

Wacker Chemie AG  
Annual Report  
Paths to Procurement

2010

**WACKER**

## WACKER at a Glance

€ million	2010	2009	Change in %
<b>Results/Return</b>			
Sales	4,748.4	3,719.3	27.7
EBITDA <sup>1</sup>	1,194.5	606.7	96.9
EBITDA margin <sup>2</sup> (%)	25.2	16.3	54.6
EBIT <sup>3</sup>	764.6	26.8	> 100
EBIT margin <sup>2</sup> (%)	16.1	0.7	> 100
Financial result	-32.3	-23.5	37.4
Income before taxes	732.3	3.3	> 100
Net income for the year	497.0	-74.5	n. a.
Earnings per share (€)	9.88	-1.43	n. a.
ROCE (%)	24.8	0.9	> 100
<b>Financial Position/Cash Flows</b>			
Total assets	5,501.2	4,541.9	21.1
Equity	2,446.8	1,942.4	26.0
Equity ratio (%)	44.5	42.8	4.0
Financial liabilities	533.4	439.7	21.3
Net financial receivables/net financial liabilities <sup>4</sup>	-264.0	76.1	n. a.
Capital expenditures (including financial assets)	695.1	740.1	-6.1
Of which payments for acquisitions	81.2	-	n. a.
Depreciation (including financial assets)	429.9	579.9	-25.9
Net cash flow <sup>5</sup>	421.6	-32.9	n. a.
<b>Research and Development</b>			
Research and development expenses	165.1	164.0	0.7
<b>Employees</b>			
Personnel expenses	1,135.7	1,090.3	4.2
Employees (December 31, number)	16,314	15,618	4.5

<sup>1</sup> EBITDA is EBIT before depreciation and amortization

<sup>2</sup> Margins are calculated based on sales

<sup>3</sup> EBIT is the result from continuing operations for the period before interest and other financial results, and income taxes

<sup>4</sup> Sum of liquidity and noncurrent and current financial liabilities

<sup>5</sup> Sum of cash flow from operating activities and noncurrent investment activities



### SILPURAN® Specialty Silicones for Medical Applications

WACKER SILICONES is one of the world's largest silicone manufacturers with over 3,000 highly specialized and innovative products. SILPURAN® silicones are ultrapure and biocompatible, and therefore ideal for critical medical applications, such as the manufacture of wound dressings.



**North/South America**

- 1 Jandira, São Paulo Brazil
- 2 Mexico City Mexico
- 3 Adrian, Michigan USA
- 4 Allentown, Pennsylvania USA
- 5 Calvert City, Kentucky USA
- 6 Chino, California USA
- 7 Eddyville, Iowa USA
- 8 North Canton, Ohio USA
- 9 Portland, Oregon USA

**Europe**

- 10 Plzén Czech Republic
- 11 Prague Czech Republic
- 12 Lyon France
- 13 Burghausen Germany
- 14 Cologne Germany
- 15 Freiberg, Saxony Germany

- 16 Jena Germany
- 17 Kempton Germany
- 18 Munich Germany
- 19 Nünchritz Germany
- 20 Stetten Germany
- 21 Stuttgart Germany
- 22 Chertsey Great Britain
- 23 Athens Greece
- 24 Budapest Hungary
- 25 Milan Italy
- 26 Krommenie Netherlands
- 27 Kyrksæterøra, Holla Norway
- 28 Warsaw Poland
- 29 Moscow Russia
- 30 Barcelona Spain
- 31 Solna Sweden
- 32 Istanbul Turkey
- 33 Kiev Ukraine

**Asia**

- 34 Dhaka Bangladesh
- 35 Beijing China
- 36 Chengdu China
- 37 Guangzhou China
- 38 Hong Kong China
- 39 Nanjing China
- 40 Shanghai China
- 41 Shunde China
- 42 Wuxi China
- 43 Zhangjiagang China
- 44 Bangalore India
- 45 Chennai India
- 46 Kolkata, West Bengal India
- 47 Mumbai India
- 48 New Delhi India
- 49 Jakarta Indonesia
- 50 Akeno Japan
- 51 Hikari Japan

- 52 Osaka Japan
- 53 Tokyo Japan
- 54 Singapore Singapore
- 55 Jincheon South Korea
- 56 Seoul South Korea
- 57 Ulsan South Korea
- 58 Hsinchu Taiwan
- 59 Taipei Taiwan
- 60 Bangkok Thailand
- 61 Dubai United Arab Emirates
- 62 Ho Chi Minh City Vietnam

**Australia**

- 63 Melbourne, Victoria Australia

Production site

Sales site

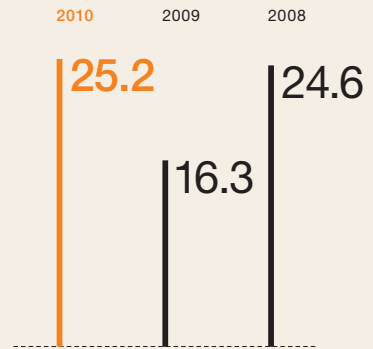
**Vision**

The chemical industry makes a vital, long-term contribution to global progress and sustainable development. Future social and economic success will rest more than ever on worldwide collaboration and interconnected competencies. Thus, the best way of mastering today's and tomorrow's challenges is through flexible and specialized units that can also profit from the opportunities.

**Mission**

WACKER is a leader in the chemical and semiconductor sectors, pushing ahead with technical innovations and the development of new products for the world's key industries. In this way, the company helps improve people's lives. WACKER is organized as a group of independently operating units with extensive responsibility under one strong roof – this provides the necessary flexibility and resolve. Everything we do is conducive to global networking and cultural integration.

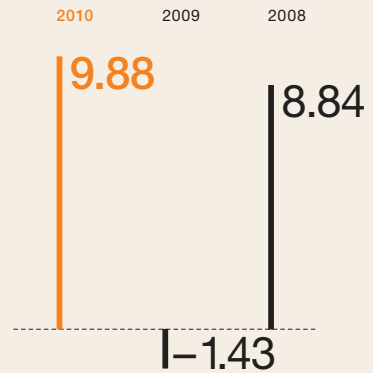
**EBITDA Margin (%)**



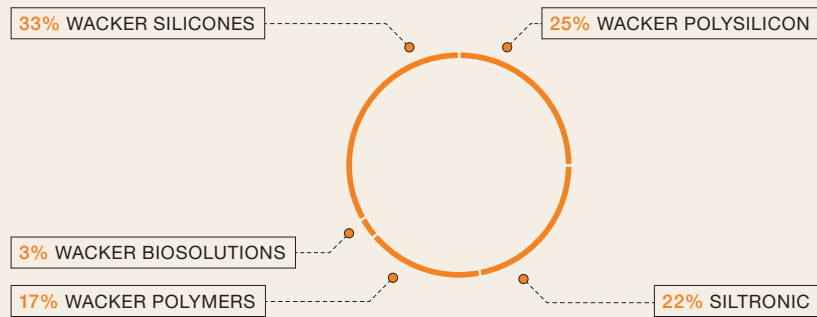
**WACKER Share Performance (€)**



**Earnings per Share (€)**

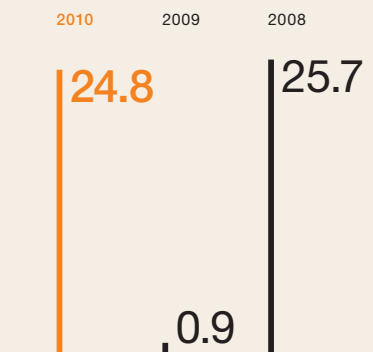


**The WACKER Group's Business Divisions<sup>1</sup>**



<sup>1</sup> Divisional shares in Group sales

**Return on Capital Employed (ROCE) (%)**



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In 2010, WACKER spent about €2.8 billion on sourcing raw materials, goods and services. We placed over 300,000 orders and call-offs for items ranging from abrasives to Ziegler catalysts.

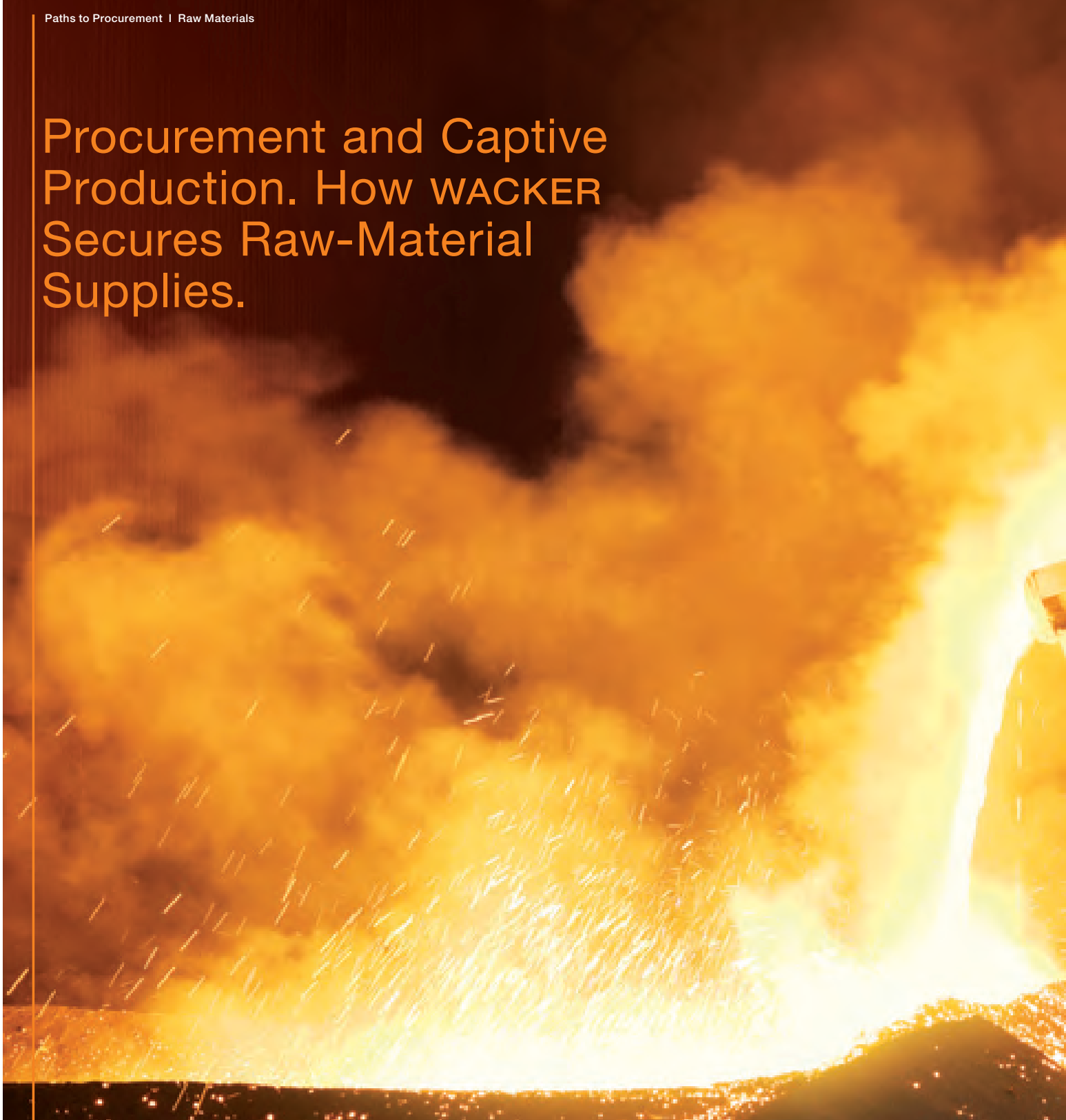
Our procurement rate – as a percentage of sales revenue – was 59 percent. Such figures spotlight the vital role professional procurement management plays in WACKER'S success.

Importantly, we collaborate closely with suppliers and subcontractors – whether at a local, regional or global level. Although we often drive a hard bargain to obtain high-quality goods and services at the right price, we highly value close, fair and professional supplier relationships.

This Annual Report shows how we source the goods we need globally, and how we strike a fine balance between quality, price and supply security. It also reveals how we exploit global cost advantages and safeguard delivery capacities to fulfill each customer requirement wherever possible. In a year when – to everyone’s surprise – the economy rebounded vigorously, this was no easy task.

WACKER works continuously on making its procurement processes more efficient, targeted and structured. As these processes improve, procurement will increasingly create value for the entire Group and strengthen our ability to grow along with our customers.

# Procurement and Captive Production. How WACKER Secures Raw-Material Supplies.



Liquid silicon metal flows out of ladles onto a bed of sand, where it can cool and solidify. Quartzite, coal and wood are the starting materials for one of WACKER's key raw materials. The company uses silicon metal to make silicones and hyperpure polysilicon. WACKER produces about a third of the silicon metal that it needs annually at its plant in Holla, Norway.





“Holla has made us more independent of market and price fluctuations.”



Silicon-metal production in Holla. Employees must wear special protective clothing when they work near the electric furnaces, which reach temperatures of up to 2,000 degrees Celsius.

Picture a white ship at a quayside, set against a backdrop of rolling hills and the deep-blue waters of Hemnefjord. The idyll is deceptive – because, here, eight hours' drive north of Oslo, it's all go. Workers are busily unloading tons of quartzite from cargo ships onto a conveyor belt that wends its way into vast storage depots. Faster! Faster! Don't keep the production lines waiting at Holla Metall, they operate around the clock! Acquired by WACKER in July 2010, this Norwegian plant produces high-quality silicon metal in a complex process involving quartzite, coal and wood chips. Holla Metall's output of 50,000 metric tons per year is enough to cover one-third of WACKER's annual needs.

### A Volatile Market

Some 2,000 kilometers further south, in Burghausen (Germany), Dr. Markus Kuhnlein points to a chart. "We need silicon as a raw material for 80 percent of our sales. Having our own production plant has greatly enhanced supply security," says the procurement manager, who is responsible for silicon supplies groupwide. "We decided to opt for backward integration along the raw-material chain because the silicon market is so volatile. During the 2009 economic crisis, many manufacturers temporarily halted production and, now, they're struggling to keep pace with rising demand," says the 50-year-old. "Holla has made us more independent of market and price fluctuations."

### Securing Procurement Long Term

Holla Metall's acquisition was one of the first major assignments facing Raw Materials Procurement (RMP). WACKER set up this corporate depart-

ment back in 2008 to segregate raw materials and energy from other sourcing processes. "As a result, we've been able to optimize our purchasing terms, establish new supplier relationships and increase supply security – all vital achievements, since global competition for key raw materials is intensifying rapidly," stresses Dr. Christian Hartel, who heads the new corporate department.

A 24-strong team of purchasing specialists handles vast sums of money. Hardly surprising, as raw materials and energy account for roughly half WACKER's procurement volume of €2.8 billion. WACKER has defined three procurement categories for raw materials and energy. "We've devel-

oped and implemented long-term strategies for the first category, which covers our basic raw materials – silicon, ethylene, methanol, acetic acid and vinyl acetate – plus electricity and natural gas," explains Hartel, showing us a presentation outlining WACKER's procurement strategy. "We rely on a broad, global supplier portfolio with long-term contractual conditions. Additionally, we purchase precisely when prices are at their most favorable."

The second category comprises 50 to 60 key strategic materials (such as catalysts). Although volumes are far lower here, the materials are of great strategic importance for WACKER. The company procures them primarily



Torbjørn Halland is in charge of the Holla plant. A trained metallurgist, the 41-year-old was responsible for the site even before WACKER took it over. The enthusiastic skier likes to spend his free time with his family in the local mountains.

through multiyear framework contracts, but also adopts a flexible approach and sometimes makes purchases at short notice. “The third category contains a further 1,500 raw materials, which are often readily available. The great majority can be sourced in standardized processes under framework contracts,” says Hartel, who has a Ph.D. in chemistry.

### Supply Security Is Paramount

How does WACKER achieve its procurement goals? Methanol is a case in point, especially as WACKER ranks among Europe’s top-ten consumers of this alcohol. Shipped by rail from Antwerp and Rotterdam to Burg-hausen, methanol is sourced from at least four suppliers, none delivering more than one-third of WACKER’s annual needs of 240,000 metric tons. “We stagger our contract durations (one to three years) so that two contracts expire each year,” adds Hartel. “This enables us to adapt contracts to reflect the market conditions

affecting both parties. As a result, we can negotiate attractive prices and delivery conditions.”

### Raw Materials from Neighbors

Raw-material procurement processes vary greatly and so are difficult to compare. Hartel illustrates this for ethylene, which WACKER converts into acetic acid. “The challenge here is that ethylene transportation is both complex and very expensive,” explains Hartel. Consequently, the Group sources this volatile, highly flammable gas primarily from a Burghausen neighbor – omv – which produces the ethylene by cracking crude oil derivatives. WACKER has long-term contracts with omv and, unlike for silicon, there would be no sense in the Group’s obtaining its own ethylene production facility. “You’d need to be using an awful lot of ethylene to justify building a cracker,” says Christian Hartel. Ethylene procurement is changing, too, though. “In fall 2011, we’ll be hooked up to the Northwest European ethyl-

ene pipeline. That will potentially broaden our supplier base and increase our supply security.”

### Quality Makes All the Difference

Back up in Norway, Holla Metall employees have few concerns about being able to transport the silicon they produce. Since Hemnefjord never freezes over, transport routes are secure. Instead, the focus is on improving production processes because, with silicon, the devil is in the detail. “In 99.5 percent of cases, the product delivered is identical, whoever supplies it,” says Torbjørn Halland, site manager at Holla Metall. A handful of silver-gray chunks runs through his fingers. “But that half of one percent makes all the difference. Silicon contains roughly ten minor elements, such as aluminum, calcium and iron. Their quantity and distribution define the quality of the raw material.”

Since WACKER bought silicon from Holla even before the acquisition, the plant’s 140 employees are well aware of their new employer’s quality demands. “We need to maintain the same material quality from delivery to delivery,” explains Halland, “so that high-tech polysilicon production processes, for example, function smoothly, as well.” Halland is in no doubt that the whole Group stands to benefit from backward integration. And that goes for procurement, too: “Our expertise will support WACKER both in producing its own supplies and in sourcing silicon from third-party companies around the globe.”



Holla’s location is ideal for shipping, as it lies on the sheltered Hemnefjord, which doesn’t even freeze over in winter. Silicon metal is shipped throughout the year to WACKER’s production sites for further processing.

On a grand scale: in 2010 WACKER purchased some €590 million worth of silicon, ethylene, VAM and methanol.

#### From Raw Material to Product

In Burghausen alone, the raw materials supplied produced about 700,000 metric tons of finished goods. That's enough to fill 38,000 truck loads and 10,500 containers.



**38,000**  
Truck loads



**10,500**  
Overseas containers

#### Securing Raw Materials



The acquisition of Holla in Norway has made WACKER more independent of market and price fluctuations, thus securing the long-term supply of silicon metal – the Group's key raw material.

Holla's production capacity of some 50,000 metric tons per year thus enables WACKER to cover about a third of its annual demand.

#### The Key Raw Materials and Their Prices

## Si

### Silicon

The price of silicon metal is mostly agreed on during negotiations with each manufacturer. But there are also market-price-index contracts and others covering cost formulas. These are composed of the manufacturer's production costs and the related margin.

## C<sub>2</sub>H<sub>4</sub>

### Ethylene / Methanol

The prices of these raw materials are made up of published market prices and negotiated discounts. The market prices are determined by supply and demand and are indirectly linked to the price of natural gas and oil.

## CH<sub>3</sub>OH

## VAM

### Vinyl Acetate Monomer

Vinyl acetate monomer pricing is formula-driven. In other words, the price of VAM is determined by the prices of the petrochemical starting materials occurring in VAM. These materials in turn are tied to the price of natural gas and oil.

# Keeping Track of All Parameters. WACKER's Energy Procurement Relies on Captive Power Plants and Smart Purchases.



A waste-heat boiler above the turbine at Burghausen's state-of-the-art gas-and-steam power plant. Not only does the gas turbine meet a third of the plant's electricity requirements, but the turbine's waste heat is also used to generate process steam for the production of chemicals. The high-pressure steam in turn drives other turbines to generate electricity. A perfect loop that provides maximum efficiencies, cuts costs and conserves resources.



From his office window facing east across the Burghausen site, Gerhard Knittel gazes at a pale-gray, fully clad building painted in vertical blue stripes. To a layman, it's nothing special. But just one glance tells WACKER's head of electricity procurement that all is well. "As long as vapor is coming out of its stacks, I know nothing is amiss," he explains. The towering, windowless structure is a highly efficient combined heat and power plant (CHP). Operated by WACKER in partnership with a major utility since 2001, the CHP houses a gas turbine which produces all the steam Burghausen needs for its chemical processes. "At the same time, our CHP also generates around a billion kilowatt hours of electricity a year," stresses Knittel, who oversees energy supplies to all eight WACKER sites in Germany. A further 250 mil-

lion kWh of electricity is generated as the high-pressure steam relaxes in various downstream production processes.

**Hydroelectric Power Was the Start**

Compared to the CHP, the 250 million kWh generated by WACKER Burghausen's own hydroelectric power station – the Alzwerke – seems rather paltry. WACKER began harnessing water from the Alz river in 1922 by diverting it along a canal into the site. The water then plunges 63 meters through five massive, gray steel tubes to a yellow-painted machine house. There it drives five Francis spiral turbines and five three-phase generators. It is then discharged into the Salzach river. "For Dr. Alexander Wacker, the company founder, permission to use the Alz to generate power was key to locating production at Burghausen," says Gerhard

**"We have classified electricity and natural gas as two of our most vital raw materials."**



The control room inside Burghausen's gas-and-steam power plant. Employees use special-purpose computers to control steam generation.



The power plant's process steam is distributed among Burghausen's various production facilities.





