required to cover the Group's future payment obligations, identifiable risks and contingencies. Noncurrent provisions are measured at the discounted present value as of the reporting date. The discount rate applied is the market interest rate for risk-free investments with terms corresponding to the residual term of the obligation to be settled. Expected refunds, provided that they are sufficiently secure or legally enforceable, are not offset against provisions. Instead, they are capitalized as separate assets if their realization is virtually certain.

Provisions for restructuring costs are recognized if a detailed formal plan for restructuring has been drawn up and conveyed to the affected parties. Provisions for contingent losses arising from onerous contracts are recognized if the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the contractual obligations. Provisions for environmental protection are recognized if the future cash outflows for complying with environmental legislation or for cleanup measures are likely, the costs can be estimated with sufficient accuracy and no future acquired benefit can be expected from the measures.

If an amended estimate results in a reduction in the scope of the obligations, a proportion of the provision is reversed and the earnings are allocated to the functional area originally charged with the expense when the provision was set aside.

Financial Liabilities and Other Financial Liabilities

On initial recognition, primary financial liabilities are measured at fair value less any transaction costs incurred. They are subsequently measured at amortized cost using the effective interest method. Derivative financial instruments are recognized at fair value. Liabilities from finance lease agreements are shown as financial liabilities at the present value of the future lease installments.

Contingent Liabilities

Contingent liabilities are potential obligations toward third parties or existing obligations for which an outflow of resources is unlikely or the amount of the obligation cannot be estimated with sufficient certainty. Contingent liabilities are not recognized in the statement of financial position.

Changes in Accounting and Valuation Methods

There were no changes in accounting and valuation methods in 2016.

01 Sales/Cost of Goods Sold/Other Operating Income/Other Operating Expenses

€ million	2016	2015
Sales		
Proceeds from deliveries of products and merchandise	5,347.6	5,239.1
Proceeds from other services	56.6	57.1
Total	5,404.2	5,296.2
Cost of goods sold	–4,413.5	–4,167.1
Cost of goods sold includes the following reversals (+)/recognitions (–) of valuation allowances of inventories	–21.5	1.6
Other operating income		
Income from currency transactions	99.8	196.2
Income from reversal of provisions	9.0	3.5
Insurance compensation	6.0	2.7
Income from reversal of valuation allowances for receivables	1.1	1.7
Income from disposal of property, plant and equipment and financial assets	6.6	3.3
Income from the appreciation of noncurrent assets	–	0.5
Income from incentives/grants	1.8	2.6
Income from changes in the scope of consolidation	10.0	–
Income from the termination of long-term supply contracts and damages received	20.3	137.6
Other operating income	39.7	29.3
Total	194.3	377.4
Other operating expenses		
Losses from currency transactions	–117.3	–265.3
Losses from valuation allowances for receivables	–0.3	–0.5
Losses from disposal of assets	–2.6	–3.1
Losses from impairment of fixed assets	–3.4	–0.1
Other operating expenses	–44.0	–143.7
Total	–167.6	–412.7

The increase in valuation allowances of inventories results from writing down the high production costs incurred during the start-up phase of the polysilicon facilities in Charleston, Tennessee.

Income from the termination of long-term supply contracts and from the retention of advance payments relates in both 2016 and 2015 to advance payments retained and damages received from terminated or restructured contracts with polysilicon customers.

Other operating expenses of the prior year mainly comprise uncapitalized costs relating to the construction of polysilicon facilities in Charleston.

02 Income from Investments in Joint Ventures and Associates/Other Investment Income/Net Interest Income/Other Financial Results

€ million	2016	2015
Result from investments in joint ventures and associates	0.2	3.3
Of which share of income from joint ventures	3.2	4.2
Of which share of income from associated companies	–3.0	–0.9
Other investment result		
Other investment expenses/investment income	0.9	–0.2
Total	0.9	–0.2
Net interest result		
Interest income	6.0	7.3
Of which from available-for-sale financial instruments	0.4	0.4
Of which from financial instruments, loans and receivables	5.6	6.7
Interest expenses	–42.4	–31.8
Of which from financial liabilities (excluding finance leases)	–39.0	–29.8
Total	–36.4	–24.5
Other financial result		
Interest effect of interest-bearing provisions/liabilities	–50.0	–47.9
Other financial expenses/income	–15.0	5.7
Total	–65.0	–42.2

The income from investments in joint ventures and associates relates mainly to companies in China. This income includes not only the attributable net results for the year, but also the effects of the elimination of attributable intergroup profits and losses, and of other Group adjustments.

Borrowing costs of €1.2 million were capitalized in the reporting period, after €18.6 million a year earlier, resulting in a corresponding improvement in the net interest result. The average borrowing interest rate applied by the Group in the reporting year was 2.6 percent, compared with 3.0 percent the year before.

The interest effect of interest-bearing provisions includes net interest expenses from the accumulation of interest on pension obligations and calculated returns from plan assets totaling €44.0 million, versus €41.5 million in the prior year, and interest expenses and interest income from the accumulation and discounting of provisions of €6.0 million, versus €6.5 million in the previous year.

Other financial income and expenses primarily result from exchange-rate and interest-rate effects in connection with financial transactions and their hedging.

03 Income Taxes

This item comprises income taxes paid or owed in the individual countries and deferred taxes. In Germany, alongside a corporate tax of 15.0 percent (15.0 percent a year earlier), there is a solidarity surcharge of 5.5 percent, after 5.5 percent a year earlier. Trade income tax of 12.2 percent (12.2 percent in the prior year) must also be paid. It varies depending on the municipality in which a company is located.

Deferred taxes of German companies are therefore measured based on a total tax rate (including solidarity surcharge) of 28.0 percent (28.0 percent a year earlier). The current taxes of foreign subsidiaries are determined according to domestic tax laws and rates valid in the country in which the respective company is based. As in the prior year, the respective income tax rates for foreign companies applicable in each country ranged from 10.0 percent to 39.0 percent.

Accrued income taxes on undistributed profits of subsidiaries were recognized only if distribution is planned. The amount of €425.0 million is available for distribution, compared with €323.5 million in the prior year.

Income taxes include current tax expenses from earlier years of €0.1 million, after €0.3 million in the prior year, and deferred tax income from earlier years of €17.1 million, after €0.0 million in the prior year.

€ million	2016	2015
Current taxes, Germany	–89.5	–181.2
Current taxes, international	–11.7	–21.0
Current taxes	**–101.2**	**–202.2**
Deferred taxes, Germany	24.4	29.9
Deferred taxes, international	1.3	7.4
Deferred taxes	**25.7**	**37.3**
Income taxes	**–75.5**	**–164.9**
Derivation of the effective tax rate		
Income before taxes	264.8	406.7
Income tax rate for Wacker Chemie AG (%)	28.0	28.0
Expected tax expenses	**–74.2**	**–113.9**
Tax rate divergences	1.9	10.6
Tax effect of non-tax-deductible expenses	–31.8	–18.1
Tax effect of tax-free income	5.8	5.2
Taxes relating to other periods (current earnings)	17.1	–0.3
Effects of loss carryforwards and temporary differences	6.4	–46.5
Group profit from investments in joint ventures and associates	–	0.8
Other differences	–0.7	–2.7
Total income tax	**–75.5**	**–164.9**
Effective tax rate (%)	**28.5**	**40.5**

Due to the utilization of previously unrecognized temporary differences and previously unrecognized tax losses from earlier periods, the actual income tax expense was reduced by €11.7 million, after €2.1 million in the prior year.

Allocation of Deferred Taxes

€ million	2016		2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	11.1	4.2	12.6	–
Property, plant and equipment	58.2	38.6	38.2	36.8
Financial investments	0.8	–	–	3.5
Financial and non-financial assets	16.3	4.0	14.7	0.5
Provisions for pensions	350.2	0.4	243.4	–
Other provisions	24.9	1.9	33.0	–
Financial and non-financial liabilities	25.9	–	12.3	–
Loss carryforwards	5.4	–	4.6	–
Setting off for companies with group taxation	–5.5	–5.5	–5.5	–5.5
Total	487.3	43.6	353.3	35.3
Setoffs	–37.4	–37.4	–31.9	–31.9
Amount recorded in Statement of Financial Position	449.9	6.2	321.4	3.4

The changes in deferred tax assets and liabilities of €25.7 million were recognized as income in profit or loss (versus €37.3 million a year earlier), while €104.1 million (€–49.9 million a year earlier) was recognized directly in equity. This mainly consists of deferred tax assets from variations in actuarial gains and losses resulting from pension provisions. Changes in the scope of consolidation resulted in deferred tax liabilities of €4.1 million that were recognized in equity. The existing tax loss carryforwards can be utilized as follows:

€ million	2016	2015
Within 1 year	87.2	78.0
Within 2 years	49.2	90.6
Within 3 years	16.8	50.8
Within 4 years	1.1	17.3
Within 5 years or later	172.0	142.2
Total	326.3	378.9
Of which loss carryforwards not expected to be realizable	–304.7	–360.4
Of which loss carryforwards expected to be realizable	21.6	18.5

The loss carryforwards generated totaled €326.3 million, after €378.9 million in the previous year. Of this amount, €304.7 million (€360.4 million in the prior year) are expected to be non-realizable, which is why no deferred tax assets were recognized. If they had been recognized, however, they would have amounted to €85.3 million (€100.9 million in the prior year). Of the loss carryforwards that are not realizable for tax purposes, the amount of €169.7 million (€139.3 million in the prior year) is unlimited as to time and amount. As of December 31, 2016, no deferred tax assets were recognized for tax-deductible temporary differences of €668.9 million (€712.1 million the year before). The change mainly concerns parts of the actuarial losses from the measurement of pension obligations recognized in other equity items in equity and temporary differences in property, plant and equipment.

04 Intangible Assets and Property, Plant and Equipment

€ million	Intangible assets	Land, buildings and similar rights	Technical equipment and machinery*	Other equipment, factory and office equipment	Assets under construction	Property, plant and equipment	*Of which assets from finance leases
2016							
Balance as of Jan. 1, 2016	**179.9**	2,059.0	8,886.6	677.4	1,322.6	**12,945.6**	98.1
Additions	**3.5**	20.3	116.3	25.2	262.3	**424.1**	2.2
Disposals	**–11.9**	–0.4	–44.5	–21.4	–	**–66.3**	–
Transfers	**15.1**	138.5	1,230.5	3.0	–1,387.1	**–15.1**	–
Changes in the scope of consolidation	**18.0**	8.3	21.6	6.1	–	**36.0**	0.2
Other changes	**–**	–	–	–	–	**–**	–
Exchange-rate differences	**0.7**	40.0	126.0	1.2	–23.8	**143.4**	0.7
Gross carrying amount as of Dec. 31, 2016	205.3	2,265.7	10,336.5	691.5	174.0	13,467.7	101.2
Cumulative depreciation and impairments	**–154.9**	–1,166.2	–7,122.1	–584.3	–0.2	**–8,872.8**	–67.3
Of which from changes in the scope of consolidation	**–**	–3.6	–8.0	–5.1	–	**–16.7**	–
Carrying amount as of Dec. 31, 2016	50.4	1,099.5	3,214.4	107.2	173.8	4,594.9	33.9
Depreciation and impairments / write-ups in fiscal year	**–14.6**	–78.5	–603.3	–38.8	–	**–720.6**	–7.1
2015							
Balance as of Jan. 1, 2015	166.4	1,691.3	7,828.5	642.7	1,670.0	11,832.5	79.1
Additions	3.4	6.6	106.7	20.7	696.6	830.6	21.8
Disposals	–0.4	–6.9	–57.4	–15.6	–0.9	–80.8	–2.8
Transfers	7.9	310.3	878.4	25.6	–1,219.3	–5.0	–
Exchange-rate differences	2.6	57.7	130.4	4.0	176.2	368.3	–
Gross carrying amount as of Dec. 31, 2015	179.9	2,059.0	8,886.6	677.4	1,322.6	12,945.6	98.1
Cumulative depreciation and impairments	–147.8	–1,066.2	–6,520.2	–560.0	–0.1	–8,146.5	–60.0
Carrying amount as of Dec. 31, 2015	32.1	992.8	2,366.4	117.4	1,322.5	4,799.1	38.1
Depreciation and impairments / write-ups in fiscal year	–13.2	–63.2	–459.2	–39.6	–	–562.0	–6.4

Intangible assets include industrial property rights, similar rights, software and other assets acquired against payment. Business acquisitions result in technologies, customer bases and order backlogs acquired against payment, which are amortized over a period of 3 to 9 years.

The acquisition costs of fixed assets were reduced by investment grants totaling €482.2 million, compared with €481.4 million in the previous year.

In the reporting year, borrowing costs of €1.2 million (versus €18.6 million in the prior year) were capitalized as part of the acquisition and production costs of qualifying assets. The average financing cost rate was 2.6 percent, compared with 3.0 percent in the previous year. Property, plant and equipment also includes technical machinery and other equipment of €33.9 million (€38.1 million in the prior year) on the basis of an embedded finance lease. Due to the structure of the underlying contracts, economic ownership is attributable to WACKER.

05 Investment Property

Wacker Chemie AG owns real estate at its production site in Cologne, Germany. This comprises land and infrastructure facilities (for energy, waste water, etc.). The land is rented out or leased on a long-term basis. These properties and the associated infrastructure in Cologne are operated, maintained and looked after by third parties, who charge any costs incurred directly to the tenants or leaseholders. WACKER has undertaken to carry out future maintenance measures to the extent necessary in the next few years.

The rent and lease income is included in the following schedule.

€ million	2016	2015
Historical cost*	10.5	11.7
Cumulative depreciation*	–9.0	–10.2
Carrying amount as of Dec. 31, 2016	1.5	1.5
Fair value	14.0	14.0
Income from rent/operating leases	0.8	0.8
Costs	–0.1	–0.2

*Disposal of acquisition costs and depreciation of €1.2 million.

The fair value is based on an opinion of an external expert and is updated periodically, most recently in 2014.

From an economic standpoint, the only option open to a potential buyer would be to discontinue current operations and tear down the existing buildings to make the land available for a new use. The fair value was therefore determined using the market value based on potential proceeds from liquidation of the plant. This measurement took into account the current market situation and thus current prices. The fair value of investment property is allocated to Level 2 in the fair value hierarchy. The residual carrying amount relates to the land.

The valuation process has not been changed since the previous valuation date.

06 Investments in Joint Ventures and Associates Accounted for Using the Equity Method

The Group applies the equity method to account for joint ventures and associates. Their impact on the Group's earnings, net assets and financial position is not significant. If shareholders have made loans to joint ventures or associates, repayment of these loans takes precedence over the distribution of dividends.

The following table shows the reporting-period change in the total carrying amount of investments accounted for using the equity method:

Joint Ventures Accounted for Using the Equity Method

€ million	2016	2015
Carrying amount of the investments in accordance with the equity method At the beginning of the year	18.0	16.6
Share of profit/loss for the period	3.2	4.2
Share of change in other equity	0.7	1.4
Overall result of the companies	3.9	5.6
Dividends	–4.1	–4.2
Change in the scope of consolidation	–6.6	–
At the end of the year	11.2	18.0

Associated Companies Accounted for Using the Equity Method

€ million	2016	2015
Carrying amount of the investments in accordance with the equity method At the beginning of the year	3.2	3.9
Share of loss for the period	–3.0	–0.9
Share of change in other equity	–0.2	0.2
Overall result of the companies	–3.2	–0.7
At the end of the year	–	3.2

The following shows the key figures for companies accounted for using the equity method.

Deviations between the share of net income and the result from investments in joint ventures and associates, and between the share of equity and the carrying amount of investments in joint ventures and associates accounted for using the equity method, are primarily the result of fair-value adjustments and consolidation measures.

€ million	2016		2015	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Key Figures for Joint Ventures				
Profit or loss from continuing operations	6.4	3.2	8.4	4.2
Other comprehensive income	1.4	0.7	2.8	1.4
Overall result	7.8	3.9	11.2	5.6
Key Figures for Associated Companies				
Profit or loss from continuing operations	–15.1	–3.8	–3.7	–0.9
Other comprehensive income	–0.8	–0.2	1.1	0.2
Overall result	–15.9	–4.0	–2.6	–0.7

07 Inventories

€ million	2016	2015
Raw materials and supplies	278.3	231.2
Unfinished and finished products, merchandise	566.8	551.9
Services not charged	1.2	2.1
Total	846.3	785.2
Of which recorded at net realizable value if lower	104.6	111.8

Cost of goods sold includes costs for inventories recognized as expenses totaling €4.4 billion, after €4.2 billion a year earlier. Valuation allowances recognized in the reporting period as expenses amounted to €21.5 million, compared with €–1.6 million the year before.

08 Financial and Non-Financial Assets/Receivables

€ million	2016			2015		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Trade receivables	**775.7**	**–**	**775.7**	679.4	–	679.4
Investments	11.1	11.1	–	11.1	11.1	–
Loans	96.4	96.4	–	99.9	99.9	–
Receivables from associated companies	0.9	–	0.9	1.0	–	1.0
Loan and interest receivables	1.4	–	1.4	0.2	–	0.2
Derivative financial instruments	6.1	2.0	4.1	12.6	0.2	12.4
Receivables from suppliers	6.2	–	6.2	6.6	–	6.6
Deposits	2.9	1.4	1.5	1.4	0.1	1.3
Restricted cash and cash equivalents	0.4	–	0.4	3.8	–	3.8
Sundry financial assets	51.2	0.6	50.6	24.7	0.1	24.6
Other financial assets	**176.6**	**111.5**	**65.1**	161.3	111.4	49.9
Accruals and deferrals	10.1	1.7	8.4	10.1	1.0	9.1
Plan assets	0.4	–	0.4	0.4	–	0.4
Other tax receivables	46.1	0.7	45.4	44.2	2.7	41.5
Sundry non-financial assets	14.3	1.3	13.0	8.0	0.6	7.4
Other non-financial assets	**70.9**	**3.7**	**67.2**	62.7	4.3	58.4
Income tax receivables	**18.5**	**–**	**18.5**	19.1	0.1	19.0

Receivables are shown at amortized cost, which corresponds to their market value. Adequate valuation allowances are set up to cover default risks, to the extent that these are not covered by insurance, bank guarantees or advance payments received.