Gerhard Knittel is in charge of energy sourcing at WACKER's Raw Materials Procurement department. The 49-year-old family man has been at WACKER since 1986 and is responsible for all eight of the Group's German sites. The electrical engineer firmly believes that successful procurement is based on a purchasing strategy aligned with company needs and on knowing the energy market first hand.

Knittel. “The hydroelectric power enabled him to make acetic acid and acetone cheaply.”

### Soaring Production Raises Power Consumption

Gone are the days when the two power plants were able to cover demand on their own. The company’s tremendous growth has been accompanied by a voracious appetite for energy, explains the 49-year-old, pointing to a chart on his computer screen. “Since 2008, we have classified electricity and natural gas as two of our most vital raw materials.” Which would explain why Knittel’s office is equipped not only with site plans for WACKER plants in Germany, but also with maps of the natural gas networks in Germany and the rest of Europe.

### Flexibility and Strict Rules

WACKER’s chief energy buyer sources the remaining electricity that the company needs on the open market – which isn’t as easy as it sounds. It means striking the right balance between the production facilities’ need for extreme flexibility and the strict rules regulating the electricity market. “We can’t stockpile electricity. So, risk management is very important,” he explains. “Some supplies are secured for up to three years in advance. But there are times when we urgently need large quantities of electricity for the next day. When that happens, we go to the spot market and order the precise quantity – down to the very last hour.”

Knittel’s job involves keeping track of various parameters at once. Forbidden to trade in electricity or

engage in price speculation, he has to buy specified minimum quantities every quarter, without exceeding maximum limits. He does not see these rules as restrictive. “They make sense because WACKER’s overriding objective is to supply production plants with the right quantity at the right price.”

### Limit Orders and Spot Orders

Knittel liaises closely with WACKER’s production managers, power-plant operators, lawyers, accountants and Finance and Controlling specialists. He sources the electricity in a number of ways. After consulting with production managers to establish their power needs, he concludes contracts by phone or fax, buys on the spot market or places limit orders. The latter are only filled if the price hits a predefined level. Naturally, there is an in-built safety mechanism: “Given the huge sums involved, we have an office that constantly reviews the contracts,” says Gerhard Knittel.

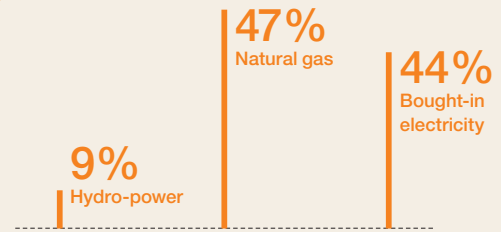
### Gas Market Is Opening Up

Knittel’s other key responsibility is procuring natural gas, the cleanest type of thermal primary energy. WACKER mainly sources it through a pipeline from Siberia. The market is fairly straightforward, but only for the time being. Traditional long-term delivery contracts are on the wane, increasingly being replaced by fixed-price and spot products. This sits well with Knittel: “It means we can influence prices more.” He follows the latest gas trends and conditions via the internet, daily market reports and the EEX energy exchange. There could be changes

on the way. “In Burghausen alone, we consume 450 million cubic meters of natural gas. Broadening our supplier base – just as we’ve done with electricity – would give us more purchasing flexibility.” The head of energy procurement is in no doubt about that: “Especially when energy prices start rising again in the years ahead.”

A diverse energy mix: WACKER's electricity supply is based on a mixture of fossil and renewable energy sources, both captive and external.


Burghausen's energy mix



The Route Traveled by Natural Gas

Natural gas is procured via a pipeline that extends from Burghausen as far as Siberia's natural gas fields, taking in Austria, Slovakia and Ukraine along the way. In Burghausen alone, WACKER currently needs some 450 million cubic meters of natural gas a year.



 A Tradition of Hydro-Power



WACKER has a long tradition of generating energy from renewable sources. Since as early as 1922, the Alzwerke GmbH hydroelectric power station (a Wacker Chemie AG subsidiary) has been supplying hydroelectricity to the Burghausen plant. In 2010, the power station's five turbines generated about 250,000 megawatt hours of electricity. Enough to continuously operate 1,000 vacuum cleaners for 9.7 years.

Use of Natural Gas in Burghausen

**80%**  
To run the gas-and-steam turbine power plant

**20%**  
For chemical processes

# Over 10,000 Items Ordered from 240 Suppliers. Project Procurement Has Everything in Hand.



Installation workers on their way to a building site at Zhangjiagang, China. The pipes are to be used in a new pyrogenic silica production plant. Over the past few years, WACKER and Dow Corning have collaborated in Zhangjiagang to set up one of the world's largest and most cutting-edge integrated silicone sites.



Vast numbers of gray, beige and yellow pipes of different lengths and curvatures lie on the ground. Beside them are boxes in different shades of brown and, a few meters further on, the outlines of large machine parts can be distinguished under green tarpaulins. From the air, the scene looks like a giant's model kit. In reality, it's a stockpile of parts for the second expansion stage of production facilities at Zhangjiagang, China. Supplying pyrogenic silicas (trademark: HDK®) for silicones and other products, the facilities are located on one of the world's largest and most modern, integrated silicone sites, built jointly by WACKER and its us partner, Dow Corning.

### Planning Intensively but Staying Flexible

The fact that nothing was missing from the vast construction kit was partly thanks to Stefan Bahn (45) of WACKER's Project Procurement unit, set up in 2008. He and his team ensured that every single piece was delivered to the huge industrial park at the right time, to the proper specification and in the desired quality. Bahn was involved in the construction of the HDK® production facilities in China for two years – from the very first feasibility studies down to the final delivery. The scale of the task of building the facilities, not far from the Yangtze river, is made clear by some of the data: WACKER placed some 300 scheduled and 300 follow-up or amended orders (totaling over 10,000 items) with 240 different companies. "Project Procurement is like a living thing," says the mechanical engineer. "Though we plan ahead wherever

possible, we have to remain highly flexible to respond to project demands."

### Last-Minute Decisions

"Early planning and prompt action" aptly describes Project Procurement. "Our unit was set up to supplement the 18 category management teams, each of which handles issues for a specific WACKER product category," explains Bernhard Kollmuss, who heads Project Procurement from his base in Burghausen and is Stefan Bahn's supervisor. "We take on all the cross-divisional procurement tasks for projects costing over 100 million euros or those that are implemented abroad."

The decision to supplement procurement processes and, above all, make them more project-specific was mainly taken because WACKER

has built a comparatively large number of new plants both in Germany and abroad in recent years. "Our capital investments represent 20 to 25 percent of Group sales. With such vast sums involved, we can save a great deal of money and also coordinate complex projects more effectively," says Kollmuss, a process engineer. His procurement team, drawn from various disciplines and offering a wealth of international experience, not only knows the products inside out, but also has an excellent understanding of project management. This closeness to any given project is essential to shorten the time to market – the period between deciding to build a plant and bringing it on stream. "As the economic crisis showed, we need the flexibility to be able to delay decisions until a late stage during periods of high volatility," says the



Looking over to the Zhangjiagang plant's second expansion stage of pyrogenic silica production facilities. The buildings and steel structures are largely complete. The installation of equipment and piping is progressing rapidly.



A fully installed section of plant – including vessels, pumps and piping. WACKER's HDK® brand pyrogenic silica is used in the production of silicones, as well as in other industrial applications, such as coatings and adhesives.

“Project Procurement is like a living thing. Though we plan ahead wherever possible, we have to remain highly flexible to respond to project demands.”



Bernhard Kollmuss heads Project Procurement at WACKER. Joining WACKER 21 years ago, the chemical engineer has since gathered extensive experience from his involvement in large-scale projects around the globe. A family man, he loves to go sailing or practice his culinary skills in his leisure time.

father of two, who gained substantial project experience working for WACKER at Siltronic AG in Singapore.

#### Finding and Using Local Expertise

Kollmuss' project buyers work either independently, or in small groups with purchasers from Germany. At the same time, they head local purchasing teams. In China, for example, the local team has around 20 employees – without them many a decision would have been much harder. “Our Chinese colleagues have enormous expertise, which we very much appreciate. It’s so important to know which subcontractors are available and to assess them – especially in China, since markets there function differently from ours,” says Kollmuss. The differences in mentality are huge, and collaboration with local companies is largely untested. Take the following com-

parison: whereas, in Germany, large plants are delivered in pre-assembled sections, Chinese companies tend to assemble everything on site from the various parts. “Communication, too, is different. A lot more re-negotiating goes on,” says Kollmuss. Delivery schedules are not as reliable, he adds, and our buyers have to visit subcontractors more frequently, taking engineers along to ensure that the delivered product will be on-spec.

#### Protecting Intellectual Property Abroad

Project Procurement is also involved when subcontractors plan the construction of WACKER facilities. “While we leave the entire construction to our experienced partners, we still need to protect our intellectual property on foreign markets. That’s why we see to the critical parts our-

selves – for example, reactors, compressors and process-control equipment.” All this is sourced in Europe, quite often in Germany. Although an order sheet may only contain a few of these items, they can make up an enormous 25 percent of the procurement volume, depending on the technology involved.

The experience WACKER has gained in China, for example, will pay off in future projects. The next big challenge is already in sight: Bernhard Kollmuss and his team are needed in the USA, he explains. “WACKER is building its first polysilicon production plant outside Germany on a greenfield site in Tennessee. It’s a marvelous project and we’re all really excited about it.”



The construction-site buildings include warehouses, workshops and offices. Located in an area separate from the actual site, they will be dismantled once the construction phase is complete.



Investments on the rise worldwide: Project Procurement is becoming ever more important for WACKER.

**High Order Values**

Although fewer individual orders are triggered by Project Procurement than by Technical Procurement, the former's have a much higher value.

Approx.

**€78,000**

Average Project Procurement order value

<  
**€5,000**

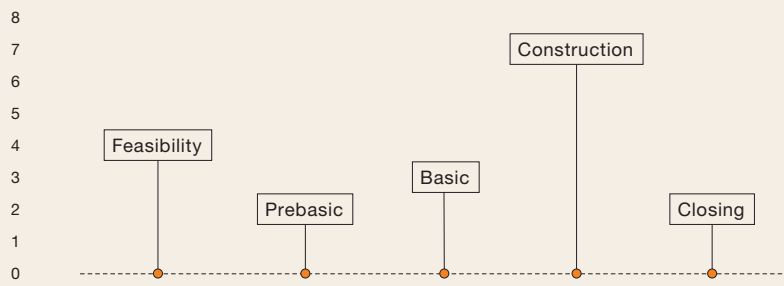
Average Technical Procurement order value

**Project Procurement Worldwide**



Project Procurement operates worldwide. WACKER invests constantly in new plant. In recent years, investments in property, plant and equipment have risen considerably in relation to sales.

**Project Pipeline at WACKER in 2010 (Number)**



There are several stages to a new project. It starts with the initial feasibility studies, passes through the construction phase, and finishes at the follow-up stage. The adjacent chart shows the number of large-scale WACKER projects and their respective implementation stages.

# It's Not Just the Price That Counts. WACKER's Technical Procurement Team Values Effective Partners.



Construction-site warehouse for the new polysilicon production facility at WACKER's Nüchritz site. This facility will go on stream in late 2011. A project on this scale involves the procurement of thousands of individual parts – from palm-sized switches to distillation columns weighing several tons. To enable the facility's rapid and smooth completion, all the parts must be available at the building site exactly on schedule.





Dr. Siegfried Kiese is head of WACKER's Technical Procurement & Logistics department. Since obtaining his doctorate in engineering, he has held various engineering-related managerial posts at WACKER over the last 25 years. His recipe for successful technical procurement? A combination of three things: technical know-how, market expertise and strategic supplier management. The father of two grown-up children goes running to improve his stamina, while he hones his judgment and accuracy on the golf course.

Dr. Kiese, WACKER operates in complex, global markets.

How is Technical Procurement organized to cope with this?

Our supplier management system has been divided into 18 category management teams, each managing every groupwide purchase in their field. The buyers concerned – whether responsible for technical materials, packaging, engineering services or assembly – liaise closely with Engineering and the various production plants. The key message is: procurement is not the sole domain of purchasing staff, but rather a result of teamwork.

How qualified is your team for these tasks?

Of the 80 people at Technical Procurement in Germany, 40 percent have a college degree or the equivalent. Ten years ago, this figure was less than 10 percent. Apart from procurement specialists, we now work increasingly with chemists, physicists, and electrical and industrial engineers. We're also making much more use of local experts abroad, since they are thoroughly familiar with our core markets. And through our daily dealings with our customers – WACKER's engineering departments and plants – we keep on learning, and so do they. As a result of this close interaction, we are well aware of our own needs, can assess active relationships with suppliers, and are able to successfully target new ones.

That sounds like a never-ending task.

That's exactly what it is. All our suppliers have one thing in common:

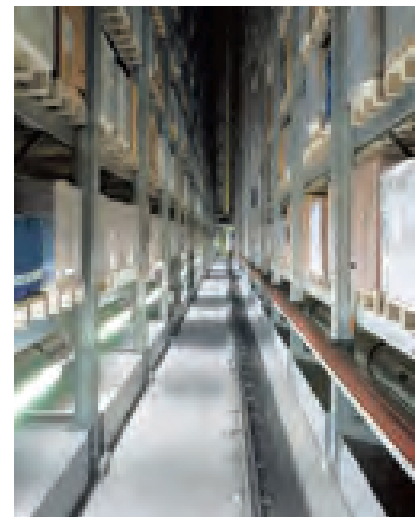
they provide products that help us compete on world markets. Their work promotes WACKER's success. But that means they must be up among the best. Plus, they must keep on their toes because we continually compare them with suppliers from around the world.

Does that also apply to companies you have been working with for decades?

We attach great importance to long-standing partnerships, since both sides learn from each other. And that has a beneficial effect on quality and productivity. Partnership and teamwork lead to sustained improvement. That said, we don't want to miss out on the knowledge and innovations that new suppliers can offer. So, it's essential to have a sensible mix of longstanding partners and newcomers to the fold.

Many of our logistics partners have been doing business with us for a long time. Over half of our suppliers in Europe have been with us for more than ten years. However, we also have a changeover rate of 20 percent. This gives us the best of both worlds – many years of experience and access to the expertise of other companies. Changes to our supplier portfolio are often unavoidable if we are to satisfy our own quality standards and keep our quality commitments to customers. Our willingness to switch suppliers reduces our dependence, provides incentives for longstanding and recent partners, and creates synergies.

“Suppliers that hold their own on the market and serve a great many customers demonstrate their effectiveness.”



A view of the high-bay warehouse at Burghausen's Container and Logistics Center. Every day, the center handles some 1,200 pallets and loads WACKER products onto over 60 trucks and overseas containers.

**Wouldn't it be better to establish well-run, exclusive and permanent processes with a few economically strong suppliers?**

Exclusiveness is something we pursue in only a few select segments, where the expertise we share with suppliers must be protected. Elsewhere, we seek out suppliers that are successfully serving many customers and have a good reputation for innovation, price and quality. In a competitive process, we choose the best suppliers on the market. We benefit from their expertise and they gain competitive strength from being in partnership with us. We experience this at first hand at our annual Suppliers' Day, which is attended by well over 100 companies.

**Such a strategy could lead to higher costs. How important is price in all of this?**

Where three providers offer identical service packages for a simple product, price is generally the deciding factor. For more complex procurement processes, we follow the Total Cost of Ownership Principle: the purchase price is not the only cost incurred during the lifetime of a product. Delivery times, energy efficiency, life expectancy or residual product value are all just as crucial as service. Ultimately, we choose the best overall package of costs and benefits.

**WACKER adheres to certain ethical standards. What role do they play in the relationship with suppliers?**

All WACKER's partners must sign up to our sustainability principles, which are underpinned by our membership of the Global Compact – an initiative

launched jointly by the UN and companies around the world. We especially expect new suppliers to provide comprehensive self-disclosure. And before contracts are signed or authorization is given, we conduct environmental and social audits.

**Now for a practical question: How does Technical Procurement at WACKER manage the 320,000 or so purchase requests it receives every year?**

We have an electronic procurement system which allows our engineering departments and plants, on the basis of framework agreements, to call off or order products and services independently and efficiently. In Germany, more than 70 percent of our 600,000 individual items are handled in this way. It's all automated – from ordering to delivery, to inspection, to payment authorization and payment. We have over 100 electronic catalogs for managing about one-third of all the items. In relation to the roughly 400,000 order items in SAP, automated ordering represents 50 percent. Paradoxically, this 50 percent makes up less than ten percent of our actual purchasing volume. The bulk of expenditure flows into more complex products, such as high-tech system components. We are implementing this approach step by step across our organizations in the USA and China, too.

**Where do you find new suppliers – and how do you decide if they are good enough for WACKER?**

Many companies approach us, because they would like to work with us. But, in addition, we look for suppliers ourselves. Each prospective

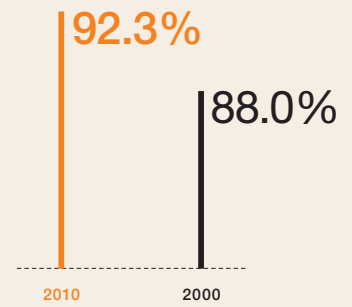
supplier must submit to a background check that includes comprehensive self-disclosure. We use detailed checklists to solicit precise details of how the companies envision the supply relationship and whether they can meet our requirements regarding, for example, delivery times, quality of products, and the environmental aspects of production.

**Can you protect yourself against all risks?**

Of course not. But we can mitigate them through our highly effective risk management system. We perform a comprehensive risk analysis on all our suppliers. Our buyers scrutinize everything. Where do we have critical requirements? Can they be met? Does the quality still meet our standards? Are deliveries on time? Is the supplier's business struggling or facing insolvency? We also use other data sources, such as D&B – a service provider that analyzes the payment history and financial data (like sales, profits and equity) of more than 145 million companies worldwide, including 4.8 million in Germany. We only work with companies that we know. Our approach ensures that we are able to accurately appraise our partners. It also guarantees a win-win situation for both parties.

Quality and safety: supplier management ensures smooth workflows.

**Boosting Quality**  
Systematic supplier management presupposes systematic quality control. WACKER was thus able to greatly increase the quality of its logistics providers over the last ten years.



**Instant Ordering**

Every year, WACKER's Technical Procurement team handles some 320,000 orders. Automated e-catalogs process over 70 percent of these orders. Their value accounts for 10 to 20 percent of our purchasing volume.

>  
**70%**  
of orders are processed via automated e-catalogs.



**A Strong Community**



Currently, 6,000 partners from a truly broad range of industries supply WACKER with services and raw and processed materials. Over 15,000 different suppliers have so far had business dealings with WACKER.

**Worldwide Purchasing Volume**



The flow of goods around the world will continue to expand, prices will carry on rising and certain raw materials will become harder to source.

Procurement is a world of numerous small but immensely important process steps. Mastering and steadily improving them is a never-ending task. Companies that fail to change get left behind. WACKER will definitely be moving forward.



Graphite Electrodes



Ethylene



Metallurgical-Grade Silicon



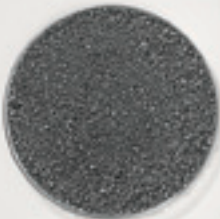
Liquid Raw Materials



Rock Salt



Water-Granulated Silicon

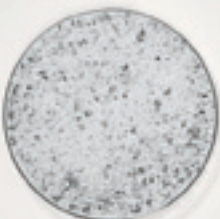


High-Voltage Current

Starch



Granular Industrial Salt



Polysilicon Chunks



Achtung Starkstromkabel

# 1

## For Our Shareholders

### Procurement: Raw Materials and Energy

Raw materials now make up half of WACKER's procurement volume. It is becoming ever more important to ensure a secure supply of high-quality materials at a favorable price.

# 1

## For Our Shareholders

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*Dear Shareholders,*

After the crisis of 2009, the entire chemical industry rebounded last year, with virtually unparalleled dynamism. It is no exaggeration to say that 2010 was an excellent year for chemicals, and definitely for WACKER, too. Both the Group's sales and operating result reached a record peak.

Our employees played a vital role in helping WACKER weather the world's worst economic crisis for decades so effectively and return to the successful path of previous years. On behalf of the whole Executive Board, I would like to thank all our employees for their outstanding achievements.

#### **Best Year in the Group's History**

At the start of 2010, it was hard to imagine that the world economy would rebound so quickly and, above all, with such momentum. The recovery started from a very low level in 2009, amid persistent production-capacity underutilization. Demand then soared during 2010's first quarter, and remained high until year-end. Even the usual seasonal slump did not come last summer.

Our results reflected the upswing. Sales rose 28 percent to €4.75 billion and EBITDA almost doubled to €1.19 billion. With net income of some €500 million, WACKER achieved an after-tax return of over 10 percent – the best operating result in the Group's entire history. Every business division contributed toward this success.

Without doubt, our performance benefited strongly from the world economy's industry-wide recovery. If global growth rates had not been so high, we would not have surpassed our 2008 record so quickly. Equally decisive, however, were our measures during the slowdown to improve our cost structures and process efficiency.

Despite 2009's demand slump, we avoided any significant reductions to our workforce and production capacities. When necessary, we introduced short-time work, thereby retaining our highly qualified employees. Our strategy certainly paid off in 2010, when we needed to quickly ramp up production capacities. From today's vantage point, we obviously did a lot right during the crisis.

#### **WACKER's Financial Situation Enhanced Further**

WACKER has always made financial strength a top priority, focusing on securing a sound equity base, ensuring adequate liquidity and minimizing debt levels. In 2010, the Group most definitely achieved these goals. We financed our ongoing high level

of investments entirely from net operating cash flow. Given the robust liquidity inflows from operations, cash and cash equivalents exceeded liabilities by about €260 million, and the equity ratio rose to 44.5 percent.

WACKER's operational successes and financial strength allow for a substantial dividend increase compared to 2009. At the Annual Shareholders' Meeting in May 2011, the Supervisory and Executive Boards will propose a dividend of €3.20 for 2010. The resulting distribution ratio is 32.4 percent, based on the net income allocable to Wacker Chemie AG's shareholders – clearly above the minimum distribution ratio of 25 percent.

#### **Successful Backward Integration of Silicon-Metal Production**

To promote the Group's medium to long-term development, we have completed several projects that will greatly spur WACKER's progress. One project was the backward integration into silicon metal, our most important raw material. For about €65 million, we purchased a silicon-metal plant at Holla in Norway. A sound investment, the acquisition makes us more independent of raw-material price fluctuations and increases our supply security. At Holla, we can produce around 50,000 metric tons of silicon metal – covering a third of the Group's annual requirements.

In China, WACKER and its partner Dow Corning jointly launched siloxane production at the world's largest integrated silicone site in Zhangjiagang. This milestone marks the completion of our key investment project in the highly promising Chinese market. Although the investment and start-up costs were higher than originally planned, we now have a local presence for supplying silicone products in China and expanding our business there.

#### **New Plant in Tennessee – the Largest Single Investment in WACKER's History**

In December, we decided to build a new production facility in the US State of Tennessee. Totalling about €1.1 billion, the project is WACKER's single largest investment ever and will open up new opportunities for us. Our first polysilicon plant outside Germany will enable us to meet ongoing photovoltaic-sector growth and to strengthen our position as a leading supplier of polysilicon. Additionally, the new facility will help us compensate more efficiently for currency fluctuations between the dollar and euro.

#### **WACKER Aims to Expand Further**

Our strategy focuses on continued and self-financed growth, as seen in our capital spending. In 2011, we will invest over 20 percent of sales in WACKER's future. We will be able to seize growth opportunities thanks to the investment projects already concluded and initiated. Despite high capital spending, WACKER is in excellent financial shape – a fact that underscores how strongly we are positioned.

We have entered 2011 confidently optimistic. The first few weeks have seen the economic rebound continuing – a good sign for business throughout the year. On the downside, the robust recovery is pushing up raw-material and energy costs. Although it won't be easy to compensate for these accelerating costs, we are confident that we can increase sales and achieve a very good operating result in 2011.

Looking further ahead, WACKER POLYSILICON has contractually secured most of its planned polysilicon output until 2014, a particularly positive signal. Importantly, these contracts already include the output from the plant under construction in Tennessee, which is expected to come on stream in late 2013.

Continued growth is the goal for WACKER's other divisions, too. At WACKER SILICONES, we aim to expand strongly in emerging markets, especially in Brazil, China and India. WACKER POLYMERS, too, is targeting these markets, reinforcing its market leadership through intelligent products for the construction industry. In the dispersions market, we plan to launch new, environmentally-compatible products. At WACKER BIOSOLUTIONS, we are focusing on further profitable expansion in the food and life-science sectors. Siltronic's priorities are to rigorously continue the efficiency and productivity measures already underway, to make its cost structures more flexible, and to strengthen its presence among customers in the 300 mm wafer sector.

A key groupwide goal is to continuously improve each corporate sector's productivity through our "Wacker Operating System" productivity-enhancement program. Another goal is to vigorously push ahead with application-specific product developments, since they are the basis of tomorrow's sales. True to WACKER's success formula of customer proximity, we intend to expand our presence in dynamic growth regions. The closer we are to customers, the better we understand them and the more precisely we know what they want. We adhere to this principle in everything we do, always striving to create added value for our customers.

On behalf of the whole Executive Board, I sincerely thank our suppliers and customers around the globe for maintaining a trusting and reliable relationship with WACKER. I extend my gratitude to you, our shareholders, for your confidence in WACKER and for your open dialog with us.

We look forward to your continued support on the path ahead.

Munich, Germany, March 2011



**Dr. Rudolf Staudigl**  
President & CEO of Wacker Chemie AG

## Executive Board



### Auguste Willems

WACKER POLYMERS  
WACKER BIOSOLUTIONS

Corporate Engineering  
Sales & Distribution  
Corporate Security  
Site Management  
Environment, Health, Safety  
Product Stewardship  
Regions: Europe, Middle East

### Dr. Rudolf Staudigl

President & CEO

SILTRONIC

Executive Personnel  
Corporate Development  
Corporate Communications  
Investor Relations  
Corporate Auditing  
Legal & Insurance  
Compliance



## Dr. Joachim Rauhut

### WACKER POLYSILICON

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

## Dr. Wilhelm Sittenthaler

### WACKER SILICONES

Human Resources (Personnel Director)  
Corporate Research & Development  
Intellectual Property  
Regions: India, Asia/Pacific

# Report of the Supervisory Board



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



## Dear Shareholders,

At the start of 2010, it was still unclear how the economy would develop during the course of the year. Markets remained apprehensive in the first two months. But, then, the global economy rebounded with unexpected vigor. From today's vantage point, WACKER's focused and measured response to the economic crisis has paid off. The company's strategy to overcome it was effective, without any appreciable cuts in capacity or personnel. As a result, we were able to ramp up production extremely quickly as soon as the rebound came. In good shape for the strong global recovery, we smoothly shifted up to full capacity to post the most successful year in our corporate history.

WACKER's robust performance is largely the achievement of its employees. It is their hard work, in-depth expertise and outstanding commitment that drive WACKER's success. The Supervisory Board of Wacker Chemie AG sincerely thanks them for accomplishing so much in 2010.

Importantly, WACKER again funded its high-level of capital spending from net operating cash flow. The Group was healthy enough to post a €264.0 million surplus under net financial liabilities and to increase its equity ratio. Facts like this underscore WACKER's financial strength.

In 2009, the Supervisory Board had approved a land purchase in Tennessee for constructing an integrated polysilicon facility in the USA. The project go-ahead has opened up exciting opportunities for us in the US market – undoubtedly one of the world's largest for chemicals and industrial goods. Building an integrated polysilicon facility there is a decisive step toward establishing an integrated WACKER site in the USA. Moreover, production operations there will enable us to more effectively neutralize currency fluctuations between the dollar and euro.

This investment project is the culmination of a global WACKER goal. In recent years, we have built plants in emerging growth markets, primarily China. Now, we are expanding our supply chain in the USA. Tennessee completes our strategy of owning an integrated WACKER production location in every key region of the world.

### Continuous Dialog with the Executive Board

At WACKER, sound corporate management and oversight are built on a relationship of trust between the Executive Board and Supervisory Board as they work closely together in the company's interest. In 2010, the Supervisory Board performed the duties incumbent upon it under the law, the Articles of Association, and the internal rules of procedure with great diligence. The Supervisory Board was involved in every decision of fundamental significance for the company at an early stage.

In both written and verbal reports, the Executive Board regularly provided us with timely and comprehensive information on corporate planning, strategic development, business operations, and the current state of Wacker Chemie AG and the Group, including the risk situation. In view of the uncertainty still surrounding global economic trends early in the year, we observed – along with the Executive Board – the company’s position very closely and in detail. Outside of the scheduled Supervisory Board meetings, the Chairman of the Supervisory Board also remained in regular contact with the Executive Board, especially with the CEO, and was kept informed about the current business situation, trends and key business transactions. Any deviations from business plans and targets were explained to us in detail.

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

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

The Supervisory Board held four scheduled meetings in 2010, two in the first half of the year and two in the second. Between meetings, the Executive Board immediately informed us – in detailed written reports – about all projects and plans of particular importance to the Group. At its full meetings and in its committees, the Supervisory Board discussed in detail business transactions of importance to the company on the basis of the reports submitted by the Executive Board. The full meetings were prepared by shareholder and employee representatives in their own separate sessions. In the period under review, every Supervisory Board member attended at least half of the meetings held during their period in office.

#### **The Supervisory Board’s Main Areas of Deliberation**

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

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

- The decision to invest in a new polysilicon plant in the us State of Tennessee
- The acquisition of a silicon-metal plant in Holla (Norway) from the FESIL Group, and the purchase of the Lucky-Silicone brand from Henkel
- Restructuring at Siltronic AG
- Expanding 300 mm wafer capacity at the Siltronic Samsung Wafer joint venture in Singapore
- Expanding production capacity at Burghausen, Nünchritz and Zhangjiagang
- The new compensation system for Wacker Chemie AG’s Executive Board

The Supervisory Board discussed the WACKER Group’s plans for 2011 at its meeting of December 9, 2010. On this occasion, the Supervisory Board dealt with medium-term corporate plans up until 2014. It also discussed and approved the capital expenditure budget for 2011.

### Work in the Committees

The Supervisory Board is assisted in its work by the committees which it has constituted. WACKER's Supervisory Board has created three committees – an Audit Committee, an Executive Committee and a Mediation Committee (as per the German Co-Determination Act (MitbestG), Section 27, Subsection 3). With the exception of the Audit Committee (chaired by Dr. Bernd W. Voss), the Chairman of the Supervisory Board chairs the committees.

The Audit Committee met four times in 2010. Key aspects of its work included the audit of the annual financial statements of Wacker Chemie AG and the Group for 2009 and of the consolidated interim financial statements for the first half-year. It also discussed the consolidated quarterly reports, risk management and compliance issues. Additionally, the Audit Committee awarded the audit assignment to the chosen auditor and submitted a proposal for the choice of auditor for 2010 to the Supervisory Board's full meeting.

The Executive Committee met once in 2010. At this meeting, it dealt with personnel issues relating to the Executive Board.

The Mediation Committee did not need to be convened in 2010.

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

### Corporate Governance

In 2010, the Supervisory Board dealt intensively with corporate-governance standards. At its meeting of December 9, 2010, the Supervisory Board discussed the application of the German Corporate Governance Code and closely examined the latest changes to it. At this meeting, the Supervisory and Executive Boards adopted the annual Declaration of Conformity that they must jointly submit in accordance with Section 161 of the German Stock Corporation Act (AktG). Shareholders can access the Declaration on the company's website.

In its Corporate Governance Report, the Executive Board reports on corporate governance at WACKER, also in the name of the Supervisory Board, in accordance with Item 3.10 of the German Corporate Governance Code. [See further details on page 225](#)

At its meeting in December 2010, the Supervisory Board also reviewed the efficiency of its own activities – and arrived at a positive conclusion.

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

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements prepared by the Executive Board for 2010 (reporting date: December 31, 2010), including the accounting. The audit covered the management report of Wacker Chemie AG, the consolidated financial statements, and the Group management report (reporting date: December 31, 2010). The auditors issued an unqualified audit report. The audit assignment had been awarded by the Supervisory Board's Audit Committee in line with the resolution of the Annual Shareholders' Meeting of May 21, 2010.

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

At its meeting on February 25, 2011, the Audit Committee closely examined the aforementioned financial statements and reports, as well as the audit reports submitted by the auditors of the company's and Group's financial statements, and discussed and examined them in detail with the auditors before reporting to the full Supervisory Board. At its meeting on March 10, 2011, the full Supervisory Board discussed and examined the relevant financial statements and reports intensively, taking account of the reports submitted by the Audit Committee and the auditors. At both meetings, the auditors took part in the deliberations. They reported on the main results of the audit and were available to the Audit Committee and the full Supervisory Board to answer questions and provide supplementary information.

After concluding our own examination, we found no grounds for objecting to the financial statements and management reports of either Wacker Chemie AG or the Group, or to the auditors' report.

Accordingly, we concur with the audit's result and approve the financial statements of both Wacker Chemie AG and the WACKER Group submitted by the Executive Board as of December 31, 2010. The annual financial statements of Wacker Chemie AG are hereby adopted. We approve the Executive Board's proposal for the distribution of retained profits.

#### Changes in the Composition of the Supervisory and Executive Boards

In the 2010 fiscal year, there were no changes in the composition of the Executive Board or the Supervisory Board. After extending Dr. Joachim Rauhut's appointment for another five years to 2015 at its meeting of December 10, 2009, the Supervisory Board concluded the related employment contract on July 1, 2010. Dr. Rauhut has been on the Executive Board of Wacker Chemie AG since May 2001.

At its meeting of September 22, 2010, the Supervisory Board re-allocated some areas of responsibility within the Executive Board.

Munich, Germany, March 10, 2011  
The Supervisory Board



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

## WACKER Stock in 2010

### Stock Markets Show Good Overall Performance

In 2010, stock markets faced strong fluctuations, especially at the start of the year. With the crisis of 2009 still casting its shadow, companies were initially cautious with their growth forecasts. This was reflected in the share-price movements of many stocks, which remained within a narrow corridor during the first two months of the year. From March on, both German and European stock markets then experienced an upward trend. As per December 31, 2010, the leading indices were well above the prior-year figures.

### General Market Trend Benefits WACKER'S Share Price

As the year began, the overriding outlook was still distinctly pessimistic. The major source of concern was the euro's stability. Additionally, there were negative forecasts for two of WACKER's major customer sectors. Cutbacks in German feed-in tariffs led to doubts about the financial viability of photovoltaic-industry projects, and uncertainties surrounded demand for electronic products. In the first two months of 2010, these factors put pressure on WACKER's share price, which hit a low of €87.47 in late February.

At its annual press conference in March, WACKER announced its initial earnings targets for 2010 and issued a more optimistic outlook for subsequent quarters. WACKER's share-price uptrend was supported by accelerating solar-market demand for hyperpure polysilicon (due to the large number of installations, mainly in Germany) and by a better-than-expected performance in the chemical industry.

Market sentiment about WACKER shares remained bullish in the second quarter, thanks to strong growth in the Group's major target sectors – especially the solar industry. Although markets were nervous about the financial crises in Greece and Spain, WACKER's stock climbed to €119.55 on June 30, 2010.

In the July-through-September quarter, the usual seasonal slowdown that affects WACKER's chemical business in the summer did not materialize. Siltronic and WACKER POLYSILICON also posted high sales volumes. The Group's sales and earnings reached new third-quarter records. The main growth drivers were construction and the solar sector, and Asian markets. Additionally, in late 2010, WACKER announced that continuing high demand for hyperpure polysilicon had enabled it to sell all its planned production output until 2013. The stock price reached €135.35 on September 30, 2010.

From October through December 2010, the Group's share-price performance was mixed. At the start of the fourth quarter, there were concerns on financial markets that the economic recovery might weaken again. Even so, the share price climbed to a year-high of €149.65 on October 15, 2010. The solar industry's continuing growth was one of the main factors here. Then, in early November, reports of a drop in demand for 300 mm silicon wafers put pressure on semiconductor shares – also influencing WACKER's share price, which fell to €133.65 on November 19, 2010. On December 9, 2010, WACKER announced its decision to build a new polysilicon production facility in the USA with an annual capacity of 15,000 metric tons. The market responded positively to the news. Toward year-end,

negative reports about a competitor and about the settlement of derivatives led to price declines – with WACKER stock closing at €130.60 on December 30, 2010.

Overall, WACKER stock gained eight percent in value during the year, but did not manage to emulate the performance of major German index averages. Over the same period, the MDAX was up 32 percent and the DAX up 14 percent. The WACKER stock's high for the year was €149.65 and its low €87.47.

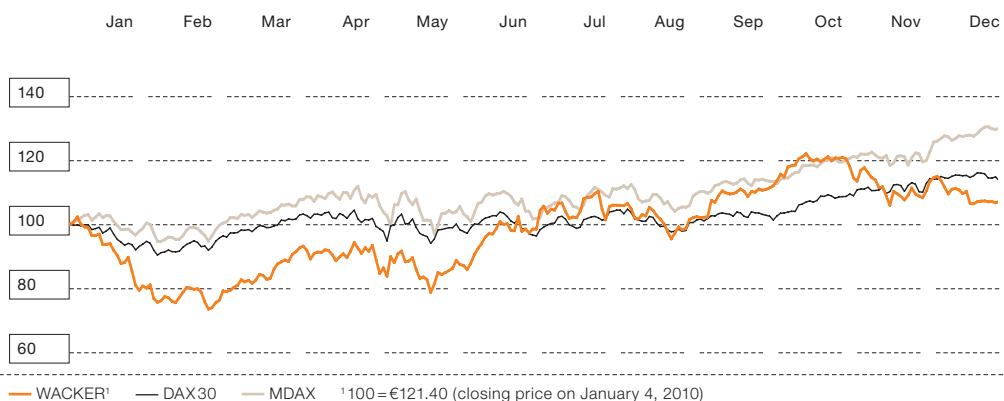
**Facts & Figures on Wacker Chemie AG's Stock**

€	
Year-high (on October 15, 2010) .....	149.65
Year-low (on February 25, 2010) .....	87.47
Starting price .....	121.40
Year-end closing price .....	130.60
Performance for the year (without dividend) (%) .....	7.6
Year-end market capitalization (shares outstanding; 2009: 6.1) (billion) .....	6.5
Average daily trading volume (2009: 17.2) (million) .....	23.3
Earnings per share (2009: -1.43) .....	9.88
Dividend per share (proposal) .....	3.20
Dividend yield <sup>1</sup> (%) .....	2.8

<sup>1</sup> Dividend proposal based on an average share-price weighting of €114.32

All share-related data are based on Xetra trading.

**WACKER Share Performance (indexed to 100)<sup>1</sup>**



### Earnings per Share of €9.88

Earnings per share (EPS) is calculated by dividing net income allocable to Wacker Chemie AG shareholders by the weighted average of all shares in circulation during the year. In 2010, the number of shares in circulation was 49,677,983. On this basis, the EPS is €9.88.

#### Useful Information on WACKER Stock

ISIN .....	DE000WCH8881 .....
Ticker, security identification number (WKN) .....	WCH888 .....
Frankfurt Stock Exchange .....	WCH .....
Bloomberg .....	CHM/WCH.GR .....
Reuters .....	CHE/WCHG.DE .....
Capital stock .....	€260,763,000 .....
Number of shares (as of December 31, 2010) .....	52,152,600 .....

### Dividend Payment of €1.20 per Share

At the Annual Shareholders' Meeting of May 21, 2010, it was decided to pay out a total dividend sum of €59.6 million (2008: €89.4 million) from the retained profit of €533.4 million posted in 2009 (2008: €576.9 million). The dividend per share entitled to dividends for 2009 was therefore €1.20 (2008: €1.80). The dividend was distributed to shareholders on May 22, 2010.

At a volume-weighted average share price of €89.99 in 2009, this produced a dividend yield of 1.33 percent. Because the net result for the year was negative, no distribution ratio can be calculated.

#### Dividend Trends

€	2009	2008	2007	2006
Dividend .....	1.20	1.80	2.25	2.00
Plus special bonus per share .....	–	–	+0.75	+0.50
Dividend yield (%) .....	1.3	1.5	2.0	2.1
Net result for the year (allocable to WACKER's shareholders) (million) .....	-70.8	438.5	422.0	311.3
Dividend payout (million) .....	59.6	89.4	149.1	124.2
Distribution ratio (%) .....	n. a.	20.4	35.3	39.9

### Increase in Analysts' Coverage

In 2010, the average daily trading volume for WACKER stock was some 195,000 shares (Xetra) – thus below the 2009 figure of around 204,000 shares (Xetra). The number of financial analysts regularly monitoring and assessing the company increased to 33 in 2010.

During the fiscal year, the analysts' consensus price target rose substantially in line with the general market trend. Whereas the average Q1 estimate had WACKER's share at €109.75 (20 estimates)<sup>1</sup>, the fair-value price target increased to €159.47 (19 estimates)<sup>1</sup> by year-end.

The Following Banks and Investment Firms Monitor and Assess WACKER	
B. Metzler seel. Sohn & Co. KGaA	Jefferies & Company, Inc.
Bankhaus Lampe KG	JPMorgan
Bank of America Merrill Lynch	Kepler Capital Markets
Barclays Capital	Landesbank Baden-Württemberg
BHF-Bank AG	MainFirst Bank AG
CA Cheuvreux	Merck Fink & Co.
Citigroup	M. M. Warburg
Commerzbank	Morgan Stanley
Credit Suisse	Nomura
Deutsche Bank AG	Norddeutsche Landesbank
DZ Bank AG	Princeton Tech. Research
equinet AG	Reuschel & Co. Privatbankiers
Exane BNP Paribas	Silvia Quandt Research GmbH
fairesearch GmbH & Co. (CBS Research)	UBS Deutschland AG
Goldman Sachs International	UniCredit
HSBC Trinkaus	WestLB
Independent Research GmbH	

As per December 2010

On our website, we regularly report on the consensus of analysts' expectations for the current year. Moreover, our website offers extensive information on WACKER stock. In addition to financial reports, presentations, publications and a Fact Book (viewable online or downloadable), you'll find all our key financial-market dates, as well as contact information there. You can also view videos of our annual press conference, analysts' conference and other events online or listen to an audio stream. [www.wacker.com/investor-relations](http://www.wacker.com/investor-relations)

With the publication of our 2010 Online Annual Report, we underscore our services for analysts and investors. The easy-to-navigate online version of the report facilitates information access – and interactive options (such as key-indicator comparisons and a tool-box) enable readers to work directly with the figures.

<sup>1</sup> Consensus figures from VARA Research (Q1 = March 17, 2010/Q3 = November 26, 2010)



### Market Capitalization Sharply Up, Second Place in GEX Weightings

(Weighting as per December 30, 2010)

The performance of WACKER stock boosted its market capitalization to €6.5 billion by year-end (total stock without treasury shares). WACKER's MDAX market capitalization was €1.96 billion and determined exclusively according to the free float, including treasury shares. Thus, WACKER had an MDAX weighting of 2.46 percent – ranking 14th among the 50 companies listed there.

WACKER's GEX weighting was 9.96 percent. Deutsche Börse's GEX mid-cap index (introduced in January 2005) comprises owner-dominated companies listed on the Frankfurt Stock Exchange (Prime Standard) for no more than ten years. In 2010, WACKER again ranked second in that index.