Valuation allowances and past-due debts developed as follows:

Changes in valuation allowances for trade receivables

€ million	2016	2015
As of Jan. 1	5.6	5.1
Utilization	–2.2	–2.7
(+) Additions/(–) reversals	0.2	2.8
Exchange-rate differences	0.1	0.4
As of Dec. 31	3.7	5.6

Changes in Past-Due Trade Receivables

€ million	2016	2015
Receivables that are neither past due nor written down	634.5	551.3
Receivables that are past due but not written down:		
up to 30 days past due	134.0	121.9
31 to 45 days past due	3.3	2.2
over 45 days past due	3.5	3.5
Total	140.8	127.6
Written-down receivables	0.4	0.5
Carrying amount	**775.7**	679.4

No valuation allowances were recognized for other financial assets in either the period under review or the prior year. There was no significant credit risk as of December 31, 2016.

Valuation allowances are set up for identifiable credit risks and exchange-rate fluctuations. We continuously monitor the creditworthiness of our debtors to assess the intrinsic value of the corresponding receivables and, where appropriate, we take out credit default insurance. In addition, customers make advance payments and provide bank guarantees. The maximum default risk is equal to the carrying amount of the uninsured receivables. No loans or receivables were renegotiated to prevent an overdue debt or possible valuation allowances. Based on past experience and on the conditions prevailing as of the reporting date, there are no restrictions with regard to credit quality. The additions and reversals in the valuation allowances for receivables in the reporting period mainly relate to Wacker Chemie AG.

09 Cash and Cash Equivalents/Securities

€ million	2016	2015
Securities and fixed-term deposits held to maturity[1]	**182.2**	70.9
Of which current	**126.2**	67.2
Of which noncurrent	**56.0**	3.7
Cash and cash equivalents		
Cash equivalents	**113.8**	94.2
Demand deposits, cash on hand	**169.7**	216.3
Total	283.5	310.5

[1] The securities mainly consist of bonds from various issuers which are predominantly classified as "available for sale."

Demand deposits and cash on hand are shown at their nominal amounts. Cash equivalents comprise fixed-term deposits and commercial paper (from issuers with first-class credit standing) classified as "held to maturity." None of WACKER's cash funds are subject to currency export restrictions.

10 Equity/Non-Controlling Interests/ Capital Structure Management

The subscribed capital (capital stock) of Wacker Chemie AG amounts to €260,763,000 and comprises 52,152,600 no-par-value shares (total). This corresponds to a notional par value of €5 per share. All of the shares are common shares – no other share classes have been issued. At the reporting date, no capital had been authorized for the issue of new shares. The Executive Board was authorized – in compliance with the provisions of Section 71 (1) no. 8 of the German Stock Corporation Act – to acquire treasury shares totaling a maximum of 10 percent of capital stock.

In the course of the IPO in April 2006, the number of shares outstanding increased due to the sale of some shares previously held as treasury shares. The following table shows the development in the year under review and in the prior year:

Units	2016	2015
Shares outstanding at the start of the fiscal year	**49,677,983**	49,677,983
Shares outstanding at the end of the fiscal year	49,677,983	49,677,983
Treasury shares in portfolio	**2,474,617**	2,474,617
Total shares	52,152,600	52,152,600

For more information on Wacker Chemie AG's shareholder structure, please refer to the note concerning Related Party Disclosures.

See Note 22

Capital reserves include the amounts generated with the issue of shares above their nominal values in previous years, as well as other contributions made to equity.

Retained earnings include the amounts of accrued reserves generated at Wacker Chemie AG in previous fiscal years, transfers from the Group's earnings for the year, the earnings of the consolidated companies less amounts due to non-controlling interests, changes to consolidated items affecting income, and changes in the scope of consolidation. The proceeds of the Siltronic IPO added €83.8 million to retained earnings in 2015.

Other equity items include the differences arising from the currency translation of the financial statements of foreign subsidiaries using reporting currencies other than the euro, and the effects of the valuation of financial instruments and pensions – recognized directly in equity.

The net result attributable to non-controlling interests is made up of the following profits and losses:

€ million	2016	2015
Profits	10.1	7.2
Losses	–	–12.1
Net result attributable to non-controlling interests	10.1	–4.9

Non-controlling interests in equity primarily comprised the following companies:

Non-Controlling Interests

€ million	2016	2015
Wacker Asahikasei Silicone Co. Ltd., Tokyo, Japan	12.4	–
Wacker Metroark Chemicals Pvt. Ltd., Parganas, India	25.2	21.4
Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore[1]	10.8	9.0
Siltronic AG, Munich, Germany[1]	165.4	196.5
Total	213.8	226.9

[1] Including subsidiaries

The voting rights of non-controlling interests correspond to their equity share.

As part of its prior-year IPO, Siltronic AG placed 12.65 million shares with investors, consisting of 5 million new shares issued through a capital increase at Siltronic and 7.65 million shares originally held by WACKER. At the same time, WACKER's stake in Siltronic AG was reduced from 100 percent to 57.8 percent.

Within the WACKER Group, Siltronic AG is an important subsidiary with non-controlling interests:

Significant Non-Controlling Interests

Company's name and registered office: Siltronic AG, Munich, Germany, and its subsidiaries	2016	2015
Proportion of non-controlling interests (%)	42.17	42.17
Proportion of the voting rights (%)	42.17	42.17
Total non-controlling interests (shares)	12,650,000	12,650,000
Dividends paid to non-controlling interests (€)	–	–

The following table lists condensed financial information on the Siltronic sub-group:

Condensed Financial Information on Siltronic AG and its Subsidiaries[1]:

€ million	2016	2015
Current assets	502.7	461.7
Noncurrent assets	531.7	554.3
Current liabilities	151.6	147.5
Noncurrent liabilities	479.9	395.9
Sales	933.4	931.3
Profit or loss from continuing operations	11.2	-18.2
Other comprehensive income	-80.7	62.4
Total	-69.5	44.2
Cash flow from operating activities	115.6	96.1
Cash flow from investing activities	-135.5	-98.7
Of which investments in intangible assets and in property, plant and equipment	-96.7	-58.9
Cash flow from financing activities	–	-32.2

[1] Consolidated sub-group financial statements of the Siltronic Group in accordance with IFRS

For further information on individual companies, please refer to the Breakdown of Shareholdings.

See Note 21

Information on Capital Management

The goal of the WACKER Group's capital management policy is to ensure that the company remains a going concern in the long term and to generate an appropriate return on capital employed for the company's shareholders. The capital management instruments employed to achieve this goal include dividend payments and stock buybacks.

In managing its capital, Wacker Chemie AG complies with the legal stipulations on capital maintenance. The company's Articles of Association do not stipulate any capital requirements. No special capital terminology is used. The Group's policy on dividends is generally oriented toward distributing about 50 percent of Group net income to shareholders, provided the business situation permits and the committees responsible agree.

Above and beyond this, WACKER actively manages its debt capital with the aim of achieving a balanced financing portfolio, a diversified maturities profile and sufficient liquidity reserves. In addition, our corporate financial structures are designed to keep WACKER's credit rating – at a minimum – in the investment-grade range. In accordance with our policy of value-based management, net financial debt functions as a supplementary financial performance indicator.

⇨ See Management Processes and Net Assets sections of the Group management report.

As of the balance sheet date, the WACKER Group's capital structure was as follows:

Capital Structure

€ million	2016	2015
Equity attributable to Wacker Chemie AG shareholders	2,379.4	2,568.2
Share of total capital (%)	62.0	63.8
Noncurrent financial liabilities	791.1	1,136.7
Current financial liabilities	667.1	318.7
Total	1,458.2	1,455.4
Share of total capital (%)	38.0	36.2
Total capital	3,837.6	4,023.6

11 Provisions for Pensions

For WACKER Group employees, there are various post-employment pension plans, which depend on the legal, economic and fiscal conditions prevailing in the respective countries. These pension plans generally take account of the employees' length of service and salary levels.

The company pension plan makes a distinction between defined contribution and defined benefit plans. Defined contribution plans lead to no further obligation for the company beyond paying contributions into special-purpose funds. WACKER has both defined-contribution and defined-benefit plans, which are financed in part by Pensionskasse der Wacker Chemie VVaG or by funds. Pension obligations result from defined benefit plans in the form of entitlements to future pensions and ongoing payments for eligible active and former employees of the WACKER Group and their surviving dependents. The various pension plans basically ensure employees either a life-long pension on the basis of their average salary during employment at WACKER (career average plan) or lump-sum payments.

The Group maintains the following retirement benefit plans:

Retirement Benefits Supplied by the Company Pension Fund

Employees at Wacker Chemie AG and other German Group companies are granted a basic pension model via Pensionskasse der Wacker Chemie VVaG, a legally independent German pension fund. The pension fund is financed by member and company contributions. The payments comprise old-age, disability and surviving dependents' benefits.

The pension fund is a small mutual insurance company within the meaning of Section 210 of the German Insurance Supervision Act and is regulated by Section 233 (1) of this act. It is thus subject to the regulations that apply to German insurers and is monitored by the Federal Financial Supervisory Authority (BaFin). There are statutory minimum financing obligations.

Employees who joined the pension plan before the end of 2004 receive guaranteed payments based on a defined-benefit amount, which is to be taken into consideration in determining pension obligations. The pension payment is the same regardless both of the employee's age when paying contributions and of the interest generated from assets. A new basic-pension model applies for employees who joined the pension fund after 2004. Under that model, the benefits are based on guaranteed interest rates and the benefit amount depends on the age at which the employee pays contributions. Annual profit distributions can increase the future payment. In addition, employees in Germany may make voluntary payments to the "PK+" supplementary insurance fund of Pensionskasse der Wacker Chemie VVaG. Primarily, contributions in connection with retirement benefit plans governed by the collective bargaining agreements concerning one-off payments and retirement benefits, and "Working Life and Demography" are paid into the voluntary supplementary insurance fund.

In fiscal 2016, accounting treatment of the plans for employees in Germany who joined the company after 2004 was changed. Up until fiscal 2015, WACKER treated these plans as defined contribution plans. Since interest rates remained at very low levels, WACKER reassessed the plans in 2016 because the probability of their being utilized had risen and recognized them as defined benefit plans. As a consequence of this change, the present value of the defined benefit obligation rose by €143.1 million in 2016 and was recognized in other comprehensive income. At the same time, additions to plan assets in the amount of €138.6 million were recognized in other comprehensive income. These effects are shown under the line items "Gains/losses from changes in experience-based assumptions" and "Gains/losses from plan assets without amounts already recognized in interest income" in the table "Changes in the Net Liability of Defined Benefit Obligations."

Direct Commitments of the WACKER Group

In addition to the pension fund commitments, employees in Germany receive direct commitments in the form of an additional pension. The additional pension insures that part of an employee's salary that exceeds the pension insurance contribution assessment ceiling. Employees who joined the company before the end of 2004 – and their surviving dependents – receive a pension. The amount of that pension depends on the average salary earned during the period of employment with WACKER (career average plan). For employees who joined the plan as of 2005, a certain percentage of the salary exceeding the pension insurance contribution assessment ceiling is paid in. This capital accrues interest. The benefits may be paid out as a life-long pension or, in the case of commitments made from 2005 onward, as a lump sum. Employees and their surviving dependents are eligible to receive benefits. Employee entitlements are included when measuring pension obligations, regardless of whether the employees joined the company before the end of 2004 or after the beginning of 2005.

Executive Board members are granted individual pension commitments. For more information on Executive Board member pension plans, please refer to the Compensation Report.

➪ See page 183

Employees in Germany with salaries above the standard pay scale may pay into an employee-financed pension plan (deferred compensation). This plan affords employees the option of converting part of their future salary claims into equivalent pension capital. Pension capital accrues interest according to the date the pension plan was entered into (commitment) at either 7 percent (1996–2001), 6 percent (2002–2010) or 5 percent (2011–2013). Plans bearing 7 percent or 6 percent interest may be drawn in the form of either a pension or a lump sum. Plans bearing 5 percent interest are paid out exclusively in lump-sum form. Since 2015, management employees have been able to contribute a portion of their salary to an employee-financed pension plan with a variable interest rate. The variable interest rate is linked to the five-year running yield on German bearer bonds and amounts to at least 2.5 percent and at most 5 percent. Disbursement is as a lump sum only. Pension commitments made before or on December 31, 2000 are measured (in accordance with the projected unit credit method) at the present value of years' service to date or years served to retirement, whereas any commitments made on or after January 1, 2001 are measured at the present value of the defined benefit obligation or at the equivalent of the accumulated capital.

Pension entitlements in Germany are protected against insolvency by the pension guarantee fund (Pensionssicherungsverein a.G.). This insolvency insurance is capped. There are no statutory minimum financing obligations.

Pension Commitments outside of Germany

Various pension plans are available for employees of foreign subsidiaries, subject to the statutory provisions applicable in the respective countries. With the exception of the US pension plans, these pension plans are not material to the Group.

In the US, defined benefit plans exist for employees of Siltronic Corporation, Portland, and Wacker Chemicals Corporation, Adrian. However, both plans were closed for new applications effective after December 31, 2003, and defined benefits are carried only for legacy policies. Retirement benefits are paid out from age 65 in the form of a monthly pension and are based on the last average salary paid. Special rules apply to early retirement as of age 55 depending on the employee's years of service. In view of their pension-like character, obligations relating to medical care for retired employees and severance payments are likewise included under pension provisions. New employees in the USA are offered only defined contribution plans.

The present value of defined benefit plans may be reconciled with the provisions recognized in the balance sheet as follows:

Net Liability of Defined Benefit Obligations

€ million	Dec. 31, 2016			Dec. 31, 2015		
	Germany	International	Total	Germany	International	Total
Present value of the at least partially fund-financed defined benefit obligations	2,806.7	234.1	3,040.8	2,230.2	222.8	2,453.0
Fair value of plan assets	–1,917.3	–177.3	–2,094.6	–1,660.5	–160.4	–1,820.9
Funded status	889.4	56.8	946.2	569.7	62.4	632.1
Present value of unfunded defined benefit obligations	1,141.7	19.9	1,161.6	963.4	16.2	979.6
Provisions for pensions and similar obligations	2,031.1	76.7	2,107.8	1,533.1	78.6	1,611.7

Changes in the Net Liability of Defined Benefit Obligations

€ million	Present value of pension plan obligations	Market value of plan assets	Total
As of January 1, 2015	3,500.3	–1,742.1	1,758.2
Current service cost	87.5	–	87.5
Interest expense/income	85.1	–43.6	41.5
Administrative expenses paid from plan assets	–	0.7	0.7
Past service cost/effects of settlements and curtailments	1.4	–	1.4
Remeasurements			
Gains (–)/losses (+) from plan assets without amounts already recognized in interest income	–	–23.3	–23.3
Gains (–)/losses (+) from changes in demographic assumptions	–3.5	–	–3.5
Gains (–)/losses (+) from changes in financial assumptions	–283.3	–	–283.3
Gains (–)/losses (+) from changes in experience-based assumptions	95.7	–	95.7
Effects of exchange-rate differences	24.5	–16.3	8.2
Contributions by			
Employer	–	–44.2	–44.2
Pension plan beneficiaries	10.3	–10.3	–
Pension payments	–85.4	58.2	–27.2
As of December 31, 2015	3,432.6	–1,820.9	1,611.7
Current service cost	75.9	–	75.9
Interest expense/income	96.6	–52.5	44.1
Administrative expenses paid from plan assets	–	0.8	0.8
Past service cost	0.4	–	0.4
Effects of settlements	–12.7	11.8	–0.9
Remeasurements			
Gains (–)/losses (+) from plan assets without amounts already recognized in interest income	–	–215.2	–215.2
Gains (–)/losses (+) from changes in demographic assumptions	–0.1	–	–0.1
Gains (–)/losses (+) from changes in financial assumptions	545.6	–	545.6
Gains (–)/losses (+) from changes in experience-based assumptions	130.7	–	130.7
Effects of exchange-rate differences	9.1	–5.9	3.2
Contributions by			
Employer	–	–61.5	–61.5
Pension plan beneficiaries	11.2	–11.2	–
Pension payments	–89.0	60.0	–29.0
Change in the scope of consolidation	2.1	–	2.1
As of December 31, 2016	4,202.4	–2,094.6	2,107.8

Assumptions

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

%	2016	2015
Actuarial Assumptions		
Germany		
Discount rate	**1.94**	2.75
Salary growth rate	**2.5**	2.5
Pension growth rate[1]		
Basic and supplementary pension	**1.8/1.0**	1.8/1.0
Deferred compensation	**2.5/1.0**	2.5/1.0
USA		
Discount rate	**3.92**	4.2
Salary growth rate	**3.0**	2.0/3.0

[1] Varies according to the date on which the employee joined the company and/or the effective date of the different plan generations.

Life expectancy calculations in Germany are based on Prof. Klaus Heubeck's modified 1998 guideline tables. The pension fund portfolio (basic pension model) is based on the official mortality tables (reduction of male mortality to 75 percent of the guideline table value, and 85 percent for females). The portfolio for other pension commitments is based on a reduction of male mortality to 60 percent of the Heubeck values and 85 percent for women, which takes into account in particular the recognized connection between life expectancy and the amount of pension paid ("Influence of socio-economic status"). In the USA, the gender-specific RP-2014 mortality tables (Scale SoA MP-2014) are used for both pensioners and pension beneficiaries. The RP-2014 mortality table was extrapolated back to the year 2007 and a modified version of the MP-2014 table was used as a basis for future periods.

The discount rates and salary increase rates used in calculating the pension obligation were determined in line with the general economic situation and by applying uniform standards. The discount rate is based on a yield curve that is derived from the yields of country-specific, high-grade, fixed-interest corporate bonds with maturities corresponding to the pension obligations. The discount rate takes account of the WACKER-specific, expected future cash flows for these obligations.

Sensitivity Analysis

The following sensitivity analysis involves an adjustment of only one assumption – i.e. the other assumptions remain unchanged from the original valuation, so that the sensitivity of each individual assumption can be observed in isolation. As a consequence, possible correlation effects between the individual assumptions cannot be taken into consideration.

The following table shows the possible changes in the present value of pension obligations resulting from changes in the basic actuarial assumptions.

Sensitivity Analysis

	Dec. 31, 2016 Effect on defined benefit obligation		Dec. 31, 2015 Effect on defined benefit obligation	
	Defined benefit obligation in € million	Change (%)	Defined benefit obligation in € million	Change (%)
Present value of pension obligations as of the reporting date	**4,202.4**		3,432.6	
Present value of pension obligations if				
the discount rate increases by 0.5 percentage points	**3,820.4**	**–9.1**	3,154.7	–8.1
the discount rate decreases by 0.5 percentage points	**4,643.1**	**10.5**	3,750.3	9.3
salaries increase by 0.5 percentage points	**4,242.1**	**0.9**	3,465.8	1.0
salaries decrease by 0.5 percentage points	**4,163.2**	**–0.9**	3,399.6	–1.0
future pension increases are 0.25 percentage points higher	**4,330.4**	**3.0**	3,526.0	2.7
future pension increases are 0.25 percentage points lower	**4,080.9**	**–2.9**	3,343.3	–2.6
life expectancy goes up by one year	**4,363.9**	**3.8**	3,553.3	3.5

Composition of Plan Assets

Pensionskasse der Wacker Chemie VVaG invests plan assets in accordance with statutory requirements and the terms of its by-laws. The company pension fund invests nearly half of its assets in equity funds and fixed-income funds. The other half is invested directly in promissory notes (German Schuldscheine), real estate, real estate mortgages and private equity. The remaining part of assets is retained for liquidity purposes. The investment strategy follows the investment guideline provided by the executive board of the pension fund.

The plan assets of pension funds set up in the US are invested mainly in stocks and funds in accordance with the applicable investment rules. The composition of plan assets for the Group is shown in the following table:

Composition of Plan Assets

€ million	Dec. 31, 2016			Dec. 31, 2015		
	Market prices listed in an active market	No listing in an active market	Total	Market prices listed in an active market	No listing in an active market	Total
Real estate	–	347.1	347.1	–	274.5	274.5
Loans/fixed-interest securities	734.3	425.8	1,160.1	664.4	438.6	1,103.0
Shares/funds	274.8	178.7	453.5	246.0	138.9	384.9
Cash and cash equivalents	–	133.9	133.9	–	58.5	58.5
Total	1,009.1	1,085.5	2,094.6	910.4	910.5	1,820.9

The WACKER Group was utilizing €84.2 million of plan assets for its own purposes as of December 31, 2016, compared with €80.2 million in the prior year. The assets in question comprised the real estate used by Wacker Chemie AG for its headquarters in Munich.

Risks

In addition to the usual actuarial risks, the risk inherent in the defined benefit obligation relates in particular to financial risks in connection with plan assets. In Germany, substantial amounts of the defined benefit obligation are administered by the pension fund. As part of an annual asset-liability study, the current and future relationships between the portfolio structure and obligations are analyzed and projections made. The result is the long-term return required of the pension fund, on the basis of which the pension fund defines a strategic target portfolio. This leads to an annual review and coordination of the required return, company contributions of sponsoring entities and strategic asset allocation.

All capital investments are exposed to market price fluctuation risks. These risks may comprise shifts in interest rates, share prices or exchange rates. WACKER aims to limit losses to a pre-defined amount using overlay management. In some cases, derivatives are used for hedging purposes.

In addition to actuarial risks, the defined benefit plans used in the US are also subject to market-price fluctuation risks because plan assets are invested in stocks and funds.

Applicable statutes and by-laws require WACKER to reduce under-funding of pension plans by increasing the amount of company contributions in cash.

Risks arise in particular in connection with the life expectancy of the beneficiaries, the interest rate guarantee, and the salary and pension growth rates. The interest rate guarantee risk is regularly monitored as part of the risk management process. It constitutes a major focus of the company pension fund when determining the long-term interest requirements and how to fulfill them. Interest rate guarantee risks also affect the deferred compensation plans.

Pension Plan Financing

In 2016, benefits in the amount of €78.9 million (€75.1 million a year earlier) were paid under pension plans in Germany and €10.1 million (€10.3 million a year earlier) under pension plans outside of Germany. WACKER anticipates that pension payments will reach approximately €95 million in the coming fiscal year. Current employer contributions to plan assets will amount to around €45 million in 2017. The weighted duration of pension obligations as of December 31, 2016 was 20.7 years in Germany (versus 18.4 years in the prior year) and 14.7 years in the US (versus 14.2 years).

Expected Pension Payments Due

€ million	Dec. 31, 2016	Dec. 31, 2015
Less than a year	**–95.4**	–92.0
One to two years	**–100.2**	–95.3
Two to three years	**–107.1**	–98.4
Three to four years	**–113.2**	–105.0
Four to five years	**–119.1**	–110.3

Composition of Pension Expenses

€ million	2016	2015
Current service cost from defined benefit plans	**–75.9**	–87.5
Past service cost/effects of settlements and curtailments	**0.5**	–1.4
Administrative expenses for defined benefit plans paid from plan assets	**–0.8**	–0.7
Net interest expense for defined benefit plans	**–44.1**	–41.5
Defined contribution plan expenses	**–9.7**	–9.7
Other pension expenses	**–1.9**	–3.2
Contributions to state pensions	**–65.7**	–64.0
Total	**–197.6**	–208.0

12 Other Provisions/Tax Provisions

€ million	2016			2015		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Personnel	**124.9**	**117.1**	**7.8**	105.1	98.2	6.9
Sales/purchasing	**70.9**	**31.5**	**39.4**	60.7	22.9	37.8
Environmental protection	**85.3**	**80.7**	**4.6**	79.9	79.3	0.6
Sundry	**61.3**	**18.1**	**43.2**	59.5	16.6	42.9
Other provisions	342.4	247.4	95.0	305.2	217.0	88.2
Income tax provisions	100.5	73.7	26.8	79.8	52.8	27.0

Provisions for Personnel

These include obligations for anniversary payments and funeral expenses as well as provisions for early-retirement and phased-early-retirement plans. There is a continuous reduction of noncurrent provisions for anniversary payments and of provisions for phased-early-retirement plans. Interest-rate effects increased anniversary-payment provisions; provisions for phased-early-retirement plans increased due to newly concluded agreements with employees still working for the company.

Sales/Purchasing Provisions

These provisions cover warranty and product-liability obligations, as well as discounts, cash bonuses and other price reductions still to be granted, commissions payable to sales agents, and contingent losses from contractual agreements. The major portion of the provisions will probably be used for payouts over the next three years.

Provisions for Environmental Protection

Provisions for environmental protection are created for anticipated obligations regarding contaminated-site remediation, water pollution control, recultivation of landfills, the clean-up of contaminated storage and production sites, and similar environmental measures. These provisions also include environmental protection charges likely to be imposed by government bodies. The additions are mainly attributable to the adjustments made to the actuarial interest rate. The noncurrent provisions for environmental protection are likely to be utilized within a period of 25 years.

Sundry Provisions

These provisions are formed for a multiplicity of identifiable individual risks and contingencies (e.g. damages, reimbursement claims, legal expenses).

Income Tax Provisions

These contain amounts for current income tax obligations as well as for risks from tax audits and legal action. The existing noncurrent tax provisions will largely be utilized over the next two to four years.

Depending on the situation in the individual countries, interest rates of up to 10 percent were used to determine the provisions; in the prior year these interest rates ranged up to 9 percent. These provisions were primarily ones associated with purchasing, environmental provisions, provisions for phased-early-retirement plans and anniversary-payment provisions.

Other Provisions / Income Tax Provisions

€ million	Jan. 1, 2016	Utilization	Reversal	Addition	Interest effect / effect of change in interest	Exchange-rate differences	Other*	Dec. 31, 2016
Personnel	105.1	–36.9	–0.2	67.8	1.7	–0.1	–12.5	**124.9**
Sales / purchasing	60.7	–13.3	–2.0	22.5	3.3	–0.3	–	**70.9**
Environmental protection	79.9	–8.1	–2.9	11.8	4.4	0.2	–	**85.3**
Sundry	59.5	–5.0	–8.4	13.1	–	2.1	–	**61.3**
Other provisions	305.2	–63.3	–13.5	115.2	9.4	1.9	–12.5	342.4
Income tax provisions	79.8	–21.3	–2.8	44.2	–	0.6	–	100.5

*Includes the change in plan assets for phased-early-retirement commitments.

13 Financial Liabilities

€ million	2016			2015		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Liabilities to banks	**990.8**	**339.6**	**651.2**	1,000.2	700.1	300.1
Liabilities from lease obligations	**36.1**	**32.0**	**4.1**	39.1	33.2	5.9
Other financial liabilities	**431.3**	**419.5**	**11.8**	416.1	403.4	12.7
Financial liabilities	1,458.2	791.1	667.1	1,455.4	1,136.7	318.7

In 2016, WACKER took out new bank loans for an amount totaling US$250 million (€237.6 million) and KRW (Korean won) 23.3 million (€18.4 million). A maturing, euro-denominated investment loan of €200 million was repaid on schedule and ongoing scheduled repayments of a further investment loan were made in the amount of €16 million. A renminbi-denominated investment loan of CNY 252.8 million (€34.6 million) falling due in 2018 was repaid ahead of schedule in 2016.

In 2015, the company made a scheduled repayment of €150 million on a promissory note (German Schuldschein). In addition, around €50 million was repaid on renminbi-denominated loans.

No collateral exists for the financial liabilities, nor are they secured through liens or similar rights. Some of the liabilities to banks have fixed interest rates and others have variable interest rates. Moreover, some of the liabilities to banks were granted on condition that particular covenants be complied with.

The liabilities to banks comprise the following:

€ million	2016				2015			
	Currency	Carrying amount € million	Of which with variable interest rates	Maturity	Currency	Carrying amount € million	Of which with variable interest rates	Maturity
Investment loan	–	–	–	–	EUR	200.0	200.0	2016
Investment loan	EUR	200.0	–	2017	EUR	200.0	–	2017
Investment loan	CNY	–	–	2018	CNY	35.6	35.6	2018
Investment loan	EUR	64.0	64.0	2020	EUR	80.0	80.0	2020
Promissory notes (German Schuldscheine)	EUR	150.0	39.0	2017	EUR	150.0	39.0	2017
Bank loan	JPY	81.2	40.6	2017	JPY	76.1	38.0	2017
Bank loan	BRL	7.3	–	2017	BRL	5.8	–	2017
Bank loan	KRW	18.4	18.4	2017	KRW	–	–	2017
Bank loan	CNY	109.5	–	2017	CNY	112.8	–	2017
Bank loan	EUR	50.0	–	2018	EUR	50.0	–	2018
Bank loan	JPY	4.0	–	2018	JPY	–	–	2018
Bank loan	USD	237.6	237.6	2019	USD	–	–	2019
Operating loan	CNY	66.5	66.5	2017	CNY	–	–	2017
Operating loan	CNY	–	–	–	CNY	89.9	89.9	–
Operating loan	JPY	1.8	1.8	2017	JPY	–	–	2017
Other		0.5		–		–		
Total		990.8				1,000.2		
Fair value		996.0				1,012.5		

Other financial liabilities comprise the following:

€ million	2016				2015			
	Currency	Carrying amount € million	Of which with variable interest rates	Maturity	Currency	Carrying amount € million	Of which with variable interest rates	Maturity
Private placement (1st installment)	USD	66.3	–	2018	USD	63.9	–	2018
Private placement (2nd installment)	USD	123.2	–	2020	USD	118.5	–	2020
Private placement (3rd installment)	USD	189.5	–	2023	USD	182.4	–	2023
Minority-shareholder loans	SGD	40.4	–	Indefinite	SGD	38.6	–	Indefinite
Sundry other financial liabilities		11.9	–			12.7	–	
Total		431.3				416.1		
Fair value		423.5				409.2		

The carrying amounts of the current financial liabilities correspond to the repayment amounts. With the exception of the euro-denominated investment loan in the amount of €64 million, all the loans fall due on maturity.

The following table shows the future redemption and interest payments for the bank liabilities and other financial liabilities.

€ million	2017	2018	2019	2020	2021 to 2023	Indefinite maturity
Redemption	663.0	136.6	253.6	139.6	188.9	40.4
Interest	31.9	20.2	15.1	10.9	23.2	1.6 p.a.

There are also unused long-term lines of credit amounting to €801.1 million (€602.8 million a year earlier), where all the conditions for their utilization have been met.

As of the reporting date, the future minimum lease payments under finance lease agreements amount to:

€ million	2016			2015		
	Nominal value	Interest	Present value	Nominal value	Interest	Present value
Minimum lease payment within a year	**7.1**	**3.0**	**4.1**	9.1	3.2	5.9
Minimum lease payment between one and five years	**25.2**	**11.0**	**14.2**	25.7	10.3	15.4
Minimum lease payment over five years	**32.9**	**15.1**	**17.8**	35.3	17.5	17.8
Total	65.2	29.1	36.1	70.1	31.0	39.1

There are no conditional lease payments from finance leases.

Wacker Chemie AG has capitalized a finance lease for the leased CCGT (combined-cycle gas turbine) power station at its Burghausen site. The lease for the power station is due to expire in 2019 at the latest. WACKER has the right to acquire the power station at a price oriented to book values in accordance with German commercial law. If WACKER acquires this power station, it may not be sold to a third party for five years.

WACKER also has leasing agreements for several technical facilities that qualify as finance leases and were capitalized accordingly. Here, too, the Group in some cases has rights of preemption and lease rollover options.

The lease agreements serve to simplify the procurement and financing of operating materials and fixed assets. The long-term commitment that they involve, however, leads to a constant future outflow of cash from which the company cannot extract itself.

14 Financial and Non-Financial Liabilities

€ million	2016			2015		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Trade payables	**369.7**	**–**	**369.7**	378.3	–	378.3
Liabilities due to associated companies	–	–	–	0.3	–	0.3
Derivative financial instruments	28.7	2.3	26.4	28.3	2.6	25.7
Sundry financial liabilities	35.4	–	35.4	21.5	–	21.5
Other financial liabilities	**64.1**	**2.3**	**61.8**	50.1	2.6	47.5
Payables relating to social security	5.9	–	5.9	3.0	–	3.0
Payroll liabilities	7.9	–	7.9	5.6	–	5.6
Variable compensation	72.9	–	72.9	75.5	–	75.5
Other personnel liabilities	30.0	–	30.0	28.1	–	28.1
Other tax liabilities	23.0	–	23.0	16.9	–	16.9
Accruals and deferrals	1.6	–	1.6	1.1	–	1.1
Advance payments received (third parties)	270.7	164.1	106.6	453.3	287.5	165.8
Sundry liabilities	6.7	0.1	6.6	1.6	–	1.6
Other non-financial liabilities	**418.7**	**164.2**	**254.5**	585.1	287.5	297.6
Income tax liabilities	**0.8**	**–**	**0.8**	0.3	–	0.3

In addition to those tax amounts for which Group companies are liable, tax liabilities include taxes paid for the account of third parties.

Payables relating to social security refer in particular to social-insurance contributions that have yet to be paid.

The other payroll liabilities include, in particular, vacation and flextime credits, as well other HR-related liabilities.

The advance payments received relate primarily to future deliveries of semiconductor wafers and polysilicon.

No collateral exists for other liabilities, nor are they secured through liens or similar rights.

15 Contingencies, Other Financial Obligations and Other Risks

Contingent Liabilities

The values assigned to contingent liabilities correspond to the extent of liability that exists on the reporting date. At WACKER, contingent liabilities primarily concern incurred guarantees totaling €0.5 million, versus €0.6 million in the prior year. It is unlikely that the guarantees will be utilized.

Other Financial Obligations and Other Risks

€ million	2016	2015
Obligations from rent and operating leases		
Due within one year	49.7	38.2
Due between one and five years	82.8	64.6
Due after five years or more	52.4	35.7
Total	184.9	138.5
Lease payments occasioned by operating leases	49.6	44.1
Total expected minimum lease payments from subtenancies	4.6	2.9

The Group leases property, plant and equipment, motor vehicles and IT equipment by way of rental agreements and operating leases. These leases generally have terms of between three and five years. Tenancy agreements for office space, property, plant and equipment, etc. have considerably longer terms. Due to regulatory requirements, the Group is also leasing the land on which its production facilities in Singapore were built.

€ million	2016	2015
Obligations from orders for planned investment projects (commitments)	121.3	205.0

Obligations from orders for planned investment projects (commitments) amount to €121.3 million, after €205.0 million in the prior year, and concern the operating segments.

The Group ensures capacity utilization at its joint venture company with Dow Corning via long-term purchasing commitments of some €90.0 million annually, versus €100 million in the prior year. The contractually agreed transfer prices led to creation of a provision for onerous contracts, included in other provisions.

As regards raw-material supplies, WACKER has entered into long-term agreements to purchase strategic raw materials, electricity and gas. Accordingly, in net terms the company had other financial obligations arising from major minimum purchasing obligations in the amount of €1.32 billion in the reporting period, after €1.58 billion the year before. The agreements have terms of between one and seven years. The Group has an obligation to accept delivery in the amount of €8.9 million (€13.6 million a year earlier) to take back stock from consignment warehouses.

The Group receives government incentives and allowances for investing activities. These incentives are granted on condition that a certain number of jobs be created or maintained at certain sites. If these contractual commitments are not fulfilled, any funding received must be paid back either in full or in part. The period for which the Group has to fulfill its contractual commitments is limited.

WACKER is occasionally involved in legal or arbitration proceedings as well as official investigations and actions. Pending proceedings can have a negative impact on WACKER's earnings, net assets or financial position. At the present time, WACKER does not expect any significant negative effects from pending proceedings.