### WACKER in Close Dialog with the Capital Market

Our company's strategic focus on growth and sustainably high margins is reinforced by continual and open communications with institutional/private investors and analysts. In 2010, we increasingly approached national and international investors and analysts to explain our business strategy, key financial indicators and plans for future developments. On many occasions, Executive Board members attended in person to answer questions from capital-market participants.

There were 22 roadshows with a total of 33 roadshow days in Germany, Europe and the USA. We also held about 350 one-on-one talks and some 40 group discussions, and participated in various international conferences.

WACKER gave presentations at, for example:

- Cheuvreux: German Corporate Conference in Frankfurt
- HSBC Small/Midcap SRI Conference in Frankfurt
- LBBW Photovoltaics Conference in Zurich
- Commerzbank: 7th Growth & Responsibility Conference in Frankfurt
- UBS Global Renewable Energy Conference in London
- PVSEC in Valencia
- UniCredit German Investment Conference in Munich
- Solar Power International in Los Angeles (UBS and Deutsche Bank)
- equinet: ESN Cleantech Seminar in Paris
- Cheuvreux: One Stop Shop in Milan
- Macquarie: Wind and Solar Conference in London
- Cheuvreux: One Stop Shop in Edinburgh

WACKER held its Capital Market Days 2010 at Burghausen. Around 50 analysts and investors took part and were able to gain an up-to-date overview of our company, strategies, technologies, products and innovations. Investors and analysts also had the opportunity to visit the plant and personally view WACKER products in use.

Wacker Chemie AG maintained its dialog with private investors last year, presenting the Group and its markets at various events. For example, we attended the shareholder forums organized by the DSW (German association of small investors) in Nuremberg and Munich, as well as the corporate presentations held by the SdK shareholder association in Pforzheim.

### Strong Increase in Number of UK Shareholders

Based on our latest shareholder analysis (December 31, 2010), the number of American investors continued to fall. The level of US-held shares dropped from 29 percent in December 2009 to just 24 percent in December 2010. In Switzerland, too, shareholder numbers declined slightly – from about 9 percent in 2009 to around 7 percent in 2010. By contrast, German shareholders now account for about 22 percent (2009: 19 percent) and UK investors for 25 percent (2009: 20 percent). Share ownership in Canada and Europe (excluding Germany, Switzerland and the UK) remained largely unchanged.

Wacker Chemie AG's largest shareholder is still Dr. Alexander Wacker Familiengesellschaft mbH, Munich. It holds over 50 percent of the voting shares in Wacker Chemie AG (2009: over 50 percent).

In 2010, Blue Elephant Holding GmbH (Pöcking, Germany) once again did not have any voting-share changes to report, which means it still holds over 10 percent (2009: over 10 percent) of Wacker Chemie AG.

Open-Loop Control Technology



Shaping



Waste Disposal



# 2

## Combined Management Report of the WACKER Group and of Wacker Chemie AG

### Business Environment

Material Feed



Closed-Loop Control Technology



Infrastructure



### Procurement: Plant Engineering Investments

WACKER is growing: some 14 percent of Group sales is budgeted for investments, which is a high spending rate compared to other chemical companies. Thanks to various large-scale projects, WACKER is boosting its production options worldwide.

Measurement and Testing Technology



# 2

## Combined Management Report of the WACKER Group and of Wacker Chemie AG

### Business Environment

Business Environment .....	49
Corporate Decision-Making, Targets and Strategy .....	58

In this combined management report, we have merged the management reports of the WACKER Group and Wacker Chemie AG for the first time.

Wacker Chemie AG significantly influences the WACKER Group's business. For 2010, the consolidated financial statements of Wacker Chemie AG were compiled in accordance with IFRS, and Wacker Chemie AG's separate financial statements with the German Commercial Code (HGB).

# Business Environment

## Group Structure and Operations

WACKER is a globally active company with state-of-the-art specialty chemical products. Our portfolio includes over 3,500 products supplied to more than 3,500 customers in over 100 countries. WACKER products are used in countless everyday items, ranging from cosmetic powders to solar cells.

### Silicon Is Our Main Starting Material

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

### International Presence Enhanced

In 2010, we strengthened our presence primarily in growth regions. Now, WACKER has 50 sales offices in 29 countries worldwide. Over recent years, the Group has set up a network of technical competence centers to enable customers to learn about its product portfolio and to run product tests there. A total of 20 such centers ensure optimum customer support. With our WACKER ACADEMY facilities, we also offer customers topic-specific seminars and training sessions on our products and their fields of application. In 2010, we opened three WACKER ACADEMY branches (our fifth, sixth and seventh) in Dubai, São Paulo and Singapore, respectively. We also opened a new sales office in Chengdu, China.

New Sales Office Opens  
in Chengdu, China

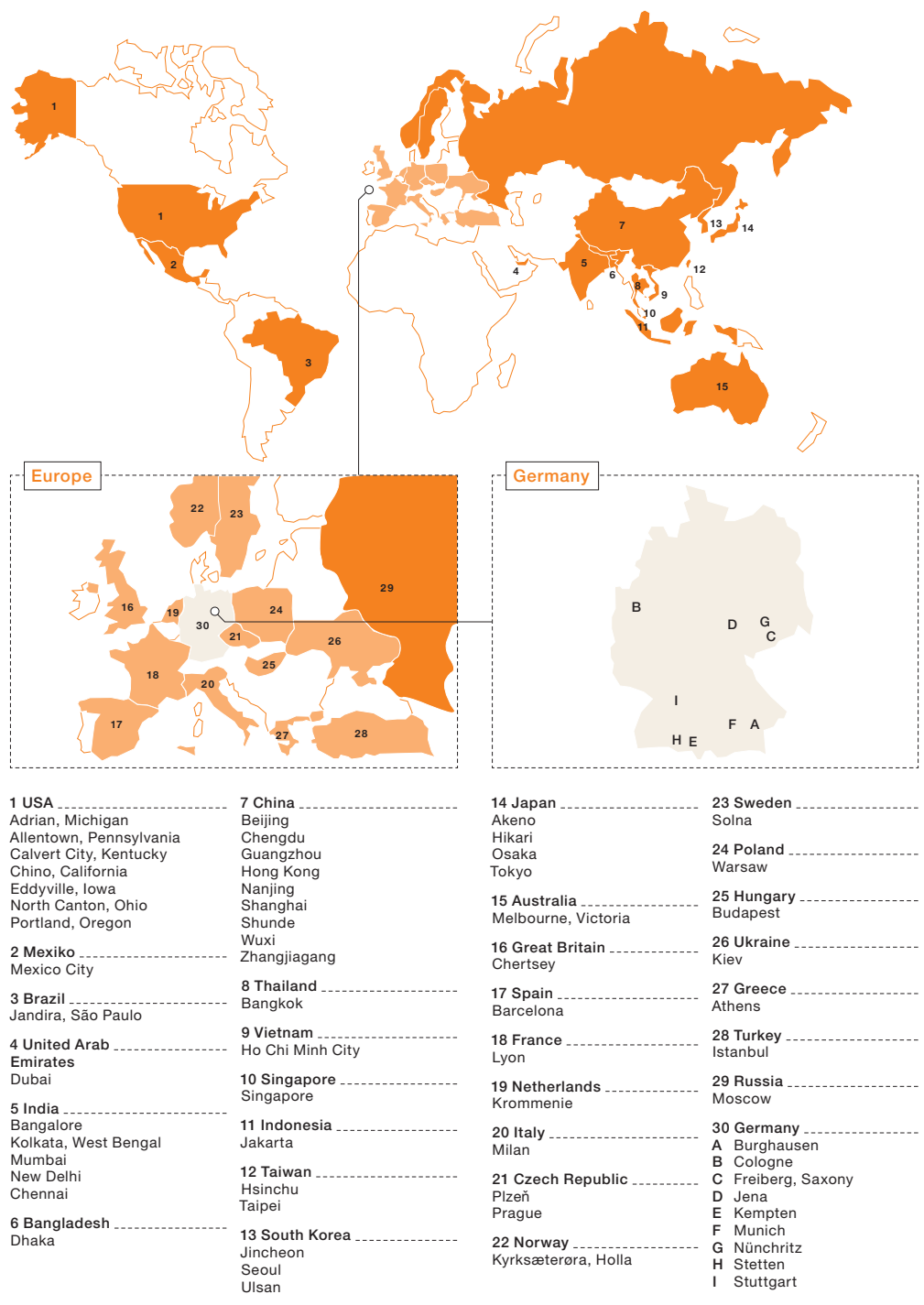
### Burghausen Is Our Key Production Site

WACKER's global production network consists of 26 production sites – 9 are in Europe, 7 in the Americas and 10 in Asia. The Group's key production site is Burghausen (Germany), with about 9,700 employees. In 2010, Burghausen's manufacturing output reached around 500,000 metric tons. That is about 50 percent of groupwide production volumes. We are strongly expanding our Nünchritz site (Saxony), where our first polysilicon plant outside Burghausen will come on stream in 2011, with a nominal production capacity of 10,000 metric tons per year.

**Technical Competence Centers**

Site	Business Division	Examples of Relevant Industries
<b>The Americas</b>		
Adrian, Michigan	WACKER SILICONES	Construction, automotive, medical technology, electronics, chemicals, cosmetics, textiles, paper
Allentown, Pennsylvania	WACKER POLYMERS	Adhesives, construction, paints and surface coatings
Portland, Oregon	SILTRONIC	Computers, telecommunications, consumer electronics
Jandira, São Paulo	WACKER SILICONES, WACKER POLYMERS	Construction, chemicals, cosmetics, textiles, paper
<b>Asia</b>		
Dubai	WACKER SILICONES, WACKER POLYMERS	Construction, textiles, paints
Kolkata	WACKER SILICONES	Chemicals, cosmetics, textiles, paper
Mumbai	WACKER SILICONES, WACKER POLYMERS	Construction, chemicals, plastics
Beijing	WACKER POLYMERS	Construction
Shanghai	WACKER SILICONES, WACKER POLYMERS	Construction, automotive, medical technology, electronics, chemicals, cosmetics, paper, paints and surface coatings
Shunde	WACKER SILICONES	Textiles
Singapore	WACKER SILICONES, WACKER POLYMERS, SILTRONIC	Construction, automotive, medical technology, electronics, chemicals, cosmetics, textiles, Computers, telecommunications, consumer electronics
Hsinchu	SILTRONIC	Computers, telecommunications, consumer electronics
Suwon	WACKER POLYMERS	Construction, paints, adhesives
Akeno	WACKER SILICONES	Automotive, electronics, moldmaking, chemicals, cosmetics, textiles, paper
Hikari	SILTRONIC	Computers, telecommunications, consumer electronics
Melbourne	WACKER POLYMERS	Construction
<b>Europe</b>		
Moscow	WACKER SILICONES, WACKER POLYMERS	Construction
<b>Germany</b>		
Burghausen	WACKER SILICONES, WACKER POLYMERS, SILTRONIC	Construction, automotive, medical technology, electronics, chemicals, cosmetics, textiles, paper, adhesives, paints and surface coatings, Computers, telecommunications, consumer electronics
Freiberg, Saxony	SILTRONIC	Computers, telecommunications, consumer electronics
Nünchritz	WACKER SILICONES	Construction

**WACKER Sales and Production Sites<sup>1</sup>**



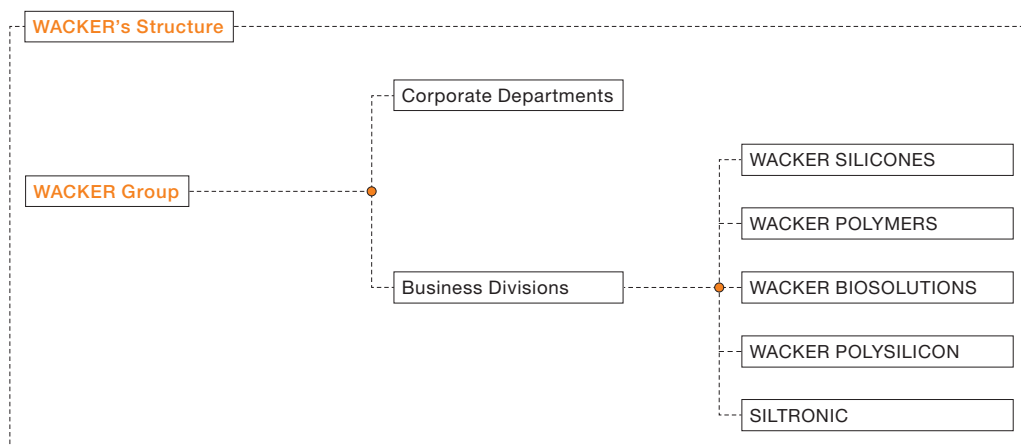
<sup>1</sup> Only majority-owned subsidiaries

## Legal Structure

In November 2005, WACKER became a stock corporation (AG) under German law. Headquartered in Munich, Wacker Chemie AG holds a direct or indirect stake in 56 companies belonging to the WACKER Group. Our financial statements include 50 companies that have been fully consolidated and 5 accounted for using the equity method. One small company that is not part of our core operations has not been consolidated.

### Five Operating Divisions

WACKER is based on a matrix organization with clearly defined functions. The Group has five business divisions, which have global responsibility for their own products, manufacturing facilities, markets, customers and results. Regional organizations are responsible for all business activities in their areas. WACKER's corporate departments primarily provide services for the whole Group, although some also have production-related functions.



## Management and Supervision

In compliance with the German Stock Corporation Act (AktG), Wacker Chemie AG has a dual management system, comprising the Executive Board and Supervisory Board. The Executive Board has four members. Wacker Chemie AG is the parent company and thus determines the Group's strategy, overall management, resource allocation, funding, and communications with key target groups (especially with the capital market and shareholders).

In 2010, the Executive Board's composition remained unchanged. There were, however, changes to members' responsibilities. Effective October 1, 2010, Dr. Rudolf Staudigl (president and CEO), who had previously headed WACKER SILICONES, instead assumed responsibility for Siltronic, and ceded R&D and Intellectual Property to Dr. Wilhelm Sittenthaler. Dr. Sittenthaler, who had been in charge of Siltronic, assumed responsibility for WACKER SILICONES. The other Executive Board members' responsibilities remained the same.

Executive Board Responsibilities Reassigned in 2010

There were no changes to Wacker Chemie AG's Supervisory Board in 2010.



### Executive Board Responsibilities

Dr. Rudolf Staudigl	<b>President &amp; CEO</b> SILTRONIC Executive Personnel, Corporate Development, Corporate Communications, Investor Relations, Corporate Auditing, Legal & Insurance, Compliance
Dr. Joachim Rauhut	WACKER POLYSILICON Corporate Accounting, Corporate Controlling, Corporate Finance, Information Technology, Raw Materials Procurement, Technical Procurement & Logistics, Tax Region: The Americas
Dr. Wilhelm Sittenthaler	WACKER SILICONES Human Resources (Personnel Director), Corporate Research & Development, Intellectual Property Regions: India, Asia/Pacific
Auguste Willems	WACKER POLYMERS WACKER BIOSOLUTIONS Corporate Engineering, Sales & Distribution, Corporate Security, Site Management; Environment, Health, Safety; Product Stewardship Regions: Europe, Middle East

### Declaration on Corporate Management

Submitted as per Section 289a of the German Commercial Code (HGB), the declaration on corporate management forms part of the corporate governance report. This declaration is part of the combined management report and is also available online at [www.wacker.com](http://www.wacker.com)

### Executive and Supervisory Board Compensation

Executive Board compensation contains both fixed and variable components. The main features of the compensation system for the Executive and Supervisory Boards are described in the compensation report, itself part of the combined management report.

## Key Products, Services and Business Processes

Our divisions' overall range of products and services remained unchanged. In several application areas, we expanded our product portfolio during 2010. [See further details on page 95](#)

Our WACKER SILICONES division provides customers with our broadest offering of over 3,000 products – ranging from silicone-based fluids, emulsions, resins, elastomers and sealants, to silanes and pyrogenic silica. The division manufactures both specialty products tailored to customers' specific needs, and standard products primarily used as starting materials in the production of silicones.

WACKER POLYMERS manufactures state-of-the-art binders and polymeric additives (such as dispersible polymer powders and dispersions). These are used in diverse industrial applications or as base chemicals. Application areas include the automotive, paper and adhesive sectors. The main customer for polymeric binders is the construction industry, which uses them as additives in tile adhesives, exterior insulation and finish systems (EIFS), dry-mix mortars and self-leveling flooring compounds.

WACKER BIOSOLUTIONS, our smallest division, supplies customized biotech and catalog products for fine chemicals. Products include pharmaceutical proteins, cyclodextrins, cysteine, polyvinyl acetate solid resins (for chewing gum base), organic intermediates

and acetylacetone. The division focuses on customer-specific solutions for growth areas, such as pharmaceutical actives, cosmetics and food additives.

WACKER POLYSILICON produces hyperpure polysilicon for the semiconductor, electronic and – above all – solar sectors. Most of this polysilicon is sent to external customers. Internally, we supply both Siltronic and its Siltronic Samsung Wafer joint venture.

Siltronic supplies leading semiconductor manufacturers with silicon wafers. These wafers form the fundamental basis for virtually all semiconductor products – whether for discrete semiconductor components (e.g. transistors and rectifiers) or microchips (e.g. microprocessors and memory chips).

### Integrated Production System – WACKER’s Main Strength

The WACKER Group’s key competitive advantages include the highly integrated material loops at its major production sites in Burghausen, Nünchritz and Zhangjiagang. Integrated production consists in using the byproducts from one production stage as starting materials for making other products and recycling the required auxiliaries, such as silanes, in a closed loop. Similarly, waste heat from one production process is utilized in other chemical processes. The result is lower specific production costs compared to open production processes. At the same time, integrated production cuts energy and resource consumption, improves the use of raw materials in the long term, and integrates environmental protection into our production processes. WACKER’s integrated production sites also have other benefits, including outstanding infrastructure, well-trained personnel, and reliable raw-material and energy supplies.

Integrated Production System Recycles Byproducts in a Closed Loop

## Major Markets and Competitive Positions

In its four biggest sales-generating divisions, WACKER continues to rank among the world’s top three suppliers. And we are the global market leader for some products, such as VINNAPAS® dispersible polymer powders for the construction industry. The key sales region for our products is Europe (including Germany), followed by Asia and the USA.

WACKER’s Competitive Positions			
	Number 1	Number 2	Number 3
WACKER SILICONES	Dow Corning	Momentive	WACKER
WACKER POLYMERS	WACKER (dispersible polymer powders/VAE dispersions)	Akzo (Elotex) (dispersible polymer powders)/Celanese (dispersions)	Dairen (dispersible polymer powders/dispersions)
WACKER POLYSILICON	Hemlock	WACKER	OCI
SILTRONIC	Shin-Etsu	Sumco	SILTRONIC

### Market Positions of WACKER’s Divisions

In the silicones market, WACKER SILICONES ranks number 3 and, in the masonry-protection silicones segment, we are global number 1. WACKER holds a leading position in Europe, where we generated sales of €850.2 million in 2010. Due to their wide-ranging product properties, silicones are used in every major industry. The largest growth potential lies in Asia, where ever-higher living standards are boosting demand for silicone products.

WACKER POLYMERS is the world’s largest producer of vinyl acetate/ethylene-based dispersions and dispersible polymer powders. Importantly, we are the only company in the market to offer a complete supply chain for dispersions and polymer powders in Europe, the Americas and Asia. Once again, the largest growth potential lies in Asia, where we

maintain an integrated production site for dispersions and polymer powders at Nanjing (annual capacity: 30,000 metric tons). Beside the construction industry, WACKER POLYMERS also supplies the textile, adhesive, paint and surface-coating sectors.

WACKER BIOSOLUTIONS is the global market leader in cyclodextrins and cysteine, and in polyvinyl acetate solid resins for chewing gum base. In the field of bacterial pharmaceutical protein production, we hold promising market positions, which we are continuing to expand.

WACKER POLYSILICON is experiencing strong growth, fueled by increasing solar-industry demand for polysilicon. Through capacity expansion and substantial productivity gains, we have reinforced our position as the second-largest producer of hyperpure polycrystalline silicon for electronic and solar applications. Thanks to the complete ramp-up of expansion stage 8 in Burghausen and productivity increases, hyperpure-silicon production grew by 12,400 metric tons to 30,500 metric tons in 2010 (2009: 18,100 metric tons).

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

## Economic and Legislative Factors

WACKER sells its products and services to virtually every industry. Consequently, the Group is subject – in its business divisions – to natural cyclical fluctuations, the impact and onset of which may vary greatly. We are able, however, to mitigate the severity of these fluctuations thanks to our extensive product range and our very broad, cross-industry portfolio of customers.

### Early Operational Indicators as Measures for Future Developments

By using specific, early operational indicators, we try to anticipate potential developments in our business plans and to allocate capacities accordingly. Since we are at home in diverse businesses and markets, we consult a number of early indicators to gain insights into potential developments at each of our business divisions.

Early Operational Indicators		
Business Division	Early Operational Indicator	Early Indicator for:
WACKER SILICONES WACKER POLYMERS WACKER BIOSOLUTIONS WACKER POLYSILICON	Raw-material and energy price trends	Our cost trends
WACKER SILICONES WACKER POLYSILICON	Orders received per month Medium and long-term contracts	Our capacity utilization Our capacity utilization, further market developments
SILTRONIC	Data on chipmakers' capacity utilization	Our capacity utilization
Every business division	Customer talks	Our sales trend, our product quality and market trends
Every business division	Market research	Market trends, product innovations

### Economic Factors Impacting Our Business

Although 2010 saw the world economy recovering strongly from 2009's crisis, our business has remained subject to the same, key economic factors:

#### --- Exchange-rate fluctuations

Our business is influenced by currency fluctuations against the euro. We have used currency hedging (derivatives) to secure at least half of our dollar exposures for the next year. The hedging ratio is currently around 50 percent. Without hedging, a one us cent increase in the euro-dollar exchange rate lowers EBITDA by some €5 million.

#### --- Energy and raw-material costs

As a chemical company, we belong to an energy-intensive industry and require diverse raw materials to manufacture our products. Consequently, higher energy and raw-material costs impact our cost structure. At our Burghausen and Nünchritz sites, we reduce our energy-procurement needs and costs by generating our own energy. Backward integration at WACKER SILICONES has enabled us to secure part of our long-term silicon-metal needs, to gain more independence from price fluctuations and to enhance supply reliability during demand peaks. We generally conclude long-term agreements to ensure energy and raw-material supplies.

#### --- State-regulated incentives and compensation systems for renewable energy sources

As one of the world's leading suppliers of hyperpure polycrystalline silicon, we are affected by regulatory changes to incentives and compensation systems for renewable energy sources. Through continuous productivity improvements, however, we are in a position to maintain our competitiveness amid the altered landscape. Our product quality and international orientation, our customer structure, and our medium to long-term supplier contracts all offer us competitive advantages over other producers.

### Legal Factors Impacting Our Business

Overall, there were no significant changes to Wacker Chemie AG's legal environment in 2010. Our operations were not subject to any additional requirements.

#### 85 Registration Dossiers Submitted as Part of REACH

Since June 2007, we have been obligated to register all substances on the European market – and classify them by property – if annual quantities exceed one metric ton or more. Registration is governed by the EU-wide REACH regulation (Registration, Evaluation, Authorization and Restriction of Chemical Substances). We began registering products in accordance with REACH in 2008 and 2009. In 2010, WACKER submitted 85 registration dossiers to the European Chemicals Agency (ECHA). The new legal stipulations involve considerable input from the chemical industry. REACH does not define a transition period for preparing the extended material safety data sheets required. Nonetheless, the time and effort involved means that chemical companies need a reasonable period of time to adapt their data sheets. On an interim basis, we continue to send out our existing data sheets, which already afford a very high safety level.

The EU Commission introduced the GHS (Globally Harmonized System of Classification and Labeling of Chemicals) in 2009 when adopting Europe's CLP (regulation on Classification, Labeling and Packaging of Substances and Mixtures). At WACKER, the GHS involves checking, reclassifying and relabeling all our products. By late 2010, we had reclassified each substance. By mid-2015, every mixture will have to be reclassified. Additionally, we registered all substances with the EU's classification and labeling inventory by January 2011. In 2010, we also reclassified and relabeled every substance as per GHS in Japan, Singapore and South Korea.

Our Business Is Primarily Influenced by Currency Fluctuations, as well as Energy and Raw-Material Costs

In 2010, WACKER Registered 85 Products in Accordance with REACH

**GHS Introduction**

Country/Economic Region	Change of Material Safety Data Sheets	Change of Labels	Substances/Mixtures
Brazil	February 2011	February 2011	Substances and mixtures
China	May 2011	May 2011	Substances and mixtures
Europe	December 2010 June 2015	December 2010 June 2015	Substances Mixtures
Indonesia	September 2010 January 2014	September 2010 January 2014	Substances Mixtures
Japan	January 2011	December 2006	100 special substances
New Zealand	July 2008	January 2011	Substances and mixtures
Serbia	September 2011 June 2015	September 2011 June 2015	Substances Mixtures
Singapore	December 2010 December 2012	December 2010 December 2012	Substances Mixtures
South Korea	July 2010 July 2013	July 2010 July 2013	Substances Mixtures
Switzerland	December 2012 June 2015	December 2012 June 2015	Substances Mixtures
Taiwan	January 2009	January 2009	Substances and mixtures
Uruguay	July 2010	July 2010	Substances and mixtures

# Corporate Decision-Making, Targets and Strategy

## Value-Based Management Is an Integral Part of Our Corporate Policies

At WACKER, we focus on sustainably increasing our company's value in the long term. This is why value-based management is an integral part of our corporate policies. Under the EAGLE acronym (Eye At Growing a Longterm Enterprise), WACKER has been consolidating value-based management groupwide since 2002. Value management and strategic planning complement each other. Consequently, we coordinate the strategic positioning of a business entity and its contribution to boosting the company's value. As part of annual planning, we make fundamental decisions on investments, innovation plans, new markets and a variety of other projects.

	2010	2009
<b>Cost of Capital</b>		
Riskless interest rate (%)	3.8	3.5
Market premium (%)	4.2	4.5
Beta coefficient	1.5	1.5
<b>Post-tax cost of equity (%)</b>	<b>10.1</b>	<b>10.3</b>
Tax rate (%)	30.0	30.0
Pre-tax cost of equity (%)	14.4	14.6
Pre-tax borrowing costs (%)	5.0	5.0
Tax shield (30%)	1.5	1.5
<b>Post-tax borrowing costs (%)</b>	<b>3.5</b>	<b>3.5</b>
Share of equity (%)	90.0	90.0
Share of borrowed capital (%)	10.0	10.0
<b>Post-tax cost of capital (%)</b>	<b>9.5</b>	<b>9.6</b>
<b>Pre-tax cost of capital (%)</b>	<b>13.6</b>	<b>13.7</b>

### Key Performance Indicators

WACKER's key value-related performance indicators are: BVC (business value contribution), EBITDA (earnings before interest, taxes, depreciation and amortization), EBIT (earnings before interest and taxes), cash flow and ROCE (return on capital employed). Our cost of capital is calculated and charged to the internal operating result. To do this, we calculate imputed interest on capital employed. We then deduct this interest from earnings before taxes. If earnings after this deduction amount to exactly zero, we have covered our cost of capital. We call earnings after cost of capital our business value contribution (BVC). ROCE is appraised yearly as part of our planning process and is a key criterion for managing our investment budget. The pre-tax cost of capital employed remained at 14 percent in 2010.

### ROCE Clearly Surpasses Cost of Capital

Rather than the originally projected ROCE (return on capital employed) of 11 percent, we actually achieved a ROCE of almost 25 percent in 2010, nearly earning double our cost of capital. This was due to WACKER POLYSILICON'S and WACKER SILICONES' outstanding results.

**WACKER Nearly  
Earns Double Its  
Cost of Capital**

#### Planned and Actual Figures

€ million	2009	Planned 2010	Actual 2010
BVC .....	-365.1	Negative	399.4
EBITDA margin (%) .....	16.3	22-28	25.2
Net cash flow .....	-32.9	Negative	421.6

WACKER'S second target is high profitability compared to the competition. The benchmark here is EBITDA. Each division is compared with its most profitable competitor. Using this comparison, and historical performance and divisional planning, we calculate an EBITDA margin. In a weighted divisional average, this margin lies within a corridor of 22 to 28 percent. For the Group, it amounts to 25 percent. In 2010, we exactly reached the Group's target margin of 25.2 percent.

Our third target is net operating cash flow (NCF – defined as the sum of cash flow from operating activities and noncurrent investment activities, without securities). On average, we strive for a slightly positive value here. From year to year, this depends on our earnings situation and planned investments. The goal for 2010 was a slightly negative NCF. Thanks to our markedly positive earnings trend and high advance payments from polysilicon customers, 2010's net cash flow was clearly above plan at €421.6 million.

To continually increase the company's value, the variable compensation of senior managers at our divisions and corporate departments is tied to the following performance indicators: EBITDA margin, development of net operating cash flow, and BVC.

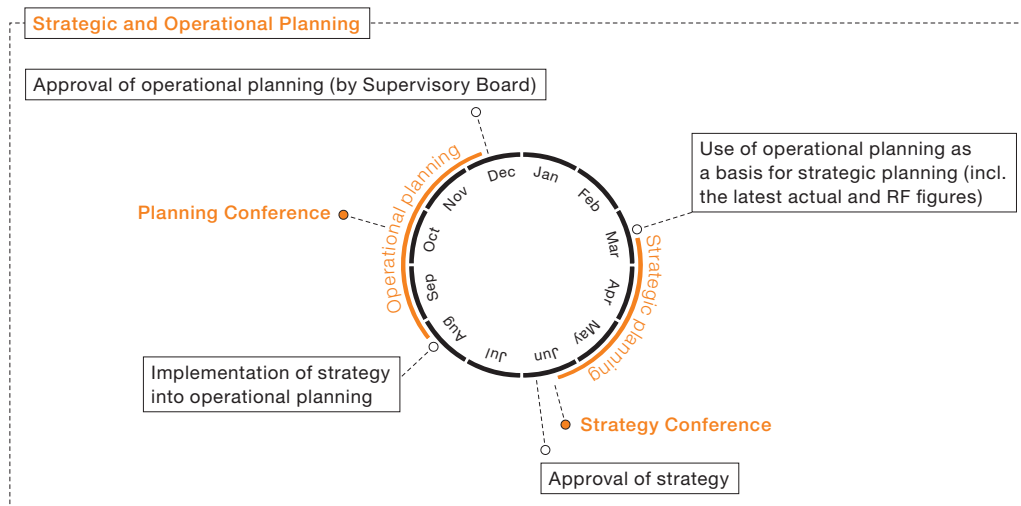
#### ROCE and BVC

€ million	2010	2009
EBIT .....	764.6	26.8
Capital employed .....	3,078.9	2,878.4
ROCE (%) .....	24.8	0.9
Pre-tax cost of capital (%) .....	13.6	13.7
BVC .....	399.4	-365.1

### Two-Stage Strategic Planning

Strategic planning determines how we can meet value-related and corporate goals. It is conducted in two stages. First, our divisions identify their market and competitive positions, and their value-related strength. The results are integrated into a proposal about strategic positioning and planned steps. This information is consolidated at Group level, and supplemented by innovation and investment projects. Then, strategic plans are passed at a Strategy Conference.

Subsequently, strategic-planning decisions are included in operational planning, which takes place in the second half of the year. The Executive and Supervisory Boards jointly approve the annual plan. We monitor whether we are meeting our targets via monthly comparisons of planned and actual figures. The overarching framework is based on a four-year, medium-term plan.



### Financing Strategy

WACKER's financing strategy follows two equally important goals:

- To finance corporate growth as far as possible without outside help
- To sustain a positive earnings contribution and net cash flow

We cover our capital requirements from operating cash flow, and from short-term and long-term financing. [See further details on page 81](#)

We ensure the Group's permanent solvency via rolling cash-flow management, and adequate credit lines guaranteed in writing. Financing requirements are calculated for the entire Group, with funding usually being granted at a Group level. Project-specific or regional funding is available in special cases.

### Financing Measures in 2010

In 2010, financing options for companies were easier than during the crisis year of 2009. Consequently, WACKER prematurely replaced a syndicated credit line of €150 million (taken out in 2009 for a term of three years) with a syndicated credit line of €200 million and a term of five years. The credit line was placed within WACKER's circle of core collaborating banks. It is not currently being tapped, but is rather in reserve. For our investments in China, we have a long-term "club deal" with local Chinese banks totaling €30.7 million. As regards the €400 million credit line concluded with the European Investment Bank back in 2009, we utilized €200 million in December 2010.

€151 Million of a Promissory Note Repaid Early

The positive earnings and liquidity situation allowed us to prematurely pay down installments on a promissory note (Schuldschein) of €180 million. As a result, €151 million has already been paid back.



**Financing Measures in 2010**

	Volume in € million	Term until
<b>Loans taken out/new contracts</b>		
Syndicated credit line .....	200	2015
Bilateral loan (EIB) .....	200	2016
Syndicated loans in China .....	31	2019
<b>Loans paid back</b>		
Promissory note .....	151	.. Early repayment 2010

No collateral exists for financial liabilities. Some of the liabilities to banks are fixed-interest and others have variable interest rates. Thus, as per December 31, 2010, WACKER has credit lines of around €1.2 billion with terms of over one year. The measures concluded contain standard market credit terms and the net debt-to-EBITDA ratio as the only financial covenants.

Group Can Access  
Credit Lines of Some  
€1.2 Billion

WACKER collaborates with a number of banks (core-bank principle). They must have an investment-grade credit rating and a long-term business model. To minimize counterparty and concentration risks, a bank's stake in the credit lines promised to WACKER must not exceed 20 percent.

**Operational Control Instruments**

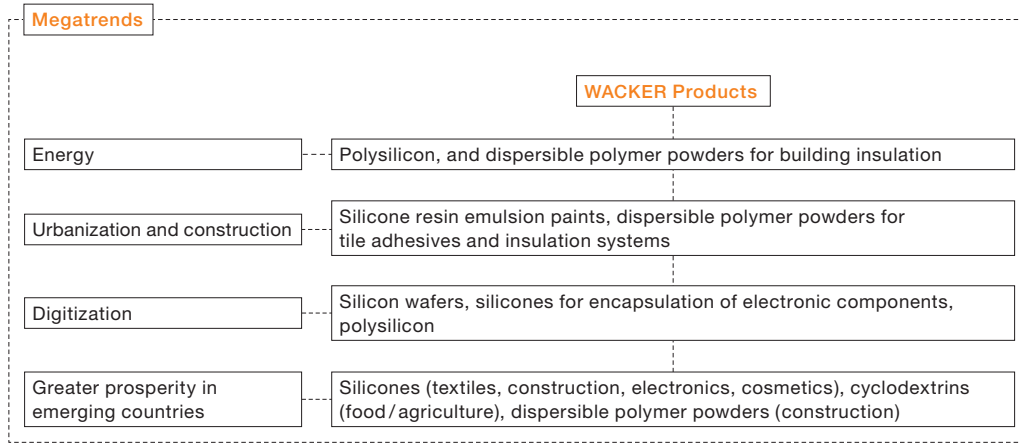
We control operational processes via WACKER's integrated management system (IMS). It stipulates uniform standards throughout the Group for issues including quality, environmental protection, health and safety. Our Group management system is being certified by an international certification organization in accordance with uniform standards based on ISO 9001 (quality) and ISO 14001 (environment). In 2010, all our us and Chinese sites were included in Group certification. As a result, Group certificates now cover all our key sites, replacing individual certification for business divisions and corporate departments. An exception here is WACKER's Siltronic subsidiary, whose sites are all certified to ISO/TS 16949 (quality) and to ISO 14001, due to the company's specific processes and customer requirements.

**WACKER's Strategy**

WACKER's groupwide strategy did not change in 2010. We continue to set our sights on continued profitable growth and on securing a leading competitive position in most of our business fields. Growth essentially stems from our stronger presence in emerging markets and regions, and from the replacement of existing products with new ones that offer better properties and are more environmentally friendly. Our priorities in terms of regions with above-average growth are Asia (especially China and India) and South America (primarily Brazil).

This strategy is based on the Group's technological and entrepreneurial strengths. We strive to ensure that WACKER products and services are the preferred choice of customers. The high quality of our products directly creates value for our customers in their applications.

With our products and services, we intend to make a vital contribution to global progress and sustainable development. To this end, WACKER offers products that are ideally suited to satisfying key megatrends.



# 3

## Combined Management Report Business Development



Packaging for Liquids



Filler for Shipping  
Hazardous Goods



Securing  
for  
Transportation



Goods Labeling



Packaging Material for  
Liquids and Powders



Goods  
Management

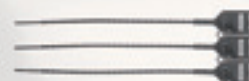


Packaging  
Material



### Procurement: Logistics and Packaging

Some 38,000 truck shipments and 10,500 overseas containers laden with finished products were dispatched to customers from WACKER's logistics hub in Burghausen. Just the packaging materials purchased by the Group are worth €100 million.



# 3

## Combined Management Report Business Development

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# Overview of Business Development

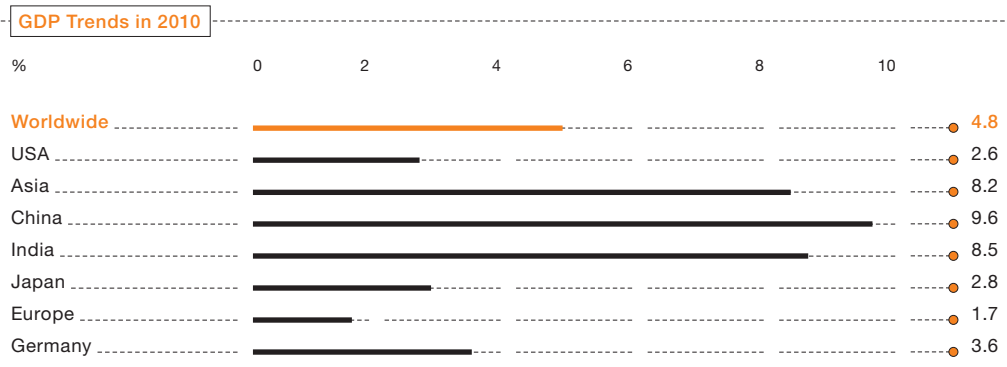
## Economic Trends

In 2010, the global economy recovered from the deepest recession since WWII faster and more dynamically than expected. The first six months in particular saw a rapid upswing, which weakened somewhat in the second half. Despite this clear recovery, the risks of a setback remained – due to sovereign-debt crises in parts of the EU (including Greece, Ireland and Portugal), growth problems in the USA, and potential overheating in some emerging economies. China’s inflation rate, for example, has risen sharply over the past few months. The International Monetary Fund (IMF) estimates global economic growth at 4.8 percent in 2010 (2009: –0.6 percent).

Global Economy Recovers Faster and More Dynamically than Expected

### us Economic Growth below Expectations

According to the IMF, GDP in the USA rose by 2.6 percent in 2010 (2009: –2.6 percent). The us economic rebound was not as strong as anticipated. As a result, the us Federal Reserve provided an additional \$600 billion in October 2010 to keep interest rates low and to stimulate capital spending and private consumption. High unemployment and the trade deficit have been a significant drag on the us economy.



Sources – worldwide: IMF; USA: IMF; Asia: ADB; India: ADB; Japan: IMF; Europe: IMF; Germany: Federal Statistics Office (as of December 2010)

### Asia Drives Global Economic Growth

In 2010, Asia’s importance increased as a key growth engine of the world economy. Robust performance in this region contributed significantly to the global recovery’s strength. The Asian Development Bank (ADB) expects economic expansion of 8.2 percent (2009: 5.4 percent), with China and India showing particularly dynamic growth. According to ADB forecasts, China’s economy grew by 9.6 percent (2009: 9.1 percent). To reduce the risk of economic overheating, the People’s Bank of China raised its base rate by 0.25 percent in late December 2010. In India, GDP increased by 8.5 percent (2009: 7.4 percent) according to the ADB. Japan experienced growth, as well. According to the IMF, Japan’s GDP rose by 2.8 percent, following a sharp decline in 2009 due to an export slump (2009: –5.2 percent).

### Moderate Eurozone Growth

IMF data show that eurozone countries grew at a moderate pace. GDP climbed 1.7 percent (2009: -4.1 percent). The eurozone thus lagged behind the global recovery. In countries such as Greece, Ireland, Portugal and Spain, high sovereign debt and local banking crises held back economic development.

### Germany Profits from Higher Exports

The German economy weathered the crisis much better than most other European countries. Germany thus regained its leading role as an industrial nation with a strong production base. Data issued by the German Federal Statistics Office show that GDP increased by 3.6 percent (2009: -4.7 percent). Growth was primarily supported by exports, though stronger domestic demand was a factor, too. The upturn benefited the labor market. For a while, the number of unemployed once again fell below the three-million mark.

Germany Becomes  
Growth Engine in  
Europe

## General Sector-Specific Conditions

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

### Semiconductor Market Recovers Strongly

In 2010, the semiconductor market experienced an upturn, driven primarily by higher sales volumes for computers and cellphones. As one of the world's three largest silicon-wafer producers, WACKER's Siltronic subsidiary benefited from this development and again posted positive EBITDA. Sales revenue and EBITDA were well above the previous year's figures. SEMI, the international semiconductor industry association, reports sales-volume growth of 39 percent. Gartner, a market research institute, estimates demand for silicon wafers at about 62,700 million cm<sup>2</sup> – a year-over-year increase of 39.6 percent. Demand for all wafer diameters rose, although there were differences among individual wafer sizes. Small and mid-sized wafers, in particular, saw substantial sales-volume growth. 300 mm wafers posted strong volume gains, too, though not quite as high as the smaller diameters. Prices presented a similar picture. Whereas prices for small and mid-sized diameters picked up, especially in the second half of the year, 300 mm prices remained below expectations. This was also reflected in Siltronic's business trend.

**Installation of New PV Capacity in 2009 and 2010**

	Installation of New PV Capacity (MW)		CAGR <sup>1</sup> 09–10
	2010	2009	%
Germany .....	7,000	3,806	84
Italy .....	1,500	711	111
Spain .....	650	69	842
Other European countries .....	2,365	1,019	132
USA .....	1,000	477	110
Japan .....	1,200	484	148
Asia .....	900	190	374
Other regions .....	900	447	101
<b>Total</b> .....	<b>15,515</b>	<b>7,203</b>	<b>115</b>

Sources: European Photovoltaic Industry Association (EPIA), Global Market Outlook for Photovoltaics until 2014 (May 2010)  
<sup>1</sup> CAGR: compound annual growth rate

**Germany Is the World's Key Photovoltaic Market**

The photovoltaic market expanded dynamically in 2010. According to the EPIA (European Photovoltaic Industry Association), over 15.5 gigawatts (GW) of capacity were installed worldwide. The most important market for photovoltaic systems continued to be Germany, where almost 50 percent of annual capacity was installed. This growth was supported by timely permit and financing procedures and a strong distribution and installation network. German demand for photovoltaic systems was particularly high in the first half of the year, since feed-in tariffs were to be cut by 16 percent on July 1, 2010. As a cost and quality leader in the production of crystalline polysilicon (the key raw material for photovoltaic systems), WACKER once again benefited from this growth. Our entire output was sold on the market. Production capacity rose from 2009's 18,100 metric tons to 30,500 metric tons in 2010. Strong demand for crystalline polysilicon meant that we could conclude new multi-year contracts involving advance payments with most of our customers and that spot-market prices were somewhat higher.