16 Other Disclosures

€ million	2016	2015
Cost of materials	–2,233.5	–2,276.6
Personnel expenses		
Wages and salaries	–1,106.9	–1,070.2
Social benefits and financial aid funds	–184.7	–177.4
State pension contributions	65.7	64.0
Social security contributions	–119.0	–113.4
Pension expenses	–87.8	–102.5
Contributions to state pensions	–65.7	–64.0
Pension expenses	–153.5	–166.5
Total personnel expenses	–1,379.4	–1,350.1

Social benefits relate mainly to the employer's share of social insurance contributions and to employers' liability insurance association contributions. The pension expenses consist mainly of contributions to state pensions and allocations to pension provisions. Related interest is shown in the financial result. The expenses incurred in transfers to external pension funds and pension plans are likewise included in pension expenses.

€ million	2016	2015
Expenses for auditors' fees		
Audit	1.0	1.3
Other attestation services	0.1	0.4
Total	1.1	1.7

Auditors' fees in the amount of €1.1 million (versus €1.7 million a year earlier) were paid to KPMG AG Wirtschaftsprüfungsgesellschaft, of which €1.0 million (€1.3 million a year earlier) was for financial statement auditing services and €0.1 million (€0.4 million a year earlier) for other attestation services.

17 Earnings per Share / Dividend

	2016	2015
Average number of outstanding common shares (units)	**49,677,983**	49,677,983
Number of common shares outstanding at the end of the year (units)	**49,677,983**	49,677,983
Dividend per dividend-bearing common share (€)	**2.00**	2.00
Net result for the year after non-controlling interests (€ million)	**179.2**	246.7
Earnings due to common shares (€ million)	**179.2**	246.7
Earnings per common share (average, €)	**3.61**	4.97
Earnings per common share (as of reporting date, €)	**3.61**	4.97

The diluted earnings per share are identical to the basic earnings in both the year under review and the previous year.

In the absence of relevant circumstances, earnings per share relating to results from continuing or discontinued operations are not reported.

The dividend distribution for 2015 amounted to €99.4 million, or €2.00 per dividend-bearing share. No allocations to retained earnings were made at Wacker Chemie AG for fiscal 2015.

The Executive Board of Wacker Chemie AG has proposed a dividend of €2.00 for 2016. The proposed dividend relates solely to dividend-bearing shares, i.e. excluding treasury shares. The acceptance or rejection of this proposal is incumbent on the Annual Shareholders' Meeting of Wacker Chemie AG. Subject to acceptance of the proposal, an amount of €99,355,966.00 will be distributed on the 49,677,983 no-par-value shares that are not held by the company.

18 Financial Instruments

The following table shows a presentation of financial assets and liabilities by measurement categories and classes. Also presented are liabilities from finance leases and derivatives that qualify for hedge accounting even though they do not belong to any of the IAS 39 measurement categories. WACKER has not pledged any financial assets as security.

The fair value of financial instruments measured at amortized cost is determined by means of discounting, taking into account market-participant interest rates that are adequate to the inherent risk and correspond to the relevant maturity. For reasons of immateriality, the carrying amount of current balance-sheet items is the same as their fair value.

Financial Assets and Liabilities by Measurement Category and Class as of Dec. 31, 2016

€ million

	Balance sheet carrying amount Dec. 31, 2016	Measurement pursuant to IAS 39			Measurement pursuant to IAS 17	
		(Amortized) cost	Fair value through profit or loss	Fair value through other comprehensive income	(Amortized) cost	Fair value Dec. 31, 2016
Trade receivables	**775.7**	775.7	–	–	–	775.7
Loans and receivables	**–**	775.7	–	–	–	775.7
Other financial assets	**176.6**	170.5	2.9	3.2	–	165.5
Loans and receivables	**–**	159.4	–	–	–	159.4
Available-for-sale financial assets[1]	**–**	11.1	–	–	–	–
Derivatives that do not qualify for hedge accounting	**–**	–	2.9	–	–	2.9
Derivatives that qualify for hedge accounting	**–**	–	–	3.2	–	3.2
Securities and fixed-term deposits	**182.2**	78.9	–	103.3	–	182.2
Loans and receivables	**–**	78.9	–	–	–	78.9
Available-for-sale securities	**–**	–	–	103.3	–	103.3
Cash and cash equivalents	**283.5**	283.5	–	–	–	283.5
Loans and receivables	**–**	283.5	–	–	–	283.5
Total financial assets	1,418.0	–	–	–	–	1,406.9
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	**1,104.8**	1,104.8	–	–	–	1,104.8
Held-to-maturity securities	**192.7**	192.7	–	–	–	192.7
Available-for-sale financial assets	**114.4**	11.1	–	103.3	–	103.3
Derivatives that do not qualify for hedge accounting	**2.9**	–	2.9	–	–	2.9
Derivatives that qualify for hedge accounting	**3.2**	–	–	3.2	–	3.2
Financial liabilities (excluding finance leases)	**1,422.1**	1,422.1	–	–	–	1,419.5
Measured at amortized cost	**–**	1,422.1	–	–	–	1,419.5
Liabilities from finance leases	**36.1**	–	–	–	36.1	36.1
Trade payables	**369.7**	369.7	–	–	–	369.7
Measured at amortized cost	**–**	369.7	–	–	–	369.7
Other financial liabilities	**64.1**	35.4	17.4	11.3	–	64.1
Measured at amortized cost	**–**	35.4	–	–	–	35.4
Derivatives that do not qualify for hedge accounting	**–**	–	4.3	–	–	4.3
Derivatives that qualify for hedge accounting	**–**	–	13.1	11.3	–	24.4
Total financial liabilities	1,892.0	–	–	–	–	1,889.4
Of which pursuant to IAS 39 measurement categories:						
Measured at amortized cost	**1,827.2**	1,827.2	–	–	–	1,824.6
Derivatives that do not qualify for hedge accounting	**4.3**	–	4.3	–	–	4.3
Derivatives that qualify for hedge accounting	**24.4**	–	13.1	11.3	–	24.4

[1] This item contains available-for-sale financial assets the market values of which cannot be calculated reliably and which have been recognized at cost. It is recognized in the statement of financial position under noncurrent financial assets.

Financial Assets and Liabilities by Measurement Category and Class as of Dec. 31, 2015

€ million

	Balance sheet carrying amount Dec. 31, 2015	Measurement pursuant to IAS 39 (Amortized) cost	Measurement pursuant to IAS 39 Fair value through profit or loss	Measurement pursuant to IAS 39 Fair value through other comprehensive income	Measurement pursuant to IAS 17 (Amortized) cost	Fair value Dec. 31, 2015
Trade receivables	**679.4**	679.4	–	–	–	679.4
Loans and receivables	**–**	679.4	–	–	–	679.4
Other financial assets	**161.3**	148.7	12.1	0.5	–	150.2
Loans and receivables	**–**	137.6	–	–	–	137.6
Available-for-sale financial assets[1]	**–**	11.1	–	–	–	–
Derivatives that do not qualify for hedge accounting	**–**	–	11.2	–	–	11.2
Derivatives that qualify for hedge accounting	**–**	–	0.9	0.5	–	1.4
Securities and fixed-term deposits	**70.9**	64.6	–	6.3	–	70.9
Loans and receivables	**–**	64.6	–	–	–	64.6
Available-for-sale securities	**–**	–	–	6.3	–	6.3
Cash and cash equivalents	**310.5**	310.5	–	–	–	310.5
Loans and receivables	**–**	310.5	–	–	–	310.5
Total financial assets	1,222.1	–	–	–	–	1,211.0
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	**1,033.3**	1,033.3	–	–	–	1,033.3
Held-to-maturity securities	**158.8**	158.8	–	–	–	158.8
Available-for-sale financial assets	**17.4**	11.1	–	6.3	–	6.3
Derivatives that do not qualify for hedge accounting	**11.2**	–	11.2	–	–	11.2
Derivatives that qualify for hedge accounting	**1.4**	–	0.9	0.5	–	1.4
Financial liabilities (excluding finance leases)	**1,416.3**	1,416.3	–	–	–	1,421.7
Measured at amortized cost	**–**	1,416.3	–	–	–	1,421.7
Liabilities from finance leases	**39.1**	–	–	–	39.1	39.1
Trade payables	**378.3**	378.3	–	–	–	378.3
Measured at amortized cost	**–**	378.3	–	–	–	378.3
Other financial liabilities	**50.1**	21.8	16.0	12.3	–	50.1
Measured at amortized cost	**–**	21.8	–	–	–	21.8
Derivatives that do not qualify for hedge accounting	**–**	–	15.9	–	–	15.9
Derivatives that qualify for hedge accounting	**–**	–	0.1	12.3	–	12.4
Total financial liabilities	1,883.8	–	–	–	–	1,889.2
Of which pursuant to IAS 39 measurement categories:						
Measured at amortized cost	**1,816.4**	1,816.4	–	–	–	1,821.8
Derivatives that do not qualify for hedge accounting	**15.9**	–	15.9	–	–	15.9
Derivatives that qualify for hedge accounting	**12.4**	–	0.1	12.3	–	12.4

[1] This item contains available-for-sale financial assets the market values of which cannot be calculated reliably and which have been recognized at cost. It is recognized in the statement of financial position under noncurrent financial assets.

The loans and receivables reported include trade receivables, other loans and fixed-term deposits as well as cash and cash equivalents. Cash and cash equivalents in foreign currency are measured at the conversion rate prevailing on the reporting date. Their carrying amounts correspond to their fair values. The fair value of the loans corresponds to their present value, i.e. the present value of the expected future cash flows. Discounting is carried out on the basis of the interest rates valid on the reporting date.

Available-for-sale financial assets include securities and investments in joint ventures and associates. Investments in joint ventures and associates are measured at cost, as no observable prices on active markets are available.

The carrying amounts of trade payables and other financial liabilities correspond to their fair values. The fair values of financial liabilities constitute the present value of the expected future cash flows. Discounting is carried out on the basis of the interest rates valid on the reporting date. All other financial liabilities are valued at cost as no observable prices for them are available.

The following table shows the net gains and losses from financial instruments.

€ million	2016	2015
Net gains/losses from financial instruments		
Loans and receivables	**17.9**	29.5
Available-for-sale financial assets	**1.3**	0.7
Assets/liabilities classified as at fair value through profit or loss	**–15.9**	7.5
Financial liabilities at amortized cost	**–46.3**	–66.0
Total	**–43.0**	–28.3

The net result of the category “Loans and receivables” was primarily due to net losses/gains from foreign currency translation, interest income from financial assets, demand deposits and valuation allowances.

The category “Available-for-sale financial assets” includes interest income from fixed-interest securities.

The category “Held-to-maturity financial assets” mainly comprises fixed-term deposits with terms of up to one year that are posted under securities.

The gains and losses from changes in the fair value of foreign-currency exchange rates, interest rates and commodity derivatives that do not fulfill the requirements of IAS 39 for hedge accounting are posted in the category “Assets/liabilities classified as at fair value through profit or loss.” The effects of fair value hedge accounting are also reported here.

The interest income from financial assets that are not recognized at fair value through profit or loss amounted to €5.6 million, compared with the prior-year figure of €6.9 million. This interest income mainly results from demand deposits and loans as well as from held-to-maturity securities.

The interest expense from financial liabilities that are not recognized at fair value through profit or loss amounts to €42.4 million, versus €31.8 million in the prior year. These interest expenses are mainly due to financial liabilities.

The net losses in the category “Financial liabilities measured at amortized cost” primarily consist of interest expenses on bank liabilities and other financial liabilities, as well as net losses/gains from foreign currency translation.

Neither in the year under review nor in the previous year were there any reclassifications of financial assets between those recognized at amortized cost and those recognized at market value or vice versa.

The financial assets and liabilities measured at fair value in the financial statements were allocated to one of three categories in accordance with the fair value hierarchy described in IFRS 13. Allocation to these categories reveals which of the fair values reported were settled through market transactions and the extent to which the measurement was based on models in the absence of observable market transactions.

The following are the levels of the hierarchy.

Level 1
Financial instruments measured using quoted prices in active markets, the fair value of which can be derived directly from prices in active liquid markets and for which the financial instrument observable in the market is representative of the financial instrument being measured. These include fixed-interest securities traded in liquid markets.

Level 2
Financial instruments measured using valuation methods based on observable market data, the fair value of which can be determined using similar financial instruments traded in active markets or using valuation methods all of whose parameters are observable. These include hedging and non-hedging derivative financial instruments, loans and financial liabilities.

Level 3
Financial instruments measured using valuation methods not based on observable parameters, the fair value of which cannot be determined using observable market data and which require application of different valuation methods. The financial instruments belonging to this category have a value component that is not market-observable and has a major impact on fair value. These include over-the-counter derivatives and unquoted equity instruments.

The following table shows the categories in the fair value hierarchy to which the financial assets and liabilities measured at fair value in the statement of financial position are allocated. The table also shows financial assets and liabilities measured at cost in the statement of financial position. Their fair values are given in the Notes:

Fair Value Hierarchy

€ million	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
As of December 31, 2016				
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	2.9	–	**2.9**
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	3.2	–	**3.2**
Available-for-sale securities and fixed-term deposits	103.3	–	–	**103.3**
Total	103.3	6.1	–	109.4
Financial assets measured at amortized cost				
Loans and receivables				
Loans	–	96.4	–	**96.4**
Total	–	96.4	–	96.4
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	4.3	–	**4.3**
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	24.4	–	**24.4**
Total	–	28.7	–	28.7
Financial liabilities measured at amortized cost				
Financial liabilities				
Measured at amortized cost	–	1,419.5	–	**1,419.5**
Total	–	1,419.5	–	1,419.5

Fair Value Hierarchy

€ million	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
As of December 31, 2015				
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	11.2	–	**11.2**
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	1.4	–	**1.4**
Available-for-sale securities and fixed-term deposits	6.3	–	–	**6.3**
Total	6.3	12.6	–	18.9
Financial assets measured at amortized cost				
Loans and receivables				
Loans	–	99.9	–	**99.9**
Total	–	99.9	–	99.9
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives that do not qualify for hedge accounting	–	15.9	–	**15.9**
Fair value through other comprehensive income/through profit or loss				
Derivatives that qualify for hedge accounting	–	12.4	–	**12.4**
Total	–	28.3	–	28.3
Financial liabilities measured at amortized cost				
Financial liabilities				
Measured at amortized cost	–	1,421.7	–	**1,421.7**
Total	–	1,421.7	–	1,421.7

WACKER regularly reviews whether its financial instruments are still appropriately allocated to the fair-value-hierarchy levels. As was the case in the previous year, no reclassifications were carried out within the fair value hierarchy in 2016.

In the period under review, WACKER measured only financial assets and liabilities at fair value. The market values were calculated using market information available on the reporting date and based on counterparties' quoted prices or via appropriate valuation methodologies (discounted cash-flow or well-established actuarial methodologies, such as the par method).

Derivative financial instruments and available-for-sale financial assets are recognized at fair value and are thus subject to a recurring fair-value assessment.

The fair value of derivative financial instruments is calculated based on market data such as exchange rates or yield curves in accordance with market-specific valuation methodologies. The calculation of the fair value contains our own and the counterparty's default risk, using maturity-matching and market-observable CDs values. The fair value of available-for-sale financial assets can be derived from prices listed in active markets.

Loans and financial liabilities are measured at amortized cost. However, the fair values must be provided in the Notes.

The fair value of the loans corresponds to the present value of expected future cash flows. Application of the discounted cash flow method using market interest rates means that the carrying amount of the loans corresponds to their fair value.

The fair value of financial liabilities is determined using the net present value method and is based on standard market interest rates.

It was not possible to calculate the fair value of the equity instruments that WACKER measures at amortized cost as no stock market prices or market values are available. The instruments in question are shares in unlisted companies for which there was no indication of a lasting impairment on the reporting date and the fair value of which cannot reliably be determined. WACKER had no intention of selling any of the shares reported as of December 31, 2016.

The unilateral call option held by WACKER for the purchase of 1 percent of the shares in the subsidiary WACKER Asahikasei Silicones Co. Ltd., Japan is recognized at cost as of December 31, 2016.

WACKER does not currently have any financial instruments measured at fair value that are allocated to Level 3 of the fair value hierarchy.

No changes were made to the valuation methodology compared with the previous year.

Management of Financial Risks
In the normal course of business, WACKER is exposed to credit, liquidity, and market risks from financial instruments. The aim of financial risk management is to limit risks from operations and the resultant financing requirements by using certain derivative and non-derivative hedging instruments.

The risks connected with the procurement, financing and selling of WACKER's products and services are described in detail in the management report. WACKER counters financial risks via the risk management system it has in place. That system is monitored by the Supervisory Board. The fundamental purpose of the risk management system is to identify, analyze, coordinate, monitor and communicate risks in a timely manner. The Executive Board receives regular analyses on the extent of those risks. The analyses focus on market risks, in particular on the potential impact of raw-material price risks, foreign-currency exchange risks, and interest rate risks on EBITDA and interest result.

Credit Risk (Risk of Default)
In terms of financial instruments, the Group is exposed to a default risk should a contractual party fail to fulfill its commitments. The maximum risk is therefore the amount of the respective financial instrument's positive fair value. To limit the risk of default, particularly for investments of securities and cash, transactions are conducted only within defined limits and with partners of very high credit standing. To make efficient risk management possible, the market risks within the Group are controlled centrally. The conclusion and handling of transactions comply with internal credit-risk principles and are subject to monitoring procedures that take account of the separation of duties. As for operations, outstanding receivables and default risks are continually monitored and hedged with trade credit insurance, advance payments and bank guarantees. Customer credit ratings and limits are based on generally available information from rating agencies and internal documents. No collateral exists for financial instruments. Receivables from major customers are not so high as to represent an extraordinary concentration of risks. Default risks are accounted for by valuation allowances, taking advance payments received into account.

Liquidity Risk
A liquidity risk means that a company may not be able to meet its existing or future financial obligations due to inadequate funds. To ensure uninterrupted solvency and financial flexibility, the Group holds long-term lines of credit at financial institutions of high credit standing and liquid funds based on multiyear financial planning and rolling liquidity planning.

To limit liquidity risk, WACKER keeps liquid reserves in the form of current investments and unused lines of credit. WACKER has also concluded agreements with a number of banks for long-term syndicated loans and bilateral loans.