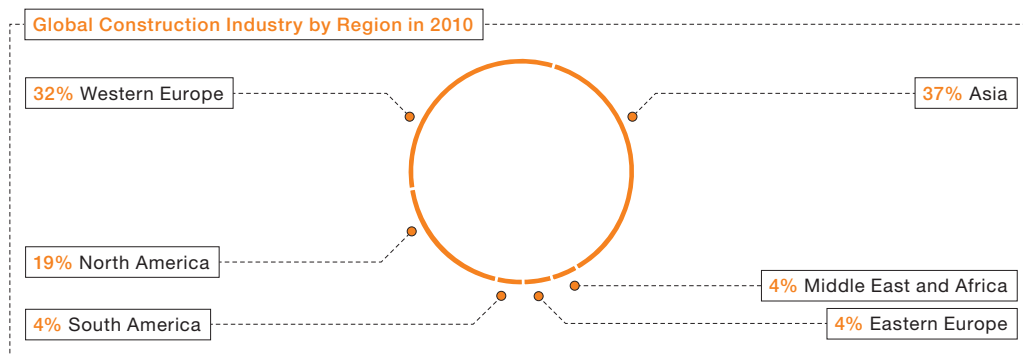
**Soaring Chemical-Industry Growth in 2010**

Global chemical production in 2010 almost regained its pre-crisis level. Production output, prices and sales increased sharply, especially in the first half of 2010. Momentum weakened in the second half of the year. Our chemical divisions' performance in 2010 reflects the upturn. WACKER SILICONES, in particular, posted above-average growth and achieved a new sales record. Demand rose across every industry where we supply products. Germany's Chemical Industry Association (VCI) estimates that the global chemical-pharmaceutical sector produced some 8.5 percent more than in 2009. Capacity utilization at German chemical companies was 85 percent, following 77 percent in 2009. Production grew 11 percent on the prior year. According to VCI estimates, sales rose by around 17.5 percent to €170.6 billion.

Soaring Global  
 Chemical-Industry  
 Growth

**Construction Industry Still Weak in 2010**

There was no recovery for the global construction industry in 2010. Based on data from Global Insight (a market research institute), sales actually were slightly below the prior-year level of US\$5.4 trillion. The largest sector, residential construction, faced another slump, dropping 24.5 percent against 2009. Commercial properties saw a decline of 11.7 percent. In contrast, infrastructure projects edged up. Regionally, only Asia experienced higher construction spending. Construction activity fell yet again in the USA and Europe.



Source: Global Insight (September 2010)

WACKER POLYMERS' business varied depending on the region. While the division posted a sales decline in the USA, it generated gains in almost all other countries – especially in India and China. Surprisingly, sales also increased in Western Europe, and above all in Germany. On the applications front, our tile-adhesive segment achieved positive growth, following the slump of 2009. WACKER profited even more from applications for energy-efficient and sustainable construction. Here, we increased sales volumes with products for thermal insulation systems and for the renovation of existing buildings.

WACKER SILICONES (which also supplies the construction sector) posted double-digit percentage growth rates in the fields of impregnation, insulation and masonry protection. Regionally, growth came primarily from Asia, in particular South Korea.

#### Electrical and Electronics Industries Resume Growth

With sales of €2.5 trillion, the global electrical and electronics industries returned to growth, following 2009's revenue decline. The German Electrical and Electronic Manufacturers' Association (ZVEI) estimates worldwide growth at 6 percent in 2010. Growth stemmed primarily from emerging economies (10 percent), while developed countries only posted an increase of 1 percent. The three WACKER divisions that serve the electrical and electronics sectors benefited from this uptrend. Siltronic reported a significant sales gain compared to 2009. WACKER POLYSILICON sold 15 percent of its 2010 polysilicon capacities to the electronics industry.

WACKER SILICONES, which sells its products to diverse industries, also increased its sales. The automotive-electronics market alone grew 18 percent year over year to US\$147 billion. WACKER SILICONES boosted its automotive-electronics sales by over 50 percent compared to 2009. The division also generated growth rates of over 35 percent with its silicone resins for low-voltage applications and with its silicone elastomers for medium-voltage and high-voltage insulators.

### Overall Statement on Underlying Conditions

The global economy recovered more quickly and dynamically than expected. There was a substantial growth spurt, primarily in the first half of 2010, which lost momentum in the second half. All WACKER divisions profited from this growth. Siltronic – which had been particularly impacted by the semiconductor crisis – achieved especially strong gains, as did both WACKER POLYSILICON and WACKER SILICONES. WACKER POLYSILICON forged ahead, with growth supported by significantly higher production output. In addition, strong demand led to a slight price increase for crystalline polysilicon. WACKER SILICONES benefited from a surge in incoming orders across all industries and products, and set new sales and EBITDA records. WACKER POLYMERS increased its sales and EBITDA, too. However, the combination



of higher raw-material prices and stable selling prices for dispersions and dispersible polymer powders held back EBITDA.

In 2010, WACKER increased its revenues by double-digit rates in every sales region. Growth was strongest in Asia, particularly China. Asia's share of total Group sales continued to rise and is currently at 36 percent. [See further details on page 93](#)

## Key Events Affecting Business Performance

### Investments

In 2010, WACKER's investment strategy remained unchanged, its focus being on polysilicon. We intend to participate in further photovoltaic-sector growth and maintain our position as one of the leading polysilicon manufacturers worldwide. The lion's share of investments therefore flowed into the expansion of polysilicon capacities. The start-up of Burghausen's expansion stage 8 (nominal capacity: 10,000 metric tons) and further productivity gains boosted capacity from 2009's 18,100 metric tons to around 30,500 metric tons in 2010.

Polysilicon Production  
Capacity Grows to  
30,500 Metric Tons

In November 2010, we concluded a key investment project in China with our partner Dow Corning Corporation. After four years of construction, an integrated production complex for silicones was officially opened at Zhangjiagang (China). It ranks among the largest and most modern silicone sites worldwide. From this location, we can meet the soaring demand for silicones in China, and Asia as a whole. Both partners' total investment amounts to US\$1.8 billion. In two joint ventures with Dow Corning there, we manufacture siloxane and pyrogenic silica. Both are important feedstocks for manufacturing downstream silicone products, which WACKER and Dow Corning make independently at the Zhangjiagang site. WACKER has a 25-percent share in the siloxane-production joint venture; our stake in the pyrogenic-silica facility is 51 percent.

We have also completed our supply chain for various intermediates and finished silicone products at Zhangjiagang. In October 2010, we officially commissioned a new production facility for silicone polymers there. The total investment was about €30 million.

The Group opened a new facility in Jena (Germany) in March 2010 to expand pharmaceutical-protein production at WACKER BIOSOLUTIONS. Pharmaceutical proteins (biologics) are used to treat various conditions, such as cancer, multiple sclerosis or hepatitis. The expansion, together with the new process-development and quality-control buildings completed back in 2009, brings WACKER's total investment in the Jena facility to some €18 million.

### Acquisitions

WACKER's acquisition of the FESIL Group's silicon-metal plant at Holla (Norway) was a key strategic milestone. Silicon metal is one of WACKER's most important raw materials, needed to produce silicones and hyperpure polysilicon. The acquisition enables backward integration of WACKER's supply chain, secures our raw-material supplies and makes us more independent of silicon-metal price trends. Through the acquisition, WACKER took over all of FESIL's production facilities in Holla, including the site's 129 employees and the associated real estate. Holla Metall's production capacity is just under 50,000 metric tons of silicon metal per year, which corresponds to about a third of WACKER's current annual needs. The purchase price was €66.5 million.

Backward Integration  
for Silicon Metal Secures  
Raw-Material Supplies

To round out our Asian activities, WACKER took over the South Korean Lucky-Silicone brand from Henkel Technologies Ltd. (Korea) in October 2010 for €14.7 million. As part of the acquisition, we obtained the rights to the brand and its customer base, the production plant in Jincheon (South Korea), and the inventories and receivables belonging to the business. WACKER kept on the 40 Lucky-Silicone employees. The Lucky-Silicone brand mainly comprises silicone sealants, manufactured and marketed for use in construction and other industries. Henkel had generated sales of around €20 million with this product in 2010. The Lucky-Silicone business started to be consolidated into the WACKER Group on December 6, 2010.

### Divestitures

In contrast, WACKER sold its share in Planar Solutions, a joint venture consolidated using the equity method. WACKER's 50-percent interest was acquired by FUJIFILM Electronic Materials, with whom we founded the joint venture back in 1998. Based in Adrian, Michigan (USA), Planar Solutions produces CMP slurries for semiconductor wafers. As this business is not one of WACKER's core competencies, the investment was sold – for roughly US\$35 million (€25 million). The profit from this transaction was €18.5 million. However, WACKER will continue to supply pyrogenic silica, a key component of these slurries, to FUJIFILM Electronic Materials. Planar Solutions' most recent annual sales figure was US\$60 million.

## Comparing Actual with Forecast Performance

Following the crisis year of 2009, WACKER looks back on a very successful 2010. We set new sales and EBITDA records, clearly beating even 2008's figures. We not only reached our goals for 2010, but actually exceeded them.

### Forecast Fine-Tuned as Year Progressed

In its annual report published in March 2010, WACKER forecast that sales would exceed the four-billion-euro threshold and that EBITDA would be much higher than in 2009. Investments were expected to total between €600 million and €700 million. The number of employees was predicted to increase by 300 and R&D expenses by 5 percent compared to 2009. Having published the half-year figures at the end of July, the Executive Board then further fine-tuned its forecasts for sales, EBITDA and capital spending. Sales would now reach about €4.5 billion and EBITDA would exceed 2008's result of €1.06 billion. Capital spending would come in at around €750 million. Once the Q3 2010 figures had been published, sales and EBITDA estimates were raised yet again. Sales would clearly surpass €4.6 billion and EBITDA would amount to over €1.1 billion. In contrast, the forecast for capital spending was cut back to €700 million because the EU Commission authorized a regional grant for the Nünchritz polysilicon facility in mid-September that had not been fully included in 2010's investment budget.

## Comparing Actual with Forecast Performance

€ million	Results in 2009	Forecast: March 2010	Forecast: July 2010	Forecast: November 2010	Results in 2010
Sales .....	3,719.3	> 4,000.0	4,500.0	> 4,600.0	<b>4,748.4</b>
EBITDA .....	606.7	More than 2009	> 1,060.0	> 1,100.0	<b>1,194.5</b>
Investments (incl. financial assets) .....	740.1	600–700	Approx. 750	700	<b>695.1</b>

2010's sales reached €4.75 billion, significantly higher than expected at the start of year. The figure was 28 percent above 2009. All five of WACKER's business divisions achieved stronger sales. In particular, WACKER POLYSILICON, WACKER SILICONES and Siltronic posted sales growth of more than 20 percent.

Turning to EBITDA, we began 2010 expecting an increase against 2009 and fine-tuned our forecast as the year progressed. 2010's EBITDA came in at €1.19 billion, up 97 percent compared to the previous year. Following a loss in 2009, Siltronic again generated a positive EBITDA in 2010. WACKER POLYSILICON and WACKER SILICONES both posted substantial EBITDA growth. WACKER POLYMERS' EBITDA rose, too, year over year. Higher sales revenues and volumes, plus enhanced plant utilization, positively impacted earnings, helping reduce specific production costs. In contrast, rising raw-material prices and energy costs held back earnings. The prices for our four key raw materials – silicon, ethylene, vinyl acetate monomer and methanol – were 10 percent up on average against the previous year. We established a provision for contingent losses of €51.8 million, due to higher transfer prices for the siloxane covered by future purchase obligations relating to our joint venture with Dow Corning.

Excluding acquisitions, investments of between €600 and €700 million were forecast for 2010. At €613.9 million – without the acquisition of the Holla silicon-metal production facility and Lucky-Silicone in South Korea – investments were within this target corridor. Most funds flowed into the ongoing expansion of our polysilicon production facilities.

As projected at the beginning of 2010, R&D expenses – for developing tomorrow's products and solutions – climbed slightly to €165.1 million.

Forecast Fine-Tuned  
as Year Progressed

The increase in employee numbers was greater than expected. As per the reporting date, WACKER had 16,314 employees, 696 more than in 2009. The rise primarily stemmed from our acquisition of the Holla silicon-metal plant and the South Korean Lucky-Silicone brand, and from hiring due to strong growth at WACKER POLYSILICON.

The Executive and Supervisory Boards' 2010 dividend proposal to be announced at the Annual Shareholders' Meeting takes account of that year's successes and the Group's strong financial position. The dividend is set to increase substantially to €3.20 per share (2009: €1.20 per share).

### Deviations from Projected Expenses

2010's personnel expenses – which grew 4 percent overall compared to 2009 – declined substantially as a percentage of sales. This was because sales increased by 28 percent. As a result, personnel expenses were below the planned figure for 2010.

Expected Costs below  
Planned Figures

Raw-material costs, as a percentage of sales, also remained below our planned figures. The prices for most key raw materials increased, in some cases markedly. Nevertheless, WACKER POLYSILICON and Siltronic – whose ratio of raw-material costs to sales is below the WACKER average – posted high sales growth. Energy costs, at 8.5 percent, were in line with our planned figures.

Compared to 2009, depreciation and amortization decreased significantly as a percentage of sales. There were two reasons for this. First, non-recurring items had increased depreciation and amortization by €182 million in 2009. Second, 2010's strong sales growth meant that depreciation and amortization dropped to 9.0 percent of sales.

Expenses by Cost Types			
%	Actual Figure: 2009	Planned: 2010	Actual Figure: 2010
Personnel expenses	29.4	26	23.9
Raw-material costs	21.5	23	19.8
Energy costs	8.1	9	8.5
Depreciation and amortization	15.6	10	9.0

## Executive Board Review of Business Development

2010 was a very successful year for WACKER. Sales and EBITDA soared to the highest levels in the Group's history, achievements we had not expected at the start of the year. WACKER weathered the crisis very well and emerged with renewed strength. We surpassed the goals we had set ourselves. In every major region and market, we generated substantial sales growth and strengthened each division's market position.

In 2010, we invested in WACKER's future growth and concluded some major investment projects by fully commissioning Burghausen's polysilicon expansion stage 8 and by starting up our integrated Chinese production complex at Zhangjiagang.

# Earnings

## WACKER Sets New Sales and Earnings Records

WACKER finished fiscal 2010 with new sales and earnings records. Thus, we shook off the effects of the world economic crisis faster than anticipated and even surpassed the records set in 2008. The Group's net income for the year rose to €497.0 million (2009: €-74.5 million). WACKER's earnings were supported by continuing high demand and low specific production costs. In 2009, several non-recurring effects totaling €342.0 million dampened earnings before taxes, due to precautionary measures for countering the economic crisis and to impairments on fixed assets.

Net Income Reaches  
€497.0 Million

## Sales Climb 28 Percent to €4.75 Billion

Sales amounted to €4.75 billion, up 28 percent from the previous year (2009: €3.72 billion), resulting from stronger customer demand for our products in all key target industries. This sales record was mainly fueled by Siltronic's robust sales gains and WACKER SILICONES' and WACKER POLYSILICON's strong business performance. The entire additional polysilicon volumes from Burghausen's new Poly 8 facility were sold on the market. Sales were boosted €1.13 billion by volume growth and €114.1 million by exchange-rate effects. A key contributor here was the us dollar-euro exchange rate, which averaged \$1.33 per euro in 2010 (2009: \$1.39 per euro). In contrast, declining prices – particularly at WACKER POLYSILICON – reduced consolidated sales by €215.6 million.

External Sales by Division					
€ million	2010	2009	2008	2007	2006
WACKER SILICONES	1,563.3	1,219.2	1,363.5	1,313.6	1,243.9
WACKER POLYMERS	788.9	732.7	860.4	623.7	548.9
WACKER BIOSOLUTIONS	138.0	100.5	92.0	100.6	101.4
WACKER POLYSILICON	1,177.5	968.1	567.0	243.8	132.7
SILTRONIC	1,018.7	632.6	1,356.2	1,445.1	1,257.6
Other	62.0	66.2	59.0	54.5	52.4
<b>Group</b>	<b>4,748.4</b>	<b>3,719.3</b>	<b>4,298.1</b>	<b>3,781.3</b>	<b>3,336.9</b>

Detailed information on each division's sales figures and earnings before interest, taxes, depreciation and amortization (EBITDA) is contained in the Segments section, starting on page 86.

The WACKER Group generates by far the largest share of its sales outside Germany. In 2010, international sales reached €3.86 billion, or 81 percent of consolidated sales. In 2009, the figure was €2.94 billion or 79 percent of the total. Asia clearly remains the Group's biggest market.

Domestic and International Sales (by Customer Location)					
€ million	2010	2009	2008	2007	2006
External sales .....	4,748.4	3,719.3	4,298.1	3,781.3	3,336.9
Of which domestic .....	887.3	774.6	948.6	723.5	657.6
Of which international .....	3,861.1	2,944.7	3,349.5	3,057.8	2,679.3

Detailed information on domestic and international sales is contained in the Regions section, starting on page 93.

### EBITDA almost Doubles

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached €1.19 billion (2009: €606.7 million) – nearly doubling. The EBITDA margin rose to 25.2 percent (2009: 16.3 percent), matching 2008's level. Earnings growth was largely the result of higher sales volumes and revenues, as well as increased plant utilization, which benefited specific production costs. In 2009, non-recurring effects reduced EBITDA by €159.9 million.

EBITDA Boosted by Higher Sales Volumes and Revenues, plus Increased Utilization Rates

EBITDA Trend					
€ million	2010	2009	2008	2007	2006
EBITDA .....	1,194.5	606.7	1,055.2	1,001.5	786.3

### Cost of Sales and Gross Profit from Sales

Gross profit from sales rose €502.8 million to €1.35 billion (2009: €843.5 million) – 60 percent higher than a year earlier. At the same time, the gross margin climbed from 23 percent in 2009 to 28 percent in 2010. Cost of goods sold amounted to €3.40 billion (2009: €2.88 billion), resulting in a cost-of-sales ratio of 72 percent (2009: 77 percent). Averaging well over 80 percent, the Group's capacity-utilization rates were very good in 2010, which had positive scale effects on the distribution of fixed costs. Cost of goods sold included expenses of €51.8 million for an addition to provisions for expected losses from WACKER's silicone business in China. The reason for the addition was purchase obligations involving higher transfer prices from long-term agreements between WACKER's Chinese subsidiaries and its siloxane-production joint venture with Dow Corning. Back in 2009, high additions to pension- and personnel-related provisions had negatively impacted the cost of goods sold.

### Rising Functional Costs

Other functional costs rose 8 percent to €548.0 million compared to the previous year (2009: €505.9 million). This increase essentially stemmed from selling and administrative costs, which were up 12 percent year over year to €382.9 million. The rise was mainly due to business-volume growth and to higher profit-sharing compensation in 2010 than a year earlier.

### Stable R&D Costs

At €165.1 million, the Group's R&D costs remained nearly constant in 2010 (2009: €164.0 million).

### Other Operating Income and Expenses

In 2010, the balance of other operating income and expenses was €4.3 million (2009: €-183.5 million). In 2009, impairments on property, plant and equipment of €182.1 million impacted other operating income. The balance of exchange-rate gains and losses totaled €-6.2 million for the year (2009: €-27.0 million). Other operating income of €18.5 million was generated by the sale of WACKER's 50-percent share in US-based Planar Solutions LLC. Other operating expenses contain disposal losses for plant-related items and other impairment losses to assets totaling €21.0 million, as well as expenses from the establishment of provisions amounting to €35.7 million.

These effects led to higher operating income of €802.6 million (2009: €154.1 million).

### Result from Investments in Joint Ventures and Associates

The investment result – the total income from investments in joint ventures and associates and other income from participations – was negative at €-38.0 million (2009: €-127.4 million). This was due to losses in Asia as a result of high depreciation (as planned) at joint ventures with Samsung and Dow Corning. Additionally, start-up costs were incurred at the siloxane joint venture with Dow Corning. A year earlier, the Group's share in the WACKER SCHOTT Solar joint venture was transferred to SCHOTT Solar AG – causing an investment loss of €74.8 million.

### Financial and Interest Result

At €-32.3 million (2009: €-23.5 million), the financial result edged down compared to the prior year. At €-2.0 million, the interest result was nearly balanced. Here, capitalized construction-related borrowing costs of €13.5 million (2009: €12.9 million) had a positive effect in 2010. The other financial result was €-30.3 million (2009: €-27.8 million). The main factor here was accrued interest on pension-related and other provisions.

### Income Taxes

Tax expenses for 2010 amounted to €235.3 million (2009: €77.8 million). As a result, the Group's tax rate was 32.1 percent. The tax rate a year earlier, adjusted for non-recurring effects, was also around 30 percent. The Group's tax expenses mainly consist of current income taxes.

Tax Rate Virtually  
Unchanged

### Net Income

In total, net income for 2010 was €497.0 million (2009: €-74.5 million).

After-Tax Return  
of Over 10 Percent

Combined Statement of Income		
€ million	2010	2009
Sales	4,748.4	3,719.3
Gross profit from sales	1,346.3	843.5
Selling, R&D and general administrative expenses	-548.0	-505.9
Other operating income and expenses	4.3	-183.5
Operating result	802.6	154.1
Result from investments in joint ventures and associates	-38.0	-127.3
EBIT	764.6	26.8
Financial result	-32.3	-23.5
Income before taxes	732.3	3.3
Income taxes	-235.3	-77.8
Net income for the year	497.0	-74.5
Of which attributable to Wacker Chemie AG shareholders	490.7	-70.8
Of which attributable to non-controlling interests	6.3	-3.7
Earnings per common share (€) (basic/diluted)	9.88	-1.43
Reconciliation to EBITDA		
EBIT	764.6	26.8
Write-downs/write-ups of noncurrent assets	429.9	579.9
EBITDA	1,194.5	606.7
ROCE (%)	24.8	0.9



# Assets

As per December 31, 2010, WACKER's total assets rose by €959.3 million year over year to €5.50 billion. Currency conversion effects of €111.1 million were one of the contributing factors here.

Total Assets Rise

## Financial-Position Trends: Assets

### Current and Noncurrent Assets

Noncurrent assets rose to €3.55 billion (2009: €3.12 billion), a gain of €427.4 million or 14 percent. The share of noncurrent assets within total assets fell to 64 percent compared to the prior year (2009: 69 percent). At €1.95 billion, current assets also rose year over year (2009: €1.42 billion) – up 37 percent. Their share of total assets equals 35 percent, 4 percent higher than a year earlier.

### Intangible Assets, Property, Plant and Equipment, and Investment Property

Intangible assets, property, plant and equipment, and investment property totaled €3.06 billion as per the closing date (2009: €2.80 billion). Depreciation reduced fixed assets by €417.2 million (2009: €397.8 million). Investments, in contrast, increased them by €613.9 million (2009: €740.1 million). Funds were mainly earmarked for expanding WACKER POLYSILICON's production capacities. The acquisition of a silicon-metal plant in Holla (Norway) and of Lucky-Silicone in South Korea raised fixed assets by €52.6 million. Exchange-rate effects of €44.1 million positively influenced fixed assets.

### Investments in Associates Accounted for Using the Equity Method

The carrying amount of investments in associates accounted for using the equity method dropped to €111.7 million (2009: €140.2 million). This was mainly due to net losses at joint ventures. Exchange-rate effects had a positive impact on the carrying amount of €20.6 million.

### Noncurrent Financial Assets and Securities

In the fourth quarter of 2010, WACKER invested part of its surplus liquidity in securities (of various bond issuers) with terms of over 12 months. The value of these noncurrent securities was €210.8 million as per the reporting date. The remaining other noncurrent assets amounted to €164.7 million (2009: €177.8 million). They included loans to associated companies totaling €101.4 million (2009: €75.1 million), noncurrent derivative financial instruments (€16.9 million), and tax receivables and deferred tax assets of €26.2 million (2009: €21.5 million).

### Current Assets

Current assets increased due to higher working capital and current liquidity compared to 2009. Stronger business and production volumes lifted inventories to €530.7 million (2009: €441.2 million), a 20-percent rise. Increased demand resulted in higher year-over-year trade receivables, up €129.2 million to €596.0 million (2009: €466.8 million). Other current assets rose €826.9 million (2009: €513.7 million). They included current liquidity (cash and cash equivalents, and current securities) of €586.6 million (2009: €363.6 million), tax assets of €87.1 million (2009: €52.2 million), and investment-grant receivables of €68.9 million (2009: €28.7 million). The Group recognized derivative financial instruments of €22.6 million (2009: €13.6 million).

## Financial-Position Trends: Liabilities

### Group Equity Increased

Equity amounted to €2.45 billion as per December 31, 2010 (2009: €1.94 billion). The equity ratio rose to 44.5 percent year over year (2009: 42.8 percent), mainly due to Group net income of €497.0 million. In contrast, the payout of dividends totaling €59.6 million reduced equity. Other equity items included uncapitalized currency-conversion effects from international subsidiaries' net assets and from derivative financial instruments. These effects had a positive impact of €67.7 million.

Equity Ratio at  
44.5 Percent

### Liabilities

WACKER also posted an increase in liabilities, up 17 percent to €3.05 billion (2009: €2.60 billion). At 55 percent, their share of total assets remained virtually at the prior-year level (2009: 57 percent). The share of borrowed funds relative to equity dropped significantly.

### Noncurrent Liabilities Rise Due to Higher Advance Payments from Customers

Noncurrent liabilities rose 10 percent to €2.06 billion (2009: €1.87 billion). Nevertheless, their share of total assets dropped to 37 percent (2009: 41 percent). Noncurrent provisions edged up €18.8 million to €745.8 million (2009: €727.0 million). As expected, pension provisions increased to €475.4 million (2009: €445.1 million), a gain of €30.3 million against a year earlier. Other noncurrent provisions included a provision for contingent losses of €53.1 million from future purchase obligations relating to our joint venture with Dow Corning. At the same time, pension provisions fell.

Noncurrent financial liabilities increased slightly, rising to €407.1 million (2009: €363.8 million). Beside exchange-rate effects, three other items had an influence. In December 2010, we accessed the first €200.0 million installment of a long-term investment loan from the European Investment Bank. Moreover, WACKER converted long-term loans into short-term ones and prematurely repaid €151.0 million in promissory notes (Schuldscheine). During 2010, we took out long-term loans for investment projects in China.

There were changes in other noncurrent financial liabilities, which rose to €909.0 million (2009: €776.6 million). The gain was primarily due to the newly signed long-term, polysilicon-supply agreements with customers. WACKER received advance payments that had an influence on other noncurrent liabilities. The value of long-term advance payments received rose by €108.1 million in 2010 to €869.9 million (2009: €761.8 million).

### Current Liabilities Rise amid Higher Business Volumes

WACKER posted an increase in current liabilities of 35 percent to €992.5 million (2009: €732.1 million). Their share of total assets is 18 percent (2009: 16 percent). Current financial liabilities rose by €50.4 million to €126.3 million (2009: €75.9 million). There were two main reasons for this. WACKER reclassified noncurrent financial liabilities as current because the term was due within one year, and posted positive currency-translation effects totaling €27.8 million.

Higher Advance  
Payments Impact  
Other Noncurrent  
Liabilities

High production-capacity utilization in the fourth quarter and substantial investment activities contributed greatly to higher year-over-year trade payables. The latter climbed €117.3 million to €335.2 million (2009: €217.9 million), a 54-percent rise.

Other current provisions and liabilities rose to €531.0 million (2009: €438.3 million), up €92.7 million on a year earlier. The increase was due to higher obligations stemming from profit-sharing compensation and higher customer advance payments (offsettable within a year) for polysilicon shipments.

### Unrecognized Assets and Off-Balance-Sheet Financial Instruments

An important asset that does not appear on our statement of financial position is the value of the WACKER brand and other Group trademarks. We consider the high profile and reputation of our trademarks to be a key factor influencing customer acceptance of our products and solutions. However, there are other intangible assets that are vital for success and positively impact our business – for example, long-standing customer relationships and customer trust in our product and solution-related expertise. Just as important are our employees' in-depth skills and experience, and our many years of expertise not only in R&D and project management, but also in the design of production and business-process structures. In particular, our integrated production system gives us a competitive edge over our rivals.

Another key success factor is WACKER's sales network, which has evolved over many years and enables the Group to market and sell its range of products and services locally to customers.

The statement of financial position also does not include various German legal forms of rented and leased goods reported on in the Notes. Additionally, other self-constructed assets are not included. [See Note 17](#)

WACKER does not use any off-balance-sheet financing instruments.

<b>Combined Statement of Financial Position</b>		
€ million	2010	2009
<b>Assets</b>		
Intangible assets, property, plant and equipment, and investment property .....	3,060.4	2,802.2
Investments in associates accounted for using the equity method .....	111.7	140.2
Other noncurrent assets .....	375.5	177.8
<b>Noncurrent assets</b> .....	<b>3,547.6</b>	<b>3,120.2</b>
Inventories .....	530.7	441.2
Trade receivables .....	596.0	466.8
Other current assets .....	826.9	513.7
<b>Current assets</b> .....	<b>1,953.6</b>	<b>1,421.7</b>
<b>Total assets</b> .....	<b>5,501.2</b>	<b>4,541.9</b>
<b>Equity and Liabilities</b>		
<b>Equity</b> .....	<b>2,446.8</b>	<b>1,942.4</b>
Noncurrent provisions .....	745.8	727.0
Financial liabilities .....	407.1	363.8
Other noncurrent liabilities .....	909.0	776.6
Of which advance payments received .....	869.9	761.8
<b>Noncurrent liabilities</b> .....	<b>2,061.9</b>	<b>1,867.4</b>
Financial liabilities .....	126.3	75.9
Trade payables .....	335.2	217.9
Other current provisions and liabilities .....	531.0	438.3
<b>Current liabilities</b> .....	<b>992.5</b>	<b>732.1</b>
<b>Liabilities</b> .....	<b>3,054.4</b>	<b>2,599.5</b>
<b>Total equity and liabilities</b> .....	<b>5,501.2</b>	<b>4,541.9</b>
<b>Capital employed</b> .....	<b>3,078.9</b>	<b>2,878.4</b>

# Financial Position

## Financial-Management Principles and Goals

Our financial management's main goal is to enhance WACKER's financial strength. The focal task is to sufficiently cover the financial needs of our operational business and investment projects. Financial management at the Group is centrally organized. It handles cash management and financing, as well as hedging against currency and interest-rate risks. A group-wide financial regulation sets out tasks and responsibilities. As part of liquidity management, we continuously monitor payment flows from operations and financial business. WACKER covers its resultant liquidity needs via suitable instruments, such as intra-Group financing through borrowings, or through external loans from local banks. We receive the necessary outside funding amounts via contractually-agreed credit lines in various currencies and with differing terms. We invest liquidity surpluses on the money and capital markets with an optimum risk / return rate.

In addition to the above-mentioned financing instruments, WACKER expects to be able to tap the bond markets and other instruments, if necessary. Our aim is to maintain our corporate financial structures so that the Group's credit rating remains – at a minimum – in the investment-grade range.

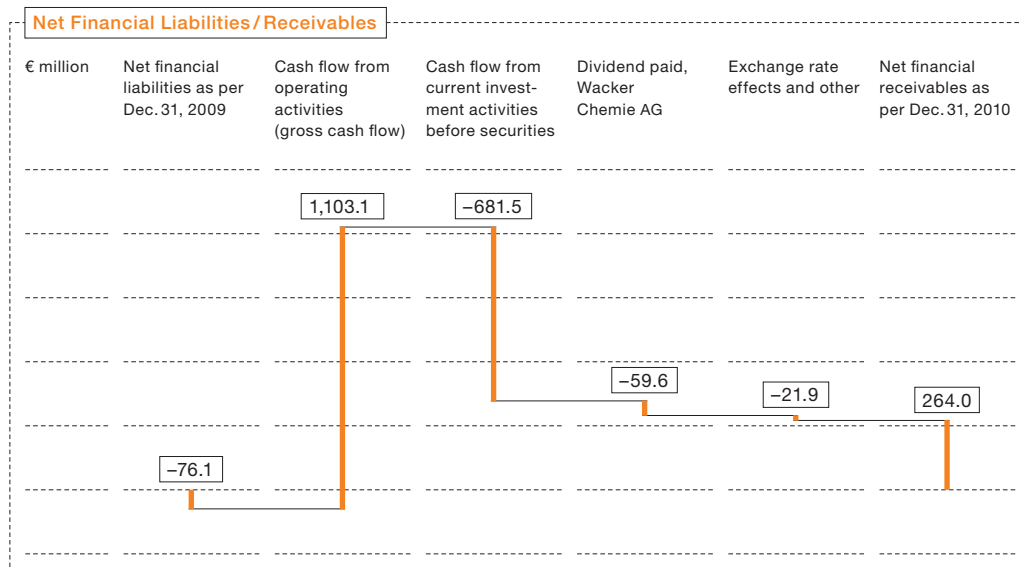
WACKER's key liquidity source is the operations of its Group companies and the resultant incoming payments. As part of our cash-management systems, liquidity surpluses at individual Group companies are used to cover the financing needs of other Group companies. Centralized in-house financial settlements reduce external-borrowing amounts and interest costs.

Operating Activities Are  
Key Liquidity Source

### Financial Analysis

As per December 31, 2010, financial liabilities amounted to €533.4 million, up €93.7 million on a year earlier (2009: €439.7 million). This rise was mainly due to our accessing a €200.0 million installment of our long-term investment loan from the European Investment Bank (EIB), among others, for the polysilicon plant currently under construction at Nünchritz (Saxony). At the same time, we prematurely paid down installments of a promissory note (Schuldschein) totaling €151.0 million. In China, long-term loans amounting to €30.7 million were taken out to finance ongoing investment projects.

WACKER defines net financial liabilities – a key indicator – as the balance of gross financial debt (obligations to banks, including finance-lease obligations) and existing noncurrent and current liquidity, consisting of securities and cash and cash equivalents. Net financial liabilities or receivables provide insights into the company's liquidity position. WACKER's liquidity situation has improved considerably on the previous year. As per the closing date, we had net financial receivables totaling €264.0 million. In contrast, WACKER had net financial liabilities of €76.1 million a year earlier.

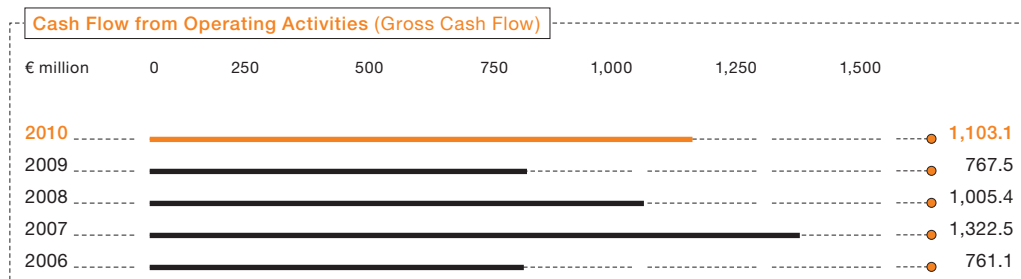


WACKER has contractually-agreed credit lines available totaling €1.2 billion as per the reporting date. Thus, we have enough financial leeway to secure the Group’s continued growth. The Group does not use any off-balance-sheet financing components.

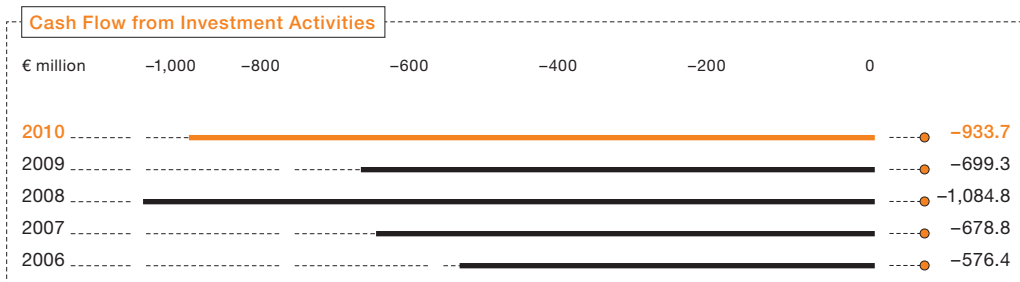
**Cash Flow**

In 2010, WACKER funded its investments entirely out of its own cash flow. At €1.10 billion, gross cash inflow from operating activities (gross cash flow) was up 44 percent (2009: €767.5 million). This was mainly due to our high net income of €497.0 million (2009: €-74.5 million) and the marked rise in advance payments received from customers for future polysilicon shipments. Cash inflows from advance payments were €165.2 million (2009: €36.9 million).

Investments Funded Entirely out of Own Cash Flow



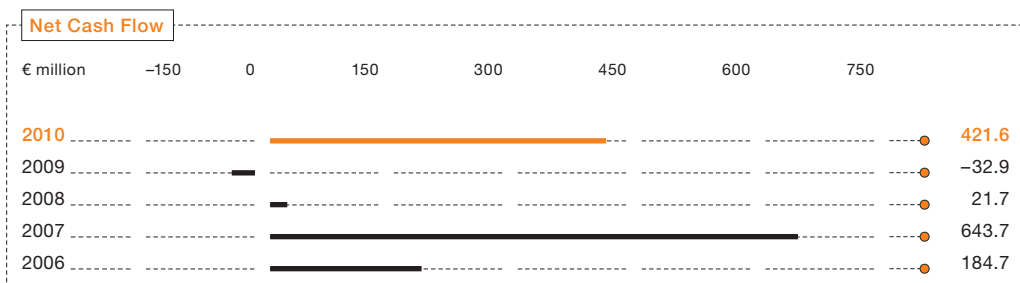
The cash flow from noncurrent investment activities shows that we continue to invest sizable amounts in the ongoing expansion of our production facilities. In 2010, capital expenditures of €617.3 million mainly focused on buildings, plants and machinery, and infrastructure. The majority of spending was for production-capacity expansion at WACKER POLYSILICON and for additional silicone production facilities in China at WACKER SILICONES. We enhanced supply security for silicon metal (our key raw material) by acquiring the Holla-based silicon-metal plant in Norway. To strengthen business in Asia, WACKER acquired the Lucky-Silicone brand and the associated production plant in South Korea. In total, these two acquisitions led to cash outflow of €81.2 million. WACKER received proceeds of €25.4 million from the sale of its 50-percent share in us-based Planar Solutions LLC to FUJIFILM Electronic Materials.



In 2010, WACKER purchased current and noncurrent securities totaling €252.2 million that are allocable to cash flow from investment activities. A year earlier, securities of €101.1 million had been sold.

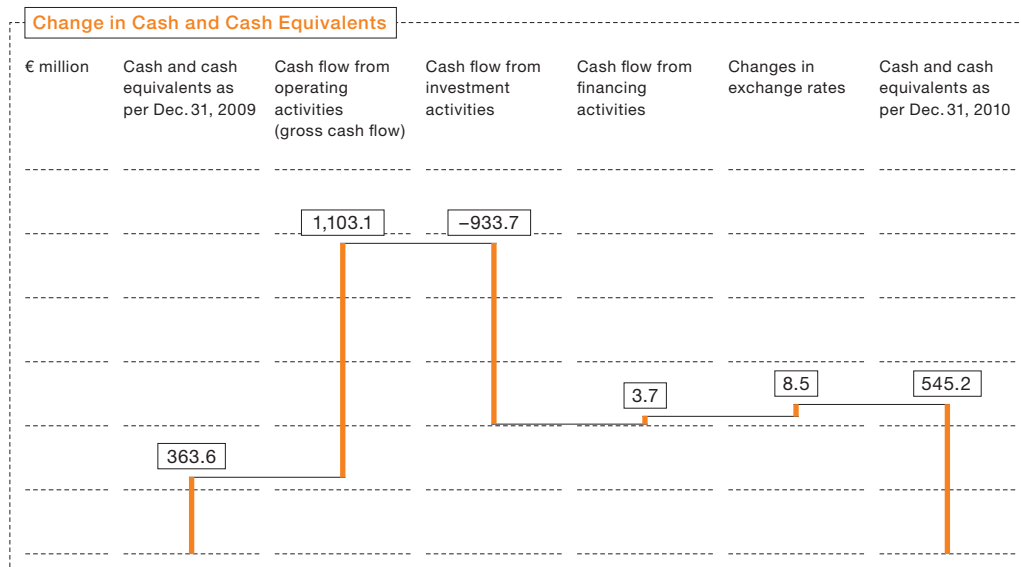
Net cash flow (the difference between cash inflow from operating activities and cash outflow due to long-term investment activities before securities) amounted to €421.6 million (2009: €-32.9 million), a gain of €454.5 million compared to the prior year.

High Net Cash Flow in 2010



In 2010, cash inflow from financing activities was €3.7 million (2009: €92.5 million). The dividend payment for 2009 reduced cash flow from financing activities by €59.6 million. In contrast, entering into bank liabilities generated, on balance, a cash inflow of €73.2 million.

Cash and cash equivalents resulting from cash flow and adjusted for exchange-rate fluctuations went up by €181.6 million to €545.2 million as of year-end 2010.



### Proposal on Appropriation of Profits

In accordance with German Commercial Code accounting rules, Wacker Chemie AG posted a retained profit of €775.3 million in 2010. The Executive and Supervisory Boards will propose a dividend of €3.20 per share at the Annual Shareholders' Meeting. Based on the number of shares entitled to dividends as per December 31, 2010, the cash dividend corresponds to a payout of €159.0 million.

**Dividend Proposal to the Annual Shareholders' Meeting: €3.20 per Share**

Calculated in relation to WACKER's average share price in 2010, the dividend yield is 2.8 percent.

At the Annual Shareholders' Meeting, the Executive and Supervisory Boards will propose adding part of the remaining amount to retained earnings and carrying part forward.

### Rating

WACKER has sufficient unused credit lines available at banks and does not issue financial instruments such as bonds and commercial paper. Consequently, WACKER has not published a credit rating so far.

## General Overview of the Business Situation

2010 was a very successful year for WACKER. With investments of €695.1 million, we generated net operating cash flow of €421.6 million. This means that we financed our investments entirely from net operating cash flow. WACKER's financial position is outstanding. High cash inflow from operating activities caused existing liquidity to now exceed liabilities by €264.0 million. The equity ratio continued to increase year over year, reaching 44.5 percent. Long-term financing for future investments and operations was secured in a timely manner. All of these factors form a very good basis for 2011.