For information on the maturity analysis for non-derivative financial liabilities, please refer to the note on Financial Liabilities.
▷ See Note 13

Market Risks
Market risks refer to the risk that fair values or future cash flows of a primary or derivative financial instrument could fluctuate due to changing risk factors.

Foreign Exchange Risk
The potential currency exposure to be hedged with derivative financial instruments is determined on the basis of major foreign-currency income and expenditure. The greatest risk is posed by the US dollar. US-dollar income is taken to mean all sales invoiced in US dollars, while all purchases in US dollars as well as site costs incurred in US dollars are reported under US-dollar expenditure. The evaluation of potential risks includes not only direct US-dollar income and expenditure, but also the indirect US-dollar impact of WACKER's main raw materials (methanol and natural gas). The US dollar is the only relevant risk variable for the sensitivity analysis in accordance with IFRS 7, since the largest share of foreign-currency cash flows is in US dollars. By comparison, increases in the euro exchange rate against the renminbi (CNY) and yen (JPY) have a minor impact. In determining sensitivity, we simulate a 10-percent US-dollar devaluation against the euro, taking as a starting point the exchange rate used in the forecast. Such a devaluation would have had an effect on EBITDA of €–58 million as of December 31, 2016 and of

€–60 million as of December 31, 2015. The effect from cash-flow-hedge designated items would have increased equity before income taxes by €15.3 million, versus €29.4 million a year earlier. The Group's currency exposure amounted to €582 million as of December 31, 2016, after €595 million in the prior year.

Interest Rate Risk

The interest rate risk results mainly from financial liabilities and interest-bearing investments. The Executive Board determines the mix of fixed- and variable-interest financial debt. Interest rate derivatives are concluded as required, taking account of the given structure. Depending on whether the instrument in question has a fixed or variable interest rate, the interest rate risks are measured on the basis of either market-value sensitivity or cash-flow sensitivity. As financial liabilities and fixed-interest investments are measured at amortized cost, they are, in accordance with IFRS 7, not subject to any interest-rate risk. Available-for-sale securities are recognized at fair value. Due to their short maturities, they are not subject to a significant risk of changes in interest rates. Hedge accounting is not used for any of the interest rate derivatives. Changes in market interest rates have an impact on the net interest income generated by variable-interest financial instruments and are thus included in the calculation of earnings-related sensitivity. Changes in the market interest rates of interest rate derivatives affect the financial result, and are consequently included in any earnings-related sensitivity analysis. If the market interest rate on December 31, 2016 had been 100 base points lower (December 31, 2015: lower), the interest result would have been €0.4 million (€1.4 million) lower (lower).

Raw-Material Price Risk

In general, the company is faced with the risk that its supplies of raw materials may be inadequate and that potential increases in raw-material prices could threaten its results. These risks are covered by long-term contracts. Cash flow hedge accounting is used only to a minor degree for long-term energy needs in Norway. This item is recognized in profit or loss under the cost of goods sold.

Derivative Financial Instruments

Financial risks are also hedged using derivative financial instruments. The raw-material price risks that WACKER hedges against result principally from ongoing energy procurement. Electricity-supply price hedging takes place via contractual stipulations, for which the "own-use exemption" rules of IAS 39 can essentially be used. These contracts, which are concluded for the purpose of receiving or delivering non-financial goods according to WACKER's own needs, are not recognized as derivatives, but rather as pending transactions.

In those cases where WACKER hedges against currency risks, it uses derivative financial instruments, in particular currency forward exchange contracts, currency options and foreign exchange swaps. Derivatives are used only if they are backed by positions, cash deposits and funding, or scheduled transactions arising from operations. The scheduled transactions also include anticipated, but not yet invoiced, sales in foreign currencies.

Foreign exchange hedging is carried out particularly for the US dollar, Japanese yen and Singapore dollar. Potential interest rate hedges are based on the maturities of the underlying transactions.

Operational hedging in the foreign exchange area relates to the receivables and liabilities already recognized, and generally covers time horizons of between two and three months. The time horizon for strategic hedging is between three and a maximum of 21 months. The hedged cash flows influence the statement of income at the time when sales are realized. The cash inflows are usually recorded shortly afterward, depending on the payment deadline. As well as receivables from and liabilities to third parties, intercompany financial receivables and liabilities are hedged.

The fair values refer to the repurchase values (redemption values) of the financial derivatives as of the balance sheet date and are calculated using recognized actuarial methods.

The derivatives are recognized at their fair values, irrespective of their stated purpose. They are reported in the statement of financial position under other financial assets or other financial liabilities. Where permissible, cash flow hedge accounting is carried out for the strategic hedging of currency exchange risks from future foreign exchange positions. Depending on the nature of the underlying transaction, they are posted in the statement of income either under the operating result or, if financial liabilities are being hedged, under interest result or other financial result.

For strategic hedging purposes, graduated hedging ratios of between 50 and 30 percent are used in relation to the expected net exposure in US dollars. The expected net exposure for 2017 is about 50 percent hedged, with the expected additional net exposure for semiconductor business for 2018 being around 15 percent hedged. The average hedging ratio for operational hedging in US dollars is around 50 percent.

In fiscal 2016, the accumulated income and expenses recorded directly in equity included a pre-tax result from cash flow hedges amounting to €7.6 million, compared with €15.8 million in the prior year. During 2016, €–21.1 million was reclassified to the statement of income, after €69.7 million in the prior year. In the result for the period, no gains or losses from hedge accounting ineffectiveness were recorded, as the hedging relationships were almost entirely effective.

The purpose of fair value hedges is to hedge against changes in the fair value of financial assets and liabilities that come about because of fluctuations in the value of currencies (foreign currency swap). If the hedge is effective, the carrying amount of the corresponding underlying transaction is amended to reflect the changes in the fair value of the hedged risks. At year end, WACKER recognized income of €5.1 million from the valuation of the hedging instrument under fair value hedges, versus income of €7.3 million in the prior year. At the same time, an expense of €–5.1 million was realized on the underlying transaction, versus an expense of €–7.3 million a year earlier. Both amounts were recognized in the financial result. In the case of another fair value hedge, a loss of €3.2 million from measurement of the hedge and a gain of €3.2 million from measurement of the underlying transaction were recognized under other operating expenses.

€ million	Dec. 31, 2016		Dec. 31, 2015	
	Nominal values	Market values	Nominal values	Market values
Foreign exchange derivatives	**1,637.2**	**–21.8**	1,826.5	–12.7
Other derivatives	**15.0**	**–0.8**	17.3	–3.0
Total	1,652.2	–22.6	1,843.8	–15.7
Market values of derivative financial instruments used for hedge accounting		**–21.1**		–11.3

The foreign exchange derivatives mainly comprise forward exchange contracts, foreign exchange options and foreign exchange swaps amounting to US$610.8 million, ¥33.1 billion, SG$70.7 million and €687.0 million, versus US$1,309.5 million, ¥28.0 billion, SG$469.7 million and CHF10.5 million a year earlier. Derivatives with market values of €–22.4 million are due in 2017, and €0.5 million expire in 2018.

Other derivatives involve electricity futures traded on the Norwegian market for a nominal amount of €15.0 million, after €17.3 million in the prior year. The electricity futures are used to limit the risk of rising spot-market prices for energy via structured price setting on the electricity market. The hedged amount represents up to 90 percent of the Holla (Norway) site's future silicon-production power needs not covered by long-term supply contracts. The futures have maturities of between one and four years. Derivatives with maturities up until 2020 were concluded.

The following table contains information on the netting of financial assets and liabilities in the consolidated statement of financial position.

Financial Assets/Liabilities Subject to Netting Agreements, Enforceable Global Netting Agreements and Similar Agreements

€ million	Dec. 31, 2016		Dec. 31, 2015	
	Derivatives with a positive market value	Derivatives with a negative market value	Derivatives with a positive market value	Derivatives with a negative market value
I **Gross amounts of recognized financial assets/liabilities**	**7.4**	**–29.9**	12.7	–28.4
II Gross amounts of recognized financial assets/liabilities netted out in the balance sheet	**–1.3**	**1.3**	–0.1	0.1
I+II **Net amounts of financial assets/liabilities presented in the balance sheet**	**6.1**	**–28.6**	12.6	–28.3
Related amounts not netted out in the balance sheet				
Financial instruments	**–5.0**	**5.0**	–6.1	6.1
Cash collateral received/paid	**–**	**–**	–	–
Net amount	1.1	–23.6	6.5	–22.2

In addition to the financial instruments complying with the provisions on netting pursuant to IAS 32, the table also includes those financial instruments that are subject to netting agreements or master netting agreements but may not be netted pursuant to IAS 32.

As a part of strategic hedging activities, WACKER closes out forward-exchange contracts prior to maturity by means of offsetting transactions. The strategic forward-exchange contract and the corresponding offsetting forward-exchange transaction are recognized as a net amount in accordance with IAS 32 criteria. In addition, general offsetting agreements, which apply only in cases of insolvency, have been concluded with a number of banks.

The net amount shows the amount of financial assets or liabilities that, despite netting and global netting agreements, is not received or must be paid in the event of insolvency.

19 Notes to the Statement of Cash Flows

Cash flow from operating activities is calculated using the indirect method, which adjusts the relevant changes in statement-of-financial-position items for any exchange-rate effects and effects of changes in the scope of consolidation. This means that changes to the relevant statement-of-financial-position items cannot be reconciled with the corresponding values based on the published consolidated statements of financial position.

Construction-related borrowing costs that have to be capitalized were deducted from the interest payments recognized in cash flow from operating activities. These construction-related borrowing costs increased capital expenditure included in cash flow from investing activities by €1.2 million, versus €18.6 million in the prior year.

In the case of cash flow from investing activities, the actual outflows of funds are recognized. As a result, it is also not possible to reconcile these figures with the additions to investments in the consolidated statement of financial position. If subsidiaries or business activities are acquired or sold, the effects of these transactions are shown as separate items in the statement of cash flows. Investment in securities falling due in more than three months is reported separately under cash flow from investing activities because, in economic terms, these transactions are considered an element of liquidity.

The Group is financed mainly by bank loans granted in the form of loan commitments. Within the defined approval limits for loan commitments, our utilization of credit may be subject to considerable fluctuations both within a given year and over several years. The raising and repayment of loans in foreign currencies are translated at the exchange rate prevailing as of the time of transaction, with the result that here, too, it is not possible to reconcile all the inflows and outflows with the changes in financial liabilities in the statement of financial position.

Please see the Notes for more details on the composition of funds made up of cash and cash equivalents.

▷ See Note 09

20 Explanatory Notes on Segment Reporting

The Group's segment reporting is in line with the internal organizational and reporting structure. WACKER reports on five operating segments (Silicones, Polymers, Biosolutions, Polysilicon and Siltronic), which are organized and managed autonomously on the basis of the type of products they offer and their different risk and income structures. Business segments are not combined. Any activities or results not assigned to an operating segment are shown under "Other." Foreign currency gains or losses pertaining to the Siltronic operating segment are recognized directly in that operating segment because an assignment in Siltronic's sub-group financial statements is possible. Foreign currency gains or losses pertaining to the chemical divisions and the Polysilicon operating segment are shown under "Other."

Items in the statement of financial position and statement of income are assigned to the operating segments in accordance with the commercial power of disposition. Assets used jointly by several segments are generally shown under "Other" if they cannot be assigned clearly to a particular segment. A similar approach is adopted for borrowed funds. For the geographical regions, the assets and liabilities are assigned in accordance with where the respective Group company's site is located. Sales are classified in accordance with both the customer's location and the respective Group company's site.

WACKER measures the segments' success using the segment profitability variable EBITDA. EBITDA is calculated by adjusting EBIT for depreciation and amortization, impairments, and write-ups. EBIT consists of the gross profit from sales, selling and general administrative expenses, research and development expenses, and other operating income and expenses including income from investments in joint ventures and associates and other income from investments.

Asset additions, depreciation, amortization and write-ups refer to intangible assets, to property, plant and equipment, to investment property and to financial assets. Internal sales show the sales that are generated between the segments. They are settled mainly on the basis of market prices or planned cost of sales. Segment information is based on the same presentation and accounting methods used for the consolidated financial statements. Receivables and liabilities, provisions, income, expenses, and results between the segments are eliminated in the course of consolidation.

As a rule, the assets reported for the segments encompass all of their assets. Loans, cash and cash equivalents, and deferred tax assets, however, are allocated to the "Other" segment.

The liabilities shown for the segments represent all of their liabilities – except deferred tax liabilities, which are shown under "Other." The Group's financial liabilities are allocated to individual segments in proportion to the segment assets. Provisions for pensions are allocated in accordance with Group HR ratios. The advance payments received are allocated directly to the individual segments.

Non-cash expenses and income are divided up between the individual segments as follows:

Other Non-Cash Expenses (+) and Income (–)

€ million	2016	2015
SILICONES	**–1.4**	1.5
POLYMERS	**–2.4**	0.9
BIOSOLUTIONS	**0.8**	0.1
POLYSILICON	**15.1**	4.3
SILTRONIC	**2.9**	–9.7
Other	**–35.8**	–36.2
Total	–20.8	–39.1

The decline in both advance payments received for polysilicon deliveries and advance payments retained due to the termination of polysilicon contracts amounted to €161.1 million, compared with €214.4 million in the prior year. In the Siltronic segment, advance payments received decreased by €20.1 million, versus €23.9 million in the prior year. The Biosolutions segment accounted for €1.9 million of this decrease.

Important valuation changes not recognized through profit or loss include changes in the market value of derivative financial instruments (cash flow hedging) and changes in value from the remeasurement of defined benefit pension plans.

Of the changes in the market value of derivative financial instruments from cash flow hedging, €5.0 million (versus €13.5 million a year earlier) is attributable to the Siltronic segment and €–1.9 million (versus €8.9 million) to "Other."

The changes in value due to the remeasurement of defined benefit plans are allocated to the segments as follows:

€ million	2016	2015
SILICONES	–93.6	41.8
POLYMERS	–35.4	15.3
BIOSOLUTIONS	–9.2	3.7
POLYSILICON	–63.8	28.2
SILTRONIC	–90.5	47.3
Other	–167.4	77.8

In addition to Germany, the USA and China are the only countries in which WACKER generates significant sales from a Group viewpoint. Measured in relation to the headquarters of the selling unit, sales amounted to €756.8 million in the USA – after €732.9 million in the previous year – and €406.3 million in China, after €419.5 million the year before. Measured by customer location in the USA and China, the respective sales generated were €773.7 million (€754.1 million in the prior year) and €1,016.0 million (€1,013.8 million in the prior year). WACKER has no major customer whose sales it is obliged to report.

The reconciliation of the segments' aggregate results with the net income for the year is shown in the following list:

Reconciliation of Segment Results (EBIT)

€ million	2016	2015
Operating result of reporting segments	**365.8**	472.5
Consolidation	**0.4**	0.9
Group EBIT	**366.2**	473.4
Financial result	**–101.4**	–66.7
Income before taxes	264.8	406.7
Income taxes	**–75.5**	–164.9
Net income for the year	189.3	241.8

21 Breakdown of Shareholdings

Unless otherwise stated, the following figures for international subsidiaries were calculated in accordance with IFRS.

Serial number	Activity	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
Affiliated Companies						
Germany						
1 Alzwerke GmbH, Munich	Other	a), b)	7,160	–	100.00	0
2 DRAWIN Vertriebs-GmbH, Hohenbrunn	Silicones	a), b)	5,016	–	100.00	0
3 W.E.L.T. Reisebüro GmbH, Munich[2]	Other		191	75	100.00	0
4 Wacker-Chemie Versicherungsvermittlung GmbH, Munich	Other	a), b)	26	–	100.00	0
5 Wacker-Chemie Beteiligungsfinanzierungs GmbH, Munich	–		29	–1	100.00	0
6 Wacker Polysilicon Geschäftsführungs GmbH, Nünchritz	–		27	–	100.00	0
7 Wacker-Chemie Erste Venture GmbH, Munich	–		80	–	100.00	0
8 Wacker-Chemie Zweite Venture GmbH, Munich	–		35	–1	100.00	0
9 Wacker-Chemie Dritte Venture GmbH, Munich	Holding	a), b)	387,727	–	100.00	0
10 Wacker-Chemie Sechste Venture GmbH, Munich	–		27	–	100.00	0
11 Wacker Biotech GmbH, Jena	Biosolutions	a), b)	290	–	100.00	0
12 Wacker-Chemie Siebte Venture GmbH, Munich	–		25	–	100.00	0
13 Wacker-Chemie Achte Venture GmbH, Munich	–	a), b)	2,753	–	100.00	0
14 Siltronic AG, Munich	Siltronic		503,044	–22,716	49.50	9
					8.33	0
15 Wacker-Chemie Zehnte Venture GmbH, Munich	–		25	–	100.00	0
16 Wacker-Chemie Elfte Venture GmbH, Munich	–		25	–	100.00	0
17 Wacker-Chemie Zwölfte Venture GmbH, Munich	–		25	–	100.00	0

Serial number	Activity	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
Rest of Europe						
18 Wacker Chemicals Finance B.V., Krommenie, Netherlands	Holding		1,373,006	3,156	100.00	0
19 Wacker-Chemicals Ltd., Egham, Surrey, Great Britain	Sales and distribution		792	717	100.00	0
20 Wacker-Chemie Italia S.r.L., San Donato Milanese, Italy	Sales and distribution		2,599	1,009	100.00	0
21 Wacker-Chemie Benelux B.V., Krommenie, Netherlands	Sales and distribution		498	480	100.00	18
22 Wacker Chimie S.A.S., Lyon, France	Sales and distribution		460	225	100.00	0
23 Wacker-Kemi AB, Solna, Sweden	Sales and distribution		580	526	100.00	0
24 Wacker Química Ibérica, S.A., Barcelona, Spain	Sales and distribution		530	392	100.00	0
25 Siltronic Holding International B.V., Krommenie, Netherlands	Holding		331,173	11,815	100.00	14
26 Wacker-Chemie S.r.o., Prague, Czech Republic	Sales and distribution		3,290	255	100.00	0
27 Wacker-Chemie Polska Sp. z o.o., Warsaw, Poland	Sales and distribution		503	377	100.00	0
28 Wacker-Chemie Hungária Kft., Budapest, Hungary	Sales and distribution		532	343	100.00	0
29 OOO Wacker Chemie RUS, Moscow, Russia	Sales and distribution		1,027	226	100.00	0
30 Wacker Chemicals Norway AS, Holla, Norway	Silicones		46,423	2,668	100.00	18
31 Wacker Kimya Tic. Ltd. Sti., Istanbul, Turkey	Sales and distribution		137	78	100.00	18
32 Wacker Biosolutions León, S.L.U., León, Spain	Biosolutions		1	–2	100.00	18
The Americas						
33 Wacker Química do Brasil Ltda., São Paulo, Brazil	Silicones, Polymers		27,665	1,150	100.00	0
34 Wacker Mexicana S.A. de C.V., Mexico, D.F., Mexico	Sales and distribution		1,184	635	100.00	0
35 Wacker Chemical Corp., Adrian, Michigan, USA	Silicones, Polymers, Biosolutions		1,513,610	34,251	100.00	18
36 Wacker Polysilicon North America, LLC, Cleveland, Tennessee, USA	Polysilicon		1,110,510	–7,761	100.00	35
37 Siltronic Corp., Portland, Oregon, USA	Siltronic		11,924	5,106	100.00	25
38 Wacker Colombia S.A.S., Bogotá, Colombia	Sales and distribution		192	175	100.00	18
Asia						
39 Wacker Asahikasei Silicone Co. Ltd., Tokyo, Japan	Silicones		25,016	2,985	50.00[5]	0
40 Wacker Chemicals (South Asia) Pte. Ltd., Singapore	Sales and distribution		2,120	618	100.00	0
41 Wacker Chemicals Hong Kong Ltd., Hong Kong, China	Sales and distribution		3,495	767	100.00	0
42 Wacker Metroark Chemicals Pvt. Ltd., Parganas, India	Silicones		51,363	9,662	51.00	0
43 Wacker Chemicals Korea Inc., Seoul, South Korea	Silicones, Polymers		42,413	8,952	100.00	18
44 Wacker Chemicals East Asia Ltd., Tokyo, Japan	Sales and distribution		122	105	100.00	0

Serial number	Activity	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
45 Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore	Holding		47,982	–18	51.00	0
46 Wacker Chemicals Fumed Silica (ZJG) Co. Ltd., Zhangjiagang, China	Silicones		21,881	4,100	100.00	45
47 Wacker Chemicals (Zhangjiagang) Co. Ltd., Zhangjiagang, China	Silicones		54,269	4,844	100.00	49
48 Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi, China	Biosolutions		2,540	–122	100.00	49
49 Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, China	Sales and distribution		138,705	13,202	100.00	0
50 Wacker Chemicals (Nanjing) Co. Ltd., Nanjing, China	Polymers, Biosolutions		54,640	1,557	100.00	49
51 Wacker Chemicals India Ltd., Mumbai, India	Sales and distribution		4,324	190	100.00	18
52 PT. Wacker Chemicals Indonesia, Tangerang, Indonesia	Silicones, Polymers, Biosolutions		147	–42	99.00	18
					1.00	2
53 Siltronic Singapore Pte. Ltd., Singapore	Siltronic		171,371	43,418	100.00	25
54 Siltronic Japan Corp., Hikari, Japan	Siltronic		–7,506	–292	100.00	25
55 Siltronic Silicon Wafer Pte. Ltd., Singapore	Siltronic		–39,510	–9,778	77.70	25
Other Regions						
56 Wacker Chemicals Australia Pty. Ltd., Melbourne, Australia	Sales and distribution		671	319	100.00	0
57 Wacker Chemicals Middle East Ltd., Dubai, UAE	Sales and distribution		3,020	–89	100.00	0
Joint Ventures/Associated Companies[3]						
58 Dow Corning (ZJG) Holding Co. Private Ltd., Singapore	Silicones		342,311	–15,143	25.00	0
59 Wacker Dymatic (Shunde) Co. Ltd., Guangdong, China	Silicones		22,530	5,247	50.00	49
Special-Purpose Entity						
60 WMM-Universal-Fonds, Germany	–		105,514	–92	100.00[4]	0

* Identifier:
[a] Wacker Chemie AG has either directly or indirectly concluded profit and loss transfer agreements with these entities.
[b] The shareholders of Wacker Chemie AG have agreed not to disclose the financial statements of these entities (Section 264 (3) of the German Commercial Code).

[1] Serial number 0: Wacker Chemie AG
[2] Prior-year figures
[3] Only direct holdings in the relevant parent company are listed
[4] Share of special assets; as per IFRS
[5] Control on the basis of potential voting rights

22 Related Party Disclosures

IAS 24 stipulates that a person or company which controls, or is controlled by, Wacker Chemie AG must be disclosed unless the person or company is already included in Wacker Chemie AG's consolidated financial statements as a consolidated company. A shareholder is deemed to have control if the shareholder has more than half of the voting rights in Wacker Chemie AG or, by virtue of provisions in the Articles of Association or contractual arrangements, has the possibility of controlling the financial and business policy of the WACKER Group's Executive Board.

In the year under review, the WACKER Group was affected by the disclosure obligations under IAS 24 in respect of the business relations with Wacker Chemie AG's major shareholders and its Executive and Supervisory Board members. The principles of IAS 24 also apply to all transactions with non-consolidated subsidiaries, associated companies and joint ventures, since Wacker Chemie AG exercises significant influence over them.

Dr. Alexander Wacker Familiengesellschaft mbH, Munich, informed Wacker Chemie AG on June 7, 2006, that it holds over 50 percent of the voting shares in Wacker Chemie AG. Blue Elephant Holding GmbH, Pöcking, informed Wacker Chemie AG on April 12, 2006, that it holds over 10 percent of the voting shares in Wacker Chemie AG.

The WACKER Group is controlled by its majority shareholder, Dr. Alexander Wacker Familiengesellschaft mbH, which holds over 50 percent of the voting shares in Wacker Chemie AG.

Provision of services between Wacker Chemie AG and its majority shareholder, Dr. Alexander Wacker Familiengesellschaft mbH, as well as with the shareholders of Dr. Alexander Wacker Familiengesellschaft mbH and their close family members, is of subordinate importance, and concerns the renting of office space and exchange of services. None of these services is of significant business scope. The provision of services takes place at standard market terms.

Apart from that, WACKER Group companies have not conducted any material transactions with members of Wacker Chemie AG's Executive or Supervisory Boards or with any other key management personnel or with companies of which these persons are members of executive or supervisory bodies. The same applies to close relatives of the aforementioned persons.

Wacker Chemie AG's pension fund is also considered a related party pursuant to IAS 24. Provision of services takes place between the two entities in the area of company pension plan benefits. WACKER makes payments to plan assets to cover pension obligations. Wacker Chemie AG also rents the headquarters building and the land on which it stands from a subsidiary of Pensionskasse der Wacker Chemie VVaG. Overall, expenditures amounted to €44.8 million (prior year: €45.3 million). Receivables amounted to €48.0 million after €0.5 million in the prior year, while liabilities came to €0.5 million versus €0.0 million in the prior year.

On June 22, 2015, Capital Research and Management Company, Inc., Los Angeles, USA (a subsidiary of Capital Group Companies, Inc. Los Angeles, USA) reported holding 3.07 percent, thereby exceeding the 3-percent threshold of voting shares in Wacker Chemie AG.

Further detailed information has been published in the German register of companies.

www.unternehmensregister.de

Business with joint ventures and associates, the pension fund, and non-consolidated subsidiaries is conducted under conditions that are customary between outside third parties (arm's length transactions). Contractually agreed transfer-price formulas have been defined for joint-venture and associated-company product shipments.

Related Party Disclosures

€ million	2016				2015			
	Income	Expenses	Receivables	Liabilities	Income	Expenses	Receivables	Liabilities
Associated companies	**7.8**	**125.8**	**3.6**	**15.0**	9.5	144.9	3.2	8.7
Joint ventures	**24.4**	**1.1**	**0.9**	**0.1**	31.5	1.4	5.4	0.5

Transactions with joint ventures and associates relate to such supplies and services as arise during the normal course of business (for example in connection with sales revenue, license revenue and administrative expense allocations). Joint ventures and associates submitted invoices for material purchases and commissions. Any guarantees or other security pledges are reported under Other Financial Obligations.

See Note 15

In addition, there is a loan to an associated company totaling €96.4 million (€99.9 million in the prior year).

Information Regarding Compensation for the Supervisory and Executive Boards:

Compensation for the Executive and Supervisory Boards

€	Fixed compensation	Variable compensation	Pension expenses[1]	Total
Executive Board compensation 2016	2,611,723	4,866,125	1,177,876	**8,655,724**
Executive Board compensation 2015	2,629,052	3,681,166	2,174,835	**8,485,053**
Pension commitments for active members of the Executive Board 2016				**27,587,433**
Pension commitments for active members of the Executive Board 2015				**22,692,191**
Compensation for former members of the Executive Board and their surviving dependents 2016				**2,383,467**
Compensation for former members of the Executive Board and their surviving dependents 2015				**1,922,900**
Pension commitments for former members of the Executive Board and their surviving dependents 2016				**39,163,469**
Pension commitments for former members of the Executive Board and their surviving dependents 2015				**36,718,229**
Supervisory Board compensation 2016	2,165,000	–	–	**2,165,000**
Supervisory Board compensation 2015	1,716,973	–	–	**1,716,973**

[1] The compensation for retirement benefits is based on service cost. Interest expense amounted to €624,036, after €585,079 in the prior year.

Dr. Rauhut retired on October 31, 2015 after his employment contract expired as scheduled. Before expiry of his employment contract, Dr. Rauhut had received all compensation due him under the provisions of this contract. He will receive the agreed competitive-restriction compensation, which will total €636,548 for the 12 months following his departure. €106,091 of that total amount was paid to him in 2015 and is included under compensation for former members of the Executive Board and their surviving dependents.

Detailed information about Executive Board compensation is contained in the compensation report, which forms part of the management report. German commercial law (HGB) requires the inclusion of this information in the notes to the consolidated financial statements.

Other business relations with members of the Supervisory and Executive Boards comprise the purchase and sale of shares in Wacker Chemie AG. Such transactions take place on customary market terms and conditions. These transactions were published both in the German register of companies and on the Wacker Chemie AG website.

www.wacker.com/directors-dealings

The members of Wacker Chemie AG's Supervisory Board and Executive Board are listed on the following pages.

23 Events after the Balance Sheet Date

On February 20, 2017, Pensionskasse der Wacker Chemie VVaG informed WACKER that the pension fund's technical business plan had been changed. In this context, it requested a special payment of €48 million for the Group companies covered by the pension fund.

Munich, February 27, 2017
Wacker Chemie AG

Rudolf Staudigl — **Christian Hartel**

Tobias Ohler — **Auguste Willems**

Supervisory Board

Dr. Peter-Alexander Wacker[1, 2, 3]
Chairman

Bad Wiessee
Former President & CEO
of Wacker Chemie AG, businessman

Chairman of the Supervisory Board
Blue Elephant Energy AG (since April 15, 2016)

Chairman of the Administrative Council and Board of Trustees
ifo Institute – Leibniz-Institut für Wirtschaftsforschung
an der Universität München e.V.

Anton Eisenacker*[, 1, 2, 3, 4]
Deputy Chairman
(until December 31, 2016)
Perach
Member of Employee Council, Burghausen Plant,
Wacker Chemie AG

Manfred Köppl*[, 1, 2, 3, 4]
Deputy Chairman
(since January 1, 2017)
Kirchdorf
Member of Employee Council, Burghausen Plant,
Wacker Chemie AG

Peter Áldozó*[, 4]
Burghausen
Deputy Chairman of the Group Employee
Council of Wacker Chemie AG

Dr. Andreas H. Biagosch
Munich
Managing Director of Impacting I GmbH & Co. KG
and Impact GmbH

Member of the Board of Directors
Ashok Leyland, Chennai, India
Hinduja Leyland Finance, Chennai, India

Member of the Supervisory Board
Aixtron SE

Member of the Advisory Board
Lürssen Werft GmbH & Co. KG

Member of the Southern Regional Advisory Council
Commerzbank AG

Dr. Gregor Biebl
Munich
Undersecretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity

Matthias Biebl
Munich
Attorney and in-house lawyer
UniCredit Bank AG

Dagmar Burghart*[, 4]
Kirchdorf
Team Leader of Retirement Benefits
Service Center, Wacker Chemie AG

Deputy Chairwoman of the Supervisory Board
Pensionskasse der Wacker Chemie VVaG
(until April 30, 2016)

Konrad Kammergruber*[, 4]
Burghausen
Director of Infrastructure Services, Wacker Chemie AG

Eduard-Harald Klein*[, 1, 4]
Neuötting
Chairman of the Group and General Employee
Councils of Wacker Chemie AG

Franz-Josef Kortüm[1, 2, 3]
Munich
Former Chairman of the Executive Board of Webasto SE

Deputy Chairman of the Supervisory Board
Webasto SE

Chairman of the Advisory Council
Brose Fahrzeugteile GmbH & Co. KG

Member of the Board of Directors
Autoliv Inc., USA

Seppel Kraus*[, 4]
Olching
Regional head of the IG BCE labor union, Bavaria

Member of the Supervisory Board
Novartis Deutschland GmbH
Hexal AG
Gerresheimer AG

Hansgeorg Schuster*[, 4]
(since January 1, 2017)
Braunau am Inn, Austria
Member of General Employee Council of Siltronic AG**

Harald Sikorski*[, 4]
Munich
District Chairman of the IG BCE labor union, Altötting

Member of the Supervisory Board
Siltronic AG**

Executive Board

Dr. Thomas Strüngmann
Tegernsee
Co-Managing Director of ATHOS Service GmbH

Dr. Susanne Weiss
Munich
Attorney and a partner in the law firm
Weiss Walter Fischer-Zernin

Chairwoman of the Supervisory Board
ROFA INDUSTRIAL AUTOMATION AG

Member of the Supervisory Board
Porr AG, Austria
Schattdecor AG
UBM Development AG, Austria

Chairwoman of the Advisory Council
Alu-Sommer GmbH, Austria
Wirtschaftlicher Verband der Stadt und
des Landkreises Rosenheim e.V.

Prof. Ernst-Ludwig Winnacker
Munich
Professor emeritus of Biochemistry
at LMU Munich

Member of the Supervisory Board
Bayer AG (until April 29, 2016)
MediGene AG (until August 11, 2016)

Dr. Rudolf Staudigl
President & CEO

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

Chairman of the Supervisory Board
Pensionskasse der Wacker Chemie VVaG

Deputy Chairman of the Supervisory Board
Groz-Beckert KG

Member of the Advisory Council, Bavaria
Deutsche Bank AG

Dr. Christian Hartel

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

Dr. Tobias Ohler

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

Chairman of the Supervisory Board
Siltronic AG**

Member of the Supervisory Board
Pensionskasse der Wacker Chemie VVaG

Auguste Willems

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

Member of the Bavarian State Branch Advisory Committee
TÜV Süd AG

* Employee representative
** Affiliated company
[1] Mediation Committee (Chairman: Dr. Peter-Alexander Wacker)
[2] Executive Committee (Chairman: Dr. Peter-Alexander Wacker)
[3] Audit Committee (Chairman: Franz-Josef Kortüm)
[4] These employee representatives are subject to the rules of the German Trade Union Confederation (DGB) and of the German Association of Employed Academics and Executives in the Chemical Industry (VAA) concerning the transfer of supervisory board compensation.

Corporate Governance Report and Declaration on Corporate Management

Corporate governance is an important part of a company's success and of responsible corporate management and supervision. Wacker Chemie AG attaches great importance to the rules of proper corporate governance. In this report, the Executive Board provides details – also on behalf of the Supervisory Board – on corporate governance in accordance with Item 3.10 of the German Corporate Governance Code (the Code) as well as Section 289a (1) and Section 315 (5) of the German Commercial Code (HGB).

Declaration of Conformity and Corporate Governance Reporting

In 2016, the Executive Board and the Supervisory Board dealt intensively with the company's corporate governance and the recommendations of the Code in its currently valid version published on May 5, 2015. The Executive and Supervisory Boards resolved in December 2016 to issue the following Declaration of Conformity. The Declaration of Conformity has since been made permanently available to the general public on the company's website.

Declaration of Conformity 2016 Issued by the Executive Board and Supervisory Board of Wacker Chemie AG

1. General Declaration Pursuant to Section 161 of the German Stock Corporation Act

The Executive Board and the Supervisory Board of Wacker Chemie AG issued their most recent declaration of conformity pursuant to Section 161 of the German Stock Corporation Act in December 2015. Since that time, Wacker Chemie AG has complied with the recommendations of the German Corporate Governance Code (the Code) as amended on May 5, 2015, with the exceptions listed in the following, and will continue to comply with the recommendations of the Code in said version, with the following exceptions.

2. Exceptions

a) D&O Insurance Deductible for Supervisory Board Members

German law and a company's articles of association set clear limits in regard to the supervisory board's ability to exert influence on the business activities of a stock corporation. Pursuant to Section 76 (1) of the German Stock Corporation Act, the executive board has direct responsibility for managing the corporation. The supervisory board is instrumental in defining the main features of corporate strategy. However, beyond this contribution, the supervisory board's abilities are limited in terms of influencing the implementation of corporate strategy or operations. The same applies to measures taken to avert damage or loss to the company. Furthermore, since our Supervisory Board members receive only a relatively small amount for reimbursement of expenses compared to our Executive Board compensation, we do not deem the agreement of a deductible reasonable for members of our Supervisory Board.

b) Formation of a Nomination Committee within the Supervisory Board

The supervisory board is required to establish a nomination committee that is exclusively composed of shareholder representatives and whose task it is to make recommendations to the supervisory board with regard to candidates suitable for proposal to the annual shareholders' meeting. We do not comply with this recommendation because, in view of our shareholder structure, we do not believe that the formation of such a committee is appropriate. Due to the majority situation, nominations to the Supervisory Board must be agreed with the majority shareholder in any case, so that an additional nomination committee would not serve to increase efficiency.

c) Announcement to Shareholders of Proposed Candidates for the Chair of the Supervisory Board

According to this recommendation, shareholders shall be informed of any candidates for the supervisory board chair even though, as a rule, the supervisory board has not yet been appointed. Under German law, the supervisory board chair must be elected by, and from among, the supervisory board members. There is no legal requirement to announce the candidates for the chair from among a yet-to-be-appointed group of supervisory board members. Furthermore, this would result in a de facto predetermination, which is also not provided for under German law. For these reasons, we do not comply with this recommendation.

d) Defining Concrete Objectives Regarding the Number of Independent Members of the Supervisory Board

The Supervisory Board of Wacker Chemie AG, as it is composed at present, meets the requirements of the Code regarding an adequate number of independent members. The Supervisory Board will continue to ensure in future elections that it recommends to the shareholders a number of independent candidates it considers to be appropriate. Additionally defining a concrete objective in this regard would not only limit the choice of suitable candidates for the Supervisory Board, but also restrict the shareholders' right to elect those Supervisory Board members whom they consider to be the most suitable. For these reasons, we do not comply with this recommendation.

e) Term Limit for Length of Service on the Supervisory Board

According to this recommendation, the supervisory board should determine a general term limit for the length of service on the board. A generally applicable term limit of this sort is not required in our opinion, as we consider an individual analysis of the respective supervisory board members to be more effective. This particularly applies since the Code provides for self-inspection of the supervisory board and its members anyway as part of the regular examination of efficiency. Furthermore, a general term limit would restrict the majority shareholder's freedom to choose representatives on the Supervisory Board at its own discretion in fulfillment of its corporate responsibility.

f) Time Limit Placed on Applications for the Judicial Appointment of a Supervisory Board Member

According to this recommendation, applications for the judicial appointment of a supervisory board member shall be limited in time up to the next annual shareholders' meeting. We do not comply with this recommendation. Proposals for candidates to be appointed by the court are agreed with the majority shareholder beforehand anyway. In view of the majority situation, the election of this same candidate at the next Annual Shareholders' Meeting would merely constitute a confirmation of his/her appointment, which we consider to be superfluous.

Corporate Governance Reporting

Shareholders and Annual Shareholders' Meeting

Transparent Information for Shareholders and the Public

WACKER's aim is to inform all of the company's target groups – shareholders, shareholder representatives, analysts and the media – as well as the interested general public promptly and without preference. We regularly publicize important company dates in a financial calendar published in our Annual Report, in the interim reports and on our website. Capital market participants are in close contact with our Investor Relations team. We inform investors and analysts about the current and future development of business in telephone conferences held whenever a quarterly report is published. We regularly attend roadshows and investors' conferences. Once a year, we organize an event for analysts. Important presentations are available on the internet, as well as all press releases and ad-hoc disclosures in both German and English, the online version of the Annual Report, all interim reports and the Sustainability Report. Further information is provided by our online customer magazine, media library and Podcast Center.

www.wacker.com

Annual Shareholders' Meeting

The Annual Shareholders' Meeting provides an efficient and inclusive forum for informing shareholders about the company's situation. Even before the Annual Shareholders' Meeting begins, shareholders receive important information about the previous fiscal year in the Annual Report. The agenda items are described and the conditions of attendance explained in the invitation to the Annual Shareholders' Meeting. The notice of the Annual Shareholders' Meeting – together with all legally prescribed reports and documents, including the Annual Report (of which the consolidated financial statements and the combined management report form part) – as well as the annual financial statements of Wacker Chemie AG are also available on the company's website. After the Annual Shareholders' Meeting, we publish the attendance figures and the results of the votes on the internet. All these communication measures contribute to the regular exchange of information with our shareholders. WACKER helps its shareholders exercise their voting rights by giving them the option of casting their vote either in person or by proxy. Proxies are available to exercise shareholders' voting rights as instructed and can also be contacted during the Annual Shareholders' Meeting.

Working Methods of the Executive and Supervisory Boards

Wacker Chemie AG has a dual management system as prescribed by the German Stock Corporation Act. It consists of the Executive Board, which manages the company, and the Supervisory Board, which supervises and advises the Executive Board in its management of the company. These two bodies are kept strictly separate from one another with regard to both their membership and their spheres of competence. The Executive and Supervisory Boards collaborate closely, however, to ensure WACKER's sustainable long-term success.

Executive Board

The Executive Board currently consists of four members. The Executive Board bears direct responsibility for managing the company and represents Wacker Chemie AG in all dealings with third parties. The Executive Board's actions and decisions are driven by the company's interest and the aim to sustainably increase the Group's value. With this goal in mind, the Executive Board determines the WACKER Group's strategic alignment. It then steers and monitors this by allocating funds, resources and capacities, and by supporting and overseeing the operating units. The Executive Board also ensures compliance with legal requirements and an appropriate risk management system and control.

While the members of the Executive Board bear joint responsibility for managing the company, each individual member is directly responsible for managing his/her respective unit. All Executive Board decisions require a simple majority. In the case of a tie of votes, the president & CEO has the deciding vote. However, he/she does not have the right to veto Executive Board resolutions.

Close Collaboration between the Executive Board and the Supervisory Board

The Executive Board and the Supervisory Board work together closely to promote the interests of the company. Their common goal is the sustainable growth of the company and the enhancement of its value. The Executive Board reports to the Supervisory Board and the Audit Committee regularly, promptly and comprehensively on all relevant issues of strategy, planning, business development, risk exposure, risk management and compliance. Also in the period between meetings, the Supervisory Board chairman maintains contact with the Executive Board, in particular with the president & CEO, consulting with that body on the above-mentioned issues. The Executive Board explains any deviations from approved business plans and objectives to the Supervisory Board and gives reasons for these deviations.

The Rules of Procedure for Wacker Chemie AG's Executive Board stipulate that certain measures require the consent of the Supervisory Board before their implementation. These include approving the annual budget (including financial and investment planning), acquiring and disposing of shares in companies, establishing new production or business units or suspending existing ones, and concluding sizable long-term loan agreements.

Supervisory Board

The Supervisory Board appoints, oversees and advises the Executive Board and is directly involved in any decisions of crucial importance to WACKER. Fundamental decisions on the company's development require Supervisory Board approval.

Supervisory Board Composition

The Supervisory Board comprises 16 members. In compliance with the German Co-Determination Act (MitbestG), it has an equal number of shareholder and employee representatives. Shareholder representatives are elected by the Annual Shareholders' Meeting and employee representatives by the employees, as stipulated by the German Co-Determination Act. As a rule, the term of office is about five years.

WACKER has always placed importance on having highly qualified individuals sit on its Supervisory Board. In compliance with the recommendation made in Item 5.4.1 of the German Corporate Governance Code as amended on May 26, 2010, WACKER's Supervisory Board resolved in December 2010 to set itself concrete objectives in respect of its composition. These include the qualifications, international experience and gender of Supervisory Board members, and the prevention of conflicts of interest. Accordingly, the profile of requirements and targets is as follows:

- International scope: an appropriate number of Supervisory Board members – however, at least one – should have international experience.

- Prevention and handling of conflicts of interest: the Supervisory Board's Rules of Procedure already contain extensive provisions on members' conflicts of interest. In addition, the Supervisory Board actively strives to prevent such conflicts of interest and also takes this goal into consideration when making recommendations to the Annual Shareholders' Meeting.

- Diversity and gender representation: the objective set in December 2010 to increase the number of female members to at least two – one shareholder and one employee representative – was achieved in 2013. Please see the subsequent item Supporting the Participation of Women in Executive Positions as per Section 76 (4) and Section 111 (5) of the German Stock Corporation Act for our measures to meet the requirements of the Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector, which came into effect on May 1, 2015. According to this act, the Supervisory Board is to be composed of at least 30 percent female members and at least 30 percent male members.

The Supervisory Board's Rules of Procedure already define an age limit. The Supervisory Board does not comply with the recommendation made in Item 5.4.1 of the German Corporate Governance Code as amended on May 5, 2015, to set a general term limit for the length of service of its members. The reasons for this decision are given in the Declaration of Conformity of December 2016.

As members of the Supervisory Board cannot simultaneously sit on the Executive Board, this structure ensures a high degree of independence in monitoring the Executive Board. Since the Supervisory Board believes that it comprises an adequate number of independent members, it does not comply with the additional recommendation made in Item 5.4.2 of the German Corporate Governance

Code as amended on May 5, 2015, to name a specific target number of independent members. The reasons for this decision are given in the Declaration of Conformity of December 2016.

The Supervisory Board will take into account the objectives it has set when making its nomination proposals to the Annual Shareholders' Meeting. The composition of the Supervisory Board complies with the objectives set in December 2010. The age limit provision is also complied with.

Committees Increase the Supervisory Board's Efficiency
The Supervisory Board has constituted three professionally qualified committees to help it perform its duties optimally. The work of those committees is reported on regularly at Supervisory Board meetings.

The Executive Committee prepares the Supervisory Board's personnel decisions, especially the appointment and dismissal of Executive Board members and the nomination of the president & CEO. In addition, it negotiates contracts with Executive Board members and develops a compensation system that the full Supervisory Board then uses as a basis for determining the compensation for Executive Board members. In fiscal 2016, the Executive Committee consisted of the Chairman of the Supervisory Board, Dr. Peter-Alexander Wacker, and Supervisory Board members Anton Eisenacker and Franz-Josef Kortüm. Effective January 1, 2017, the new Deputy Chairman of the Supervisory Board, Manfred Köppl, succeeded Anton Eisenacker on the Executive Committee in accordance with the Rules of Procedure. Mr. Eisenacker had in turn left the Supervisory Board as of December 31, 2016 as its Deputy Chairman.

The Audit Committee does the groundwork for the Supervisory Board's decision on the adoption of the annual financial statements and the approval of the consolidated financial statements. To this end, the committee is obliged to pre-audit the annual financial statements, the consolidated financial statements, the combined management report and the proposal on appropriation of profits. In addition, it discusses and examines the half-yearly financial reports and the quarterly figures. The Audit Committee gives the Supervisory Board a well-founded recommendation as to which auditors it should propose to the Annual Shareholders' Meeting. In accordance with the resolution of the Annual Shareholders' Meeting, it awards the auditing contract to the auditors and determines the focus of auditing. It then monitors the audit, in particular the auditors' independence and the services they deliver. Above and beyond that, the Audit Committee reviews the accounting process and the effectiveness of the internal control, risk management and auditing systems, as well as compliance-related issues. The members of this committee in fiscal 2016 were Franz-Josef Kortüm (as chairman), Dr. Peter-Alexander Wacker and Anton Eisenacker. Following Anton Eisenacker's departure at year-end, Manfred Köppl was elected to the Audit Committee as a new member effective January 1, 2017.

The Group also has a statutory Mediation Committee, the tasks of which are stipulated by German law. In 2016, this committee consisted of Dr. Peter-Alexander Wacker (as chairman), Anton Eisenacker, Franz-Josef Kortüm and Manfred Köppl. Since January 1, 2017, the committee has comprised Dr. Peter-Alexander Wacker, Manfred Köppl, Franz-Josef Kortüm and Eduard-Harald Klein.

Key Corporate Management Practices

Compliance as a Key Managerial Duty of the Executive Board
At WACKER, managerial and monitoring duties include ensuring that the company complies with legal requirements and that employees observe internal company regulations. WACKER's compliance management system is regularly reviewed and adapted.

These tasks are the responsibility of the compliance management department. The company has appointed and trained compliance officers in Germany, the USA, China, Japan, India, South Korea, Brazil, Mexico, Norway, Singapore, Russia, the United Arab Emirates and Taiwan, who hold regular training courses to inform employees of key legal provisions and internal regulations. They also serve as contacts whenever employees have questions or need advice, information and training relating to compliance.

Principles of Corporate Ethics
Beside our vision and goals, our ethical principles form the third pillar of WACKER's corporate policy guidelines. These principles – embedded in five separate codes – govern how the company goals should be achieved. A set of rules consisting of regulations and instructions supplement the codes.

- Code of Conduct: this contains our principles for dealing with business partners and third parties. It also governs the handling of information, confidentiality and data security, the prevention of money laundering, and the separation of personal and business interests.

- Code of Innovation: this specifies our principles concerning research and development, partnerships, patents and innovation management.

- Code of Teamwork & Leadership: this outlines our understanding of teamwork and leadership. Key aspects here include trust and esteem, motivation and success, recognition and development, teamwork and equal opportunity, work-life balance and the positive example set by managerial employees.

- Code of Safety: this defines our safety culture and sets safety guidelines for workplaces, facilities, and products and their transport.

- Code of Sustainability: this lists principles for sustainability to be adhered to by R&D, procurement and logistics, production and products, and describes our commitment to society.

The codes are available at: www.wacker.com/cms/en/wacker_group/wacker_facts/policy/policy.jsp.

Responsible Care® and the Global Compact – Integral Parts of Corporate Management

Two voluntary global initiatives form the basis for sustainable corporate management at WACKER: the chemical industry's Responsible Care® initiative and the UN's Global Compact. WACKER has been an active member of the Responsible Care® initiative since 1991. Program participants undertake to continually improve health, safety and environmental performance on a voluntary basis – even in the absence of statutory requirements. WACKER is equally committed to the UN's Global Compact initiative. We observe the Global Compact's ten principles, which address social and environmental standards, anticorruption and the protection of human rights. We also expect our suppliers to respect the principles of the Global Compact, and we evaluate them on this point in our risk assessments.

In 2011, WACKER created an internal Corporate Sustainability department, which implements the company's voluntary commitments under Responsible Care® and the Global Compact, and coordinates its sustainability activities worldwide.

Social Commitments

Companies can be commercially successful only if they have society's trust. Consequently, WACKER is serious about its social responsibilities toward communities near its sites and wherever people are in need around the world. We regularly promote and support a wide variety of charitable projects, organizations and initiatives. Our commitment covers activities relating to science, education, sports and various charities.

Further Information on Corporate Governance at WACKER

Compliance with the Provisions of Article 17 of MAR

We comply with the provisions of Article 17 of MAR (EU Regulation No. 596/2014 – Market Abuse Regulation). For a number of years, we have maintained an ad-hoc publicity coordination unit in which representatives of various specialist areas examine issues for their ad-hoc relevance. In this way, we guarantee that potential insider information is handled in accordance with the law. Employees who have access to insider information as part of their jobs are included in insider lists.

Share Dealings by the Executive and Supervisory Boards

Persons discharging managerial responsibilities (at Wacker Chemie AG, these are members of the Executive and Supervisory Boards) as well as persons closely associated with them are obligated under Art. 19 of MAR to notify the German Federal Financial Supervisory Authority (BaFin) and the company of transactions conducted on their own account relating to the shares or debt instruments of that company or to derivatives or other financial instruments linked thereto within three business days. A reporting obligation exists, however, only where the total volume of the transactions made by the person concerned exceeds €5,000 within a calendar year.

In 2016, no reportable transactions were notified by members of the Executive and Supervisory Boards or by persons closely associated with them who are subject to reporting requirements.

Blue Elephant Holding GmbH, which is majority-owned by Dr. Peter-Alexander Wacker (Supervisory Board Chairman of Wacker Chemie AG), holds over 10 percent of the shares in Wacker Chemie AG.

Dealing Responsibly with Opportunities and Risks

Dealing responsibly with risks is an important part of good corporate governance. WACKER has in place an opportunity and risk management system to regularly identify and monitor material risks and opportunities. Its objective is to recognize risks at an early stage and minimize them through systematic risk management. The Executive Board informs the Supervisory Board regularly about existing risks and their development. The Audit Committee regularly reviews the accounting process and the effectiveness of the internal control, risk management and auditing systems. It is also involved in auditing the financial statements. The opportunity and risk management system is continuously being enhanced and adapted to meet changing conditions.

Accounting and Auditing

As stipulated by the Corporate Governance Code, we have agreed with the auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, that the Chairman of the Supervisory Board shall be informed without delay during the audit about any grounds for disqualification and/or bias. In addition, the auditors shall immediately report all significant discoveries and events which concern the Supervisory Board's duties. If, in the course of their audit activities, the auditors establish facts that reveal errors in the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act, the Supervisory Board shall be notified accordingly and/or a note included in the audit report.

D&O Insurance

WACKER has concluded a financial liability insurance policy (i.e. D&O insurance) that also covers the activities of the Executive Board and Supervisory Board members. This insurance provides for a statutory deductible for the members of the Executive Board.

Supporting the Participation of Women in Executive Positions as per Section 76 (4) and Section 111 (5) of the German Stock Corporation Act

Effective May 1, 2015, the Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector calls for the Supervisory Board of Wacker Chemie AG to be composed of at least 30 percent female members and at least 30 percent male members. These requirements apply to new appointments for the first time as of January 1, 2016. Since January 1, 2016, neither the shareholders nor the employees have made any new appointments to Wacker Chemie AG's Supervisory Board, which is why the proportion of female members on the Supervisory Board remained unchanged at 12.5 percent in fiscal 2016 (one shareholder and one employee representative). As of January 1, 2017, Hansgeorg Schuster – who had already been elected an alternate member during the last employee-representative elections to the Supervisory Board in March 2013 – automatically succeeded employee representative Anton Eisenacker, who left the Supervisory Board with effect from December 31, 2016. Since the election of Mr. Schuster was completed prior to December 31, 2015, the new legal provisions did not yet apply. The proportion of female members on the Supervisory Board therefore currently totals 12.5 percent.

The act also requires Wacker Chemie AG to specify target values for the proportion of women on the Executive Board and in the two management levels below the Executive Board. The target values for the Executive Board are set by the Supervisory Board and those for the two management levels below the Executive board are set by the Executive Board.

In September 2015, the Supervisory Board set the target for the proportion of women on the Executive Board for the period up to June 30, 2017 at zero.

Likewise in September 2015, and with a deadline for implementation of June 30, 2017, the Executive Board of Wacker Chemie AG set target values of 10 percent for the management level directly below the Executive Board and 17.5 percent for the second management level below the Executive Board.

Compensation Report

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

Compensation System for the Executive Board

On the basis of preparatory input from the Executive Committee, the full Supervisory Board is responsible for determining the individual compensation paid to members of Wacker Chemie AG's Executive Board.

In accordance with the Executive Board compensation system in effect since January 1, 2010, the Executive Board's compensation comprises the following key components:

(I) A fixed annual salary:
The fixed annual salary is paid in equal monthly installments.

(II) A variable, performance-related bonus:
The amount of the variable bonus (long-term bonus), which is paid annually and in arrears, depends on the achievement of agreed annual Group targets set by the Supervisory Board for all Executive Board members. The bonus is calculated based on target achievement in the reporting year, as well as on average overall target achievement in the two years prior to the reporting year. The targets are based on the following key indicators: business value contribution, cash flow, target return, and return on capital employed (ROCE). The computational target bonus in the event of 100-percent target achievement during the evaluation period depends on the Executive Board member in question and amounts to either 180 percent or 140 percent of the average annual base salary in the last year of the evaluation period. The maximum bonus, too, depends on the specific Board member and amounts to either 220 percent or 180 percent of the average annual base salary in the last year of the evaluation period. The Supervisory Board thus has the discretion to increase or reduce the calculated bonus by as much as 30 percent, taking into account all circumstances and the Executive Board member's individual performance. The Executive Board members are obligated to purchase Wacker Chemie AG shares for an amount equal to 15 percent of their annual gross bonus. A holding period of two years applies to these shares.

(III) A contribution to retirement benefits:
The members of the Executive Board are entitled to payment of an annual retirement pension should the event insured against occur, i.e. when they reach retirement age or become afflicted by permanent occupational disability. Before said event occurs, Dr. Rudolf Staudigl has a basic entitlement to the premature payment of an annual pension if he leaves the Executive Board against his will without good cause or if he, of his own accord, ceases his activity for good cause and the company is responsible for said cause. The amount of the pension is calculated on the basis of the last pensionable fixed annual salary received and the length of Executive Board membership. A percentage of the pensionable base salary is defined as a basic amount and adjusted by means of an annual percentage rate of increase for each year of service. Entitlement to a pension presupposes at least five years of service on the Executive Board.

The company grants the members of the Executive Board appropriate insurance coverage, in particular D&O insurance, with a deductible as stipulated in the German Stock Corporation Act (AktG).

If they leave the company, Executive Board members are subject to a 12-month obligatory waiting period, during which they are paid competitive-restriction compensation. The competitive-restriction compensation is calculated as 50 percent of the member's latest overall annual compensation (average of the last three years). Any pension received is set off against the competitive-restriction compensation.

If Executive Board membership is prematurely terminated without good cause, the contracts with Executive Board members specify that any compensatory payments shall be limited to a maximum of two full annual salaries (in the case of Dr. Rudolf Staudigl, Auguste Willems and Dr. Tobias Ohler) or one full annual salary (in the case of Dr. Christian Hartel). This is referred to as the severance pay cap.

Total Compensation for the Members of the Executive Board for Fiscal 2016
The current level of each Executive Board member's compensation is listed in the tables below, which follow the model tables recommended by the German Corporate Governance Code (DCGK).

With effect from April 1, 2016, Dr. Rudolf Staudigl's gross fixed annual salary was increased from €800,000 to €840,000. Also with effect from April 1, 2016, Auguste Willem's gross fixed annual salary was increased from €580,000 to €610,000. These salary increases were paid pro rata temporis in 2016. Said increases have no effect on calculation of the pension, since they were determined as additional fixed non-pensionable compensation components. They are taken into account, however, when calculating the long-term bonus.

The following table shows the value of compensation and benefits granted for fiscal 2016. It also lists minimum and maximum attainable values.

Compensation and Benefits Granted for the Year Under Review (Targets)

€	2016 (target)	2016 (min.)	2016 (max.)	2015 (target)	2016 (target)	2016 (min.)	2016 (max.)	2015 (target)
	Dr. Rudolf Staudigl President & CEO				Auguste Willems Executive Board member			
Fixed compensation[1]	**830,000**	830,000	830,000	800,000	**602,500**	602,500	602,500	580,000
Payment unrelated to the accounting period[2]	**–**	–	–	28,125	**–**	–	–	20,625
Additional benefits[3]	**54,733**	54,733	54,733	55,132	**50,302**	50,302	50,302	53,995
Total	**884,733**	884,733	884,733	883,257	**652,802**	652,802	652,802	654,620
Multiyear variable compensation[4]	**1,552,100**	737,870	2,158,000	1,312,000	**1,126,675**	535,623	1,566,500	951,200
Total	**2,436,833**	1,622,603	3,042,733	2,195,257	**1,779,477**	1,188,425	2,219,302	1,605,820
Pension expenses[5]	**10,079**	10,079	10,079	10,583	**538,976**	538,976	538,976	598,603
Total compensation	**2,446,912**	1,632,682	3,052,812	2,205,840	**2,318,453**	1,727,401	2,758,278	2,204,423
	Dr. Tobias Ohler Executive Board member				Dr. Christian Hartel Executive Board member since November 1, 2015			
Fixed compensation[1]	**580,000**	580,000	580,000	400,000	**400,000**	400,000	400,000	66,668
Payment unrelated to the accounting period[2]	**–**	–	–	15,000	**–**	–	–	–
Additional benefits[3]	**44,479**	44,479	44,479	44,391	**49,709**	49,709	49,709	8,100
Total	**624,479**	624,479	624,479	459,391	**449,709**	449,709	449,709	74,768
Multiyear variable compensation[4]	**1,084,600**	515,620	1,508,000	516,000	**588,000**	280,000	832,000	86,000
Total	**1,709,079**	1,140,099	2,132,479	975,391	**1,037,709**	729,709	1,281,709	160,768
Pension expenses[5]	**456,746**	456,746	456,746	354,563	**172,075**	172,075	172,075	1,201,045
Total compensation	**2,165,825**	1,596,845	2,589,225	1,329,954	**1,209,784**	901,784	1,453,784	1,361,813

[1] Calculation of the pensionable portion of the compensation excluded an amount of €30,000 (Dr. Staudigl) and €22,500 (Mr. Willems) in 2016.
[2] In 2015, the Executive Board members were each paid the second 50-percent installment of the amount withheld in 2013.
[3] Additional benefits include, in particular, social insurance allowances and the use of a company car.
[4] Multiyear refers to the assessment basis. The Executive Board members purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus (holding period of two years). Once determined, the fixed bonus amount calculated using a three-year assessment basis is not influenced by subsequent developments. Calculation of the minimum and maximum values took the actual level of target achievement in the two previous years into consideration. The following values were set for 2016: a minimum value of 0 percent and a maximum value of either 220 percent or 180 percent. The disclosure of each theoretically achievable minimum or maximum value also includes the Supervisory Board's potential scope of discretion.
[5] Service cost, pursuant to IAS 19, from pension commitments and other pension-related benefits. In connection with the appointment of Dr. Hartel to the Executive Board of Wacker Chemie AG, a past service cost in the amount of €1,119,185 was incurred in 2015.

The following table shows the payments for fiscal 2016 from fixed compensation, additional benefits and variable compensation – grouped according to one-year and multiyear variable compensation – as well as pension expenses.

Payments in the Year Under Review

€	2016	2015	2016	2015
	Dr. Rudolf Staudigl President & CEO		Auguste Willems Executive Board member	
Fixed compensation[1]	**830,000**	800,000	**602,500**	580,000
Payment unrelated to the accounting period[2]	**–**	28,125	**–**	20,625
Additional benefits[3]	**54,733**	55,132	**50,302**	53,995
Total	**884,733**	883,257	**652,802**	654,620
Multiyear variable compensation[4]	**1,734,700**	1,320,000	**1,259,225**	957,000
Total	**2,619,433**	2,203,257	**1,912,027**	1,611,620
Pension expenses[5]	**10,079**	10,583	**538,976**	598,603
Total compensation	2,629,512	2,213,840	2,451,003	2,210,223

	Dr. Tobias Ohler Executive Board member		Dr. Christian Hartel Executive Board member since November 1, 2015	
Fixed compensation[1]	**580,000**	400,000	**400,000**	66,668
Payment unrelated to the accounting period[2]	**–**	15,000	**–**	–
Additional benefits[3]	**44,479**	44,391	**49,709**	8,100
Total	**624,479**	459,391	**449,709**	74,768
Multiyear variable compensation[4]	**1,212,200**	520,000	**660,000**	86,667
Total	**1,836,679**	979,391	**1,109,709**	161,435
Pension expenses[5]	**456,746**	354,563	**172,075**	1,201,045
Total compensation	2,293,425	1,333,954	1,281,784	1,362,480

[1] Calculation of the pensionable portion of the compensation excluded an amount of €30,000 (Dr. Staudigl) and €22,500 (Mr. Willems) in 2016.
[2] In 2015, the Executive Board members were each paid the second 50-percent installment of the amount withheld in 2013.
[3] Additional benefits include, in particular, social insurance allowances and the use of a company car.
[4] Multiyear refers to the assessment basis. The Executive Board members purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus (holding period of two years). Once determined, the fixed bonus amount calculated using a three-year assessment basis is not influenced by subsequent developments.
[5] Service cost, pursuant to IAS 19, from pension commitments and other pension-related benefits; this does not concern payments during the fiscal year. In connection with the appointment of Dr. Hartel to the Executive Board of Wacker Chemie AG, a past service cost in the amount of €1,119,185 was incurred in 2015.

Compensation for Former Members of the Executive Board and Their Surviving Dependents

€	2016	2015
Total	2,383,467[1]	1,922,900

[1] This compensation contains the competitive-restriction compensation paid to Dr. Rauhut in 2016 in connection with the expiry of his employment contract.

Pension Obligations for Executive Board Members

€	2016	2015
Pension obligations for active Executive Board members		
Total	27,587,433	22,692,191
Pension obligations for former members of the Executive Board or their dependents		
Total	39,163,469	36,718,229

Compensation of Supervisory Board Members

The compensation of Wacker Chemie AG's Supervisory Board members is governed by the company's Articles of Association.

At the Annual Shareholders' Meeting of May 20, 2016, it was resolved that both the fixed compensation and the annual lump sum (for outlays) for members of the Supervisory Board would be increased retroactively as of fiscal 2016.

Consequently, as of January 1, 2016, the members of the Supervisory Board receive fixed annual compensation in the amount of €90,000, payable on expiry of the fiscal year, and are also reimbursed for any VAT payable on their compensation. Supervisory Board members who join, or depart from, the Supervisory Board during the fiscal year receive the corresponding compensation pro rata temporis.

The compensation is multiplied by a factor of 3 for the Chairman of the Supervisory Board, by a factor of 2 for the Vice Chairman and for chairs of committees, and by a factor of 1.5 for members of committees. Multiple functions are ignored in this calculation.

The members of the Supervisory Board are compensated for any outlays incurred in connection with the execution of their duties with an annual lump sum of €20,000, and are also reimbursed for any VAT payable on that lump sum.

The company grants the members of the Supervisory Board appropriate insurance coverage; in particular, the company concludes a D&O insurance policy for the benefit of the Supervisory Board members.

Supervisory Board Compensation

€	2016	2015
Fixed compensation[1,2]	2,165,000	1,716,973
Variable compensation	–	–
Total	2,165,000	1,716,973

[1] Fixed compensation includes the aforementioned annual lump sum.
[2] The employee representatives are subject to the rules of the German Trade Union Confederation (DGB) and of the German Association of Employed Academics and Executives in the Chemical Industry (VAA) concerning the transfer of supervisory board compensation.

Declaration by the Executive Board on Accounting Methods and Auditing

The Executive Board is responsible for preparing Wacker Chemie AG's consolidated financial statements and combined management report. WACKER's consolidated financial statements were prepared in compliance with the rules published in London by the International Accounting Standards Board (IASB) and endorsed by the European Union. WACKER has set up effective internal monitoring and steering systems to guarantee that the combined management report and the consolidated financial statements comply with the applicable rules and procedures of proper corporate reporting. The internal auditing division continuously examines the reliability and workability of the monitoring and steering systems on a worldwide basis. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Wacker Chemie AG's consolidated financial statements and Group management report and granted them an unqualified certificate. WACKER's consolidated financial statements, its combined management report and the auditors' report were discussed in detail by the Supervisory Board's Audit Committee at its meeting on February 27, 2017. For information about the Supervisory Board's audit, please refer to its report.

Assurance by the Legal Representatives in Accordance with Sections 297 (2) and 315 (1) HGB

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the Group's net assets, earnings and financial position, and the combined management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Munich, February 27, 2017
Wacker Chemie AG

Rudolf Staudigl

Christian Hartel

Tobias Ohler

Auguste Willems

Auditors' Report

We have audited the consolidated financial statements prepared by Wacker Chemie AG, Munich – comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes – together with the report on the position of the Company and the Group for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the report on the position of the Company and the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch: "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the report on the position of the Company and the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The report on the position of the Company and the Group is consistent with the consolidated financial statements, complies with the statutory requirements and, as a whole, provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 27, 2017
KPMG AG Wirtschaftsprüfungsgesellschaft

Andrejewski	**Maurer**
Auditor	**Auditor**

Multiyear Overview

€ million	2016	Change in %	2015	2014	2013	2012
Sales	**5,404.2**	2.0	5,296.2	4,826.4	4,478.9	4,634.9
Income before taxes	**264.8**	–34.9	406.7	365.2	31.0	203.9
Net income for the year	**189.3**	–21.7	241.8	195.4	6.3	114.7
EBITDA	**1,101.4**	5.0	1,048.8	1,042.3	678.7	795.4
EBIT	**366.2**	–22.6	473.4	443.3	114.3	266.6
Fixed assets	**4,765.5**	–4.0	4,964.9	4,471.0	4,067.7	4,260.7
Intangible assets	**50.4**	57.0	32.1	32.9	20.4	25.5
Property, plant and equipment	**4,596.4**	–4.3	4,800.6	4,312.8	3,785.6	3,924.4
Financial assets	**118.7**	–10.2	132.2	125.3	261.7	310.8
Current assets, incl. deferred taxes + accruals and deferrals	**2,696.1**	17.2	2,299.5	2,476.2	2,264.7	2,232.1
Liquidity	**283.5**	–8.7	310.5	325.9	431.8	192.6
Equity	**2,593.2**	–7.2	2,795.1	1,946.5	2,197.1	2,121.3
Subscribed capital	**260.8**	–	260.8	260.8	260.8	260.8
Capital reserves	**157.4**	–	157.4	157.4	157.4	157.4
Treasury shares	**–45.1**	–	–45.1	–45.1	–45.1	–45.1
Retained earnings, consolidated net income, and other equity items	**2,006.3**	–8.6	2,195.1	1,549.3	1,805.7	1,730.0
Non-controlling interests	**213.8**	–5.8	226.9	24.1	18.3	18.2
Borrowed capital	**4,868.4**	8.9	4,469.3	5,000.7	4,135.3	4,371.5
Provisions	**2,550.7**	27.7	1,996.7	2,137.7	1,401.9	1,575.3
Liabilities, incl. deferred taxes + accruals and deferrals	**2,317.7**	–6.3	2,472.6	2,863.1	2,733.4	2,796.2
Net financial debt (–) Net financial receivables (+)	**–992.5**	–7.6	–1,074.0	–1,080.6	–792.2	–700.5
Total assets	**7,461.6**	2.7	7,264.4	6,947.2	6,332.4	6,492.8
Employees (average for the year)	**17,118**	1.1	16,937	16,744	16,134	16,663
Employees (Dec. 31)	**17,205**	1.4	16,972	16,703	16,009	16,292

€ million	2016	Change in %	2015	2014	2013	2012
Key profitability figures						
Return on sales (EBIT) = EBIT/sales (%)	**6.8**	n.a.	8.9	9.2	2.6	5.8
Return on sales (EBITDA) = EBITDA/sales (%)	**20.4**	n.a.	19.8	21.6	15.2	17.2
Return on equity = net income for the year/equity (as of Dec. 31) (%)	**7.3**	n.a.	8.7	10.0	0.3	5.4
ROCE – return on capital employed = EBIT/capital employed (%)	**6.1**	n.a.	8.1	8.4	2.2	5.2
Key statement-of-financial-position figures						
Investment intensity of the fixed assets = fixed assets/total assets (%)	**63.9**	n.a.	68.3	64.4	64.2	65.6
Equity ratio = equity/total assets (%)	**34.8**	n.a.	38.5	28.0	34.7	32.7
Capital structure = equity/borrowed capital (%)	**53.3**	n.a.	62.5	38.9	53.1	48.5
Cash flow and investments						
Cash flow from operating activities	**736.6**	19.3	617.2	485.2	464.0	363.2
Cash flow from long-term investing activities	**–516.9**	–36.6	–815.6	–497.3	–555.2	–1,053.8
Cash flow from financing activities	**–135.8**	>100	57.9	–88.6	227.6	326.6
Net cash flow = CF from operating activities + CF from investing activities – additions from finance leases	**400.6**	>100	22.5	215.7	109.7	–536.2
Investments	**427.6**	–48.7	834.0	572.2	503.7	1,095.4
Share and valuation						
Consolidated net income	**189.3**	–21.7	241.8	195.4	6.3	114.7
Earnings per share (€) = consolidated net income/number of shares	**3.61**	–27.4	4.97	4.1	0.05	2.4
Market capitalization (total number of shares without treasury shares)	**4,910.7**	27.5	3,851.0	4,523.2	3,994.1	2,466.5
Number of shares	**49,677,983**	–	49,677,983	49,677,983	49,677,983	49,677,983
Price as of reporting date December 31	**98.85**	27.5	77.52	91.05	80.4	49.7
Dividend per share (€)	**2.00**	–	2.00	1.50	0.50	0.60
Dividend yield (%)	**2.6**	n.a.	2.2	1.7	0.8	1.0
Capital employed	**6,018.0**	2.4	5,875.4	5,260.7	5,238.2	4,979.0