**Takeover Directive Implementation Act**

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

§ 315 (4) 1	<p><b>Composition of subscribed capital</b> Wacker Chemie AG's subscribed capital totals 52,152,600 no-par value voting shares. There are no differences in share category. The total number of shares currently includes 49,677,983 held by external shareholders and 2,474,617 held by Wacker Chemie AG itself. WACKER's treasury shares were acquired by repurchasing Wacker-Chemie GmbH shares in August 2005 when it was still a private limited company. The Executive Board can only use or sell these treasury shares under the following conditions: 782,300 shares require Supervisory Board approval and an appropriate resolution by the Annual Shareholders' Meeting. The remaining 1,692,317 shares are subject to Supervisory Board approval.</p>
§ 315 (4) 2	<p><b>Restrictions on voting rights or on the transfer of shares</b> There are no restrictions on voting rights or the transfer of shares.</p>
§ 315 (4) 3	<p><b>Direct or indirect capital stakes</b> Each of the following hold over 10 percent of the subscribed capital: Dr. Alexander Wacker Familiengesellschaft mbH, based in Munich, Blue Elephant Holding GmbH, based in Pöcking, and Dr. Peter-Alexander Wacker, based in Starnberg and to whom the voting shares of Blue Elephant Holding GmbH are attributable.</p>
§ 315 (4) 4	<p><b>Owners of shares entailing special rights</b></p>
§ 315 (4) 5	<p><b>Method of voting-right control in the case of employee participation</b> Shareholders have not been given any special rights that bestow control powers. Insofar as employees hold shares in Wacker Chemie AG's capital, they exercise their resultant control rights directly.</p>
§ 315 (4) 6	<p><b>Legal stipulations and articles of incorporation (or association) principles regarding the appointment and dismissal of executive board members and amendments to said articles</b> Provisions to appoint and dismiss Wacker Chemie AG's Executive Board members are based on Sections 84 et seq., of the German Stock Corporation Act (AktG). Wacker Chemie AG's Articles of Association do not contain any further provisions in this respect. Pursuant to Section 4 of the Articles of Association, the number of Executive Board members is fixed by the Supervisory Board, which also appoints an Executive Board member as President &amp; CEO. Amendments to the Articles of Association are covered by Sections 133 and 179, AktG. In accordance with Section 179, Subsection 1, item 2, AktG, the Supervisory Board has been empowered to amend the Articles of Association if only the wording thereof is affected.</p>
§ 315 (4) 7	<p><b>Authority of the executive board to issue or buy back shares</b> In accordance with a resolution passed at the May 21, 2010 Annual Shareholders' Meeting, Wacker Chemie AG's Executive Board was authorized – in compliance with the legal provisions set out in Section 71, Subsection 1, No. 8 of the German Stock Corporation Act (AktG) – to acquire treasury shares totaling a maximum of 10 percent of capital stock. No capital has been authorized for the issue of new shares.</p>
§ 315 (4) 8	<p><b>Major agreements associated with control changes due to a takeover bid</b> Various agreements with joint-venture partners include "change of control" clauses. These clauses deal with what might happen if one of the joint-venture partners were taken over. These arrangements comply with the usual standards for such joint-venture agreements.</p>
§ 315 (4) 9	<p><b>Severance agreements with the executive board or employees in the event of a takeover bid</b> There are no severance agreements etc. with employees or with Executive Board members in the event of a takeover bid (please refer to the compensation report).</p>

# Segments

## WACKER SILICONES

### Strategy

In 2009, WACKER SILICONES had advanced its strategy, focusing on profitable growth, cost savings and greater flexibility toward customers and markets.

In 2010, progress continued. We closed a strategic gap in our supply chain with the backward integration of silicon metal. In China, expansion of WACKER's integrated production system surged ahead. We started up a siloxane joint-venture plant with Dow Corning at Zhangjiagang, officially launching production on November 18, 2010. As a result, we are well positioned to meet and stimulate growth in this vital region. The division's strategic marketing focuses on China, Brazil and India. In these regions, we anticipate the greatest growth opportunities, thanks to our wide range of products and applications.

### WACKER SILICONES Sets New Sales Record

WACKER SILICONES posted a new sales record in 2010. Climbing 28 percent, sales came in at €1.58 billion (2009: €1.24 billion) amid surging demand for our products across every industry. Demand even remained vigorous during the summer when business usually slackens off. In every region, WACKER SILICONES reported higher sales.

Strong Year for  
WACKER SILICONES

EBITDA outperformed sales, soaring 46 percent to €229.9 million (2009: €157.9 million). EBITDA was spurred mainly by production-volume growth, lower specific production costs and currency-exchange effects. On the downside, higher prices for methanol, platinum and other raw materials dampened the earnings trend. Additionally, 2010's EBITDA was held back by fourth-quarter provisions of €51.8 million for contingent losses, due to purchase obligations involving high long-term transfer prices between WACKER and the siloxane-production joint venture with Dow Corning. The EBITDA margin came in at 14.5 percent (2009: 12.7 percent).

### Investments Far Higher than Prior Year

WACKER SILICONES' investments amounted to €174.1 million, considerably higher than in 2009 (€102.2 million). This total includes €66.5 million for purchasing the Holla silicon-metal plant from Norway's FESIL Group and the total purchase price of €14.7 million for the Lucky-Silicone brand (and the associated business) in South Korea. At Zhangjiagang, WACKER and Dow Corning officially opened an integrated siloxane production complex in November 2010, after four years of construction. It ranks among the largest and most modern silicone sites worldwide. Shortly before, in October, WACKER had started up a silicone-polymer plant at Zhangjiagang. The new facility there produces diverse intermediates and downstream silicone products, such as fluids. As a result, WACKER has completed its supply chain in China. The total investment in this facility was about €30 million.

### Acquisition in Dynamic Asian Market

To strengthen its presence and supply chain in the growth markets of Asia, WACKER acquired the South Korean Lucky-Silicone brand from Henkel Technologies (Korea) Ltd. for €7.1 million in October 2010. As part of the acquisition, WACKER took over the production facilities in Jincheon, including the associated real estate. Additionally, it assumed all this business's inventories and receivables, the value of which comes to €7.6 million. The Jincheon site's workforce of some 40 employees was kept on. The Lucky-Silicone brand mainly comprises silicone sealants, manufactured and marketed for use in construction and other sectors.

South Korean Silicone-Sealant Products and Brand Acquired

WACKER SILICONES had 3,892 employees on December 31, 2010 (December 31, 2009: 3,873).

Key Data: WACKER SILICONES					
€ million	2010	2009	2008	2007	2006
Total sales	1,580.5	1,238.8	1,408.6	1,361.0	1,286.9
EBITDA	229.9	157.9	167.9	226.9	231.9
EBIT	150.0	33.5	86.3	144.6	147.8
Capital expenditures (asset additions)	92.9	102.2	107.0	102.2	140.9
Acquisitions	81.2	-	-	-	-
R&D costs	25.3	26.9	31.5	35.9	34.4
Employees (December 31, number)	3,892	3,873	3,927	3,871	3,767

## WACKER POLYMERS

### Strategy

At WACKER POLYMERS, the strategic priority is profitable, ongoing growth in dispersions and dispersible polymer powders. This growth is largely driven by products tailored to local applications. We provide customers with intensive local support and are expanding our network – especially our technical competence centers. Here, we cooperate locally with customers to develop tailor-made product solutions. Through our centers, we apply our many years of product expertise to the local application needs of customers around the globe.

### Higher Sales

Despite 2010's subdued global trend in the construction industry, WACKER POLYMERS increased its sales by 9 percent to €810.0 million (2009: €743.8 million). Sales for the first six months of 2009 still included gumbase. Adjusted for this business, the sales increase would have been 12 percent. Growth was mainly supported by rising sales volumes for dispersions and dispersible polymer powders. Compared to 2009, volumes were up between 5 and 15 percent, depending on the product group. Demand remained strong even during the summer months. Regionally, Asia again delivered the highest growth rates.

WACKER POLYMERS Boosts Its Sales

EBITDA climbed by 5 percent to €122.6 million (2009: €117.2 million). The EBITDA trend was held back by a sharp rise in ethylene prices. Greater sales volumes and slightly higher prices did not fully compensate for the increase in raw-material prices. As a result, the division's EBITDA margin edged down to 15.1 percent (2009: 15.8 percent).

### Decline in Investments

Investments decreased to €13.1 million, down €26.9 million on 2009 (€40.0 million). Spending focused on expansion at our Nanjing site in China and on investments at Burghausen, Germany.

### VAE Dispersions Now also Produced in China

In China, WACKER began selling its locally manufactured vinyl acetate-ethylene copolymer dispersions in early July 2010. Production at our fully integrated Nanjing site now ranges from VAE copolymer dispersions right through to dispersible polymer powders. These products are used in the construction, coatings and adhesives industries, for example. Currently, Nanjing's dispersions capacity is roughly 50,000 metric tons per year. WACKER is now able to serve local Asian markets even more effectively from Nanjing. As a result, we have improved our position as a supplier of high-grade binders and polymeric additives in China.

Nanjing Site Produces Full Range of VAE Copolymer Dispersions

### Stronger International Presence

WACKER POLYMERS reinforced its presence in growth markets by expanding its technical competence centers in Suwon (South Korea) and Dubai. The centers offer customers enhanced, local support in all construction-chemical issues – from applications engineering, through to tailored product solutions and customer service. At the same time, we have also enlarged our WACKER ACADEMY network of local training centers, which provide construction-specific expertise to customers. In 2010, new training centers opened in Brazil, Dubai and Singapore.

Employee numbers rose slightly to 1,377 as of December 31, 2010 (December 31, 2009: 1,362).

Key Data: WACKER POLYMERS					
€ million	2010	2009	2008	2007	2006
Total sales	810.0	743.8	867.9	632.8	559.6
EBITDA	122.6	117.2	108.9	107.0	106.6
EBIT	82.2	77.8	64.9	80.5	88.8
Capital expenditures (asset additions)	13.1	40.0	74.4	41.0	17.8
R&D costs	14.0	14.2	15.0	7.6	7.1
Employees (December 31, number)	1,377	1,362	1,579	1,128	1,050

## WACKER BIOSOLUTIONS

### Strategy

Over the past few years, WACKER BIOSOLUTIONS has strengthened its activities, consolidated its product offering, and intensified its focus on the pharmaceutical, agrochemical and food industries. Drawing increasingly on chemical-biotech synergies, we provide our customers with complete solutions for their special market needs. Our strategy targets biotechnology as a highly promising, dynamic growth segment. We intend to benefit from this anticipated growth, especially in pharmaceutical proteins (biologics), agrochemicals, food ingredients and food supplements. In our target industries, being highly customer oriented is a decisive product-success factor. Consequently, we realigned the division's organizational structure in early 2010, greatly strengthening our customer and market focus.

### Sales and EBITDA Climb

WACKER BIOSOLUTIONS benefited from strong demand across all product segments and from the first-time, complete recognition of its gumbase business over an entire year. As a result, sales rose 36 percent to €142.4 million (2009: €104.9 million). In 2009, sales had included gumbase for the last six months only. Compared to 2009, growth was very strong in the division's main sales-generating businesses, such as gumbase, cysteine, cyclodextrins and biologics.

EBITDA grew faster than sales, soaring 152 percent to €25.0 million (2009: €9.9 million). Like sales, EBITDA was influenced by the first-time, full consolidation of gumbase over the whole year. The EBITDA margin improved to 17.6 percent (2009: 9.4 percent).

### Investments Lower than Prior Year

Investments decreased to €6.5 million (2009: €12.7 million). Most funds went into completing a new biologics facility at Jena (Germany), which was inaugurated in March 2010. Thanks to our proprietary ESETEC® and DENSETEC® technologies, we can produce biologics more simply, cheaply and in higher yields than is possible with conventional methods. The new Jena facility, together with a process-development and quality-control building completed there in 2009, brings WACKER's total investment in Jena's expansion to about €18 million.

Employee numbers at WACKER BIOSOLUTIONS increased to 363 as per December 31, 2010 (December 31, 2009: 344).

#### Key Data: WACKER BIOSOLUTIONS

€ million	2010	2009	2008	2007	2006
Total sales	142.4	104.9	97.7	112.4	112.6
EBITDA	25.0	9.9	9.2	9.5	10.5
EBIT	16.6	4.7	6.0	-7.5	-4.5
Capital expenditures (asset additions)	6.5	12.7	16.5	7.5	4.0
R&D costs	3.5	4.4	2.3	2.1	6.0
Employees (December 31, number)	363	344	259	245	300

WACKER BIOSOLUTIONS'  
Sales and EBITDA Climb

## WACKER POLYSILICON

### Strategy

WACKER POLYSILICON's strategic aims are to uphold its quality and cost leadership as a hyperpure-polysilicon manufacturer and to expand its production capacities in line with market growth. To advance this strategy, we took an important decision in December 2010 – to build a new polysilicon site (capacity: 15,000 metric tons) in the us State of Tennessee by 2014.

### Strong Rise in Sales and EBITDA

2010 was a very successful year for WACKER POLYSILICON. Sales climbed 22 percent to €1.37 billion (2009: €1.12 billion). Growth was supported not only by high and sustained demand for polysilicon from customers in the photovoltaic and semiconductor industries, but also by new output at Burghausen, thanks to expansion stage 8. Additionally, we achieved further productivity gains, which pushed up yields at existing facilities. Overall, production output increased from 18,100 metric tons in 2009 to 30,500 in 2010.

EBITDA performed slightly better than sales. At €733.4 million, it rose 41 percent (2009: €520.8 million). Importantly, EBITDA in 2009 had been reduced by €51.9 million due to our exiting the WACKER SCHOTT Solar joint venture. 2010's good earnings trend was the result of lower specific production costs in relation to volume growth. The EBITDA margin was 53.6 percent (2009: 46.5 percent).

Strong polysilicon demand favored the conclusion of multiyear contracts at attractive prices and involving advance payments by customers for future deliveries. Consequently, we have virtually secured the utilization of our entire production capacity until the end of 2014.

WACKER POLYSILICON  
Concludes New  
Multiyear Contracts

### Investments Down Slightly but Still at High Level

At WACKER POLYSILICON, we invested €309.9 million in 2010, 23 percent less than in 2009 (€400.1 million). The focus was on the construction of Nünchritz's polysilicon facility (expansion stage 9), which is scheduled to come on stream in the fourth quarter of 2011. In September 2010, the EU Commission authorized a maximum, regional investment grant of €97.5 million for the Nünchritz polysilicon facility. These funds will be used in stages, in line with the project's progress.

Due to the division's ongoing expansion, employee numbers rose again. As of December 31, 2010, WACKER POLYSILICON had 1,763 employees (December 31, 2009: 1,600).

Key Data: WACKER POLYSILICON					
€ million	2010	2009	2008	2007	2006
Total sales	1,368.7	1,121.2	828.1	456.9	325.6
EBITDA	733.4	520.8	422.0	182.2	118.3
EBIT	586.7	414.1	349.8	135.0	88.8
Capital expenditures (asset additions)	309.9	400.1	410.3	259.5	148.5
R&D costs	12.8	11.3	5.4	6.3	5.1
Employees (December 31, number)	1,763	1,600	1,289	1,003	875

## Siltronic

### Strategy

Siltronic pursues three strategic priorities: maintaining its role as a technology leader, aligning its capacities with market growth, and adapting its cost structures to market and price conditions. To meet the demands of leading-edge design rules, Siltronic will continue to invest intensively in product developments, quality-enhancing measures and 300 mm technologies. With the 300 mm market steadily gaining traction, Siltronic is well positioned to benefit from this growth. Regionally, the sales focus is Asia. Siltronic aims to generate a positive cash flow across the market cycle.

Semiconductor-Industry Demand Higher in 2010

### Robust Sales Growth in 2010

After 2009's sharp sales decline, Siltronic posted strong growth in 2010. Sales soared 61 percent to €1.02 billion (2009: €637.5 million). The upturn was fueled by buoyant demand for electronic products and equipment from households and businesses. Demand rose sharply for all wafer diameters. Regionally, we boosted sales in every market, with Asia leading the field. Currently, we generate about 60 percent of our sales there (including Japan).

Siltronic's Sales Rise Robustly

EBITDA climbed strongly, too, reaching €87.7 million (2009: €-162.4 million). Thus, Siltronic left negative EBITDA territory. Earnings growth was supported by higher volumes and prices, by lower specific production costs and by positive exchange-rate effects. The EBITDA margin was 8.6 percent (2009: -25.5 percent).

### Investments Slightly above 2009's Level

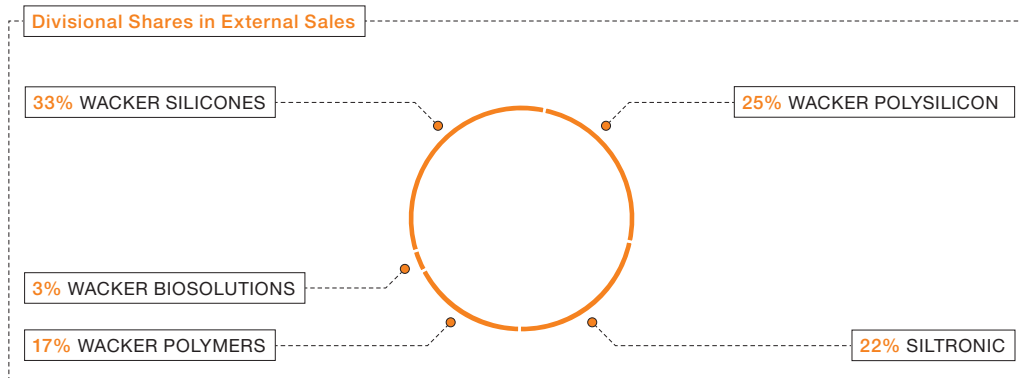
In 2010, investments amounted to €75.5 million (2009: €73.0 million). Siltronic concentrated its spending on projects geared to complying with, and satisfying, the semiconductor industry's technological requirements.

On December 31, 2010, Siltronic had 5,025 employees (December 31, 2009: 5,096).

Key Data: Siltronic					
€ million	2010	2009	2008	2007	2006
Total sales	1,024.8	637.5	1,360.8	1,451.6	1,263.1
EBITDA	87.7	-162.4	357.3	478.1	355.6
EBIT	-3.5	-414.7	193.8	337.2	213.1
Capital expenditures (asset additions)	75.5	73.0	199.6	200.0	167.7
R&D costs	72.3	62.9	67.7	63.9	63.2
Employees (December 31, number)	5,025	5,096	5,469	5,634	5,585

## Other

In 2010, sales posted under “Other” totaled €157.1 million (2009: €180.8 million). This decline stemmed from the integration of Wacker Polymer Systems GmbH & Co. KG (WPS) into Wacker Chemie AG. Before the integration (July 1, 2009), internal sales relating to Wacker Chemie AG’s service activities with WPS had been reported under “Other.” In 2010, these sales no longer existed. “Other” EBITDA amounted to €–2.2 million in 2010 (2009: €–38.0 million). A non-recurring addition to pension provisions had impacted 2009’s EBITDA. Adjusted for this item, 2010’s EBITDA decreased, as sales were lower.





# Regions

WACKER's operations are highly international. 81 percent of 2010's €4.75 billion in sales was generated by business abroad (2009: €3.72 billion). Germany accounted for 19 percent.

## Growth Potential Strongest in Asia

Regionally, Asia offers us the greatest potential for business and growth. Its emerging economies – with their improved living standards – are spurring demand for the high-quality products that WACKER supplies. Accounting for 36 percent of Group sales, Asia remains our principal market. Sales there reached €1.72 billion – up 37 percent. Demand was high among the region's chipmakers, which especially benefited our silicon-wafer business. As in 2009, momentum was strongest in Greater China (including Taiwan), where sales soared 36 percent to €999.4 million, nearly reaching the billion-euro threshold for the first time (2009: €732.9 million). Our solar-grade polysilicon business was very robust in China, which is home to numerous solar-cell and module manufacturers. As for our silicone and polymer activities, capacity expansions enabled us to respond even faster and more effectively to our Chinese customers' needs, thus strengthening and enhancing our market position. India (Asia's second-biggest market) was another region where we achieved double-digit growth.

Sales in Greater China  
Continue Rising

External Sales by Customer Location					
€ million	2010	2009	2008	2007	2006
Germany .....	887.3	774.6	948.6	723.5	657.6
Other European countries .....	1,175.4	944.1	1,008.2	1,034.7	960.8
The Americas .....	818.2	636.3	852.9	642.6	659.2
Asia .....	1,717.4	1,252.9	1,362.8	1,267.1	961.4
Other regions .....	150.1	111.4	125.6	113.4	97.9
<b>Group</b> .....	<b>4,748.4</b>	<b>3,719.3</b>	<b>4,298.1</b>	<b>3,781.3</b>	<b>3,336.9</b>

## Buoyant Sales in Europe

In 2010, we posted substantial sales growth in Europe, where WACKER has a very strong market presence. As a supplier of products to virtually every European industry, WACKER benefited extensively from the economic rebound. Sales in other European countries rose 24 percent to €1.18 billion (2009: €944.1 million). At 25 percent, Europe's share of Group sales remained constant (2009: 25 percent). In Germany, growth was not quite as strong. Domestic sales climbed by 15 percent to €887.3 million (2009: €774.6 million), with WACKER SILICONES, in particular, generating above-average growth.

External Sales by Group Company Location					
€ million	2010	2009	2008	2007	2006
Germany	4,150.9	3,272.0	3,746.8	3,341.0	2,886.7
Other European countries	74.3	23.5	29.4	26.6	23.0
The Americas	779.4	599.2	736.4	659.1	700.8
Asia	684.1	491.4	546.3	480.2	418.9
Other regions	6.3	3.5	2.2	1.8	1.4
Consolidation	-946.6	-670.3	-763.0	-727.4	-693.9
<b>Group</b>	<b>4,748.4</b>	<b>3,719.3</b>	<b>4,298.1</b>	<b>3,781.3</b>	<b>3,336.9</b>

### Robust Customer Demand Lifts Sales in the Americas

After declining sharply during 2009's crisis, sales in the Americas almost completely recovered in 2010. Growth was chiefly fueled by robust customer demand and the euro's favorable exchange rate against the us dollar. At €18.2 million, sales were up 29 percent on 2009 (€636.3 million). Momentum came from silicon wafers (for the semiconductor sector), silicones, dispersions and solar-grade polysilicon.

Business in the Americas Grows

### Other Regions Play Greater Role

Sales growth in our "other" regions resumed after a short lull in the crisis year of 2009. Beating even 2008's record, sales came in at €150.1 million, 35 percent higher than in 2009 (€111.4 million). Growth was especially strong in the Middle East.

# Non-Financial Performance Indicators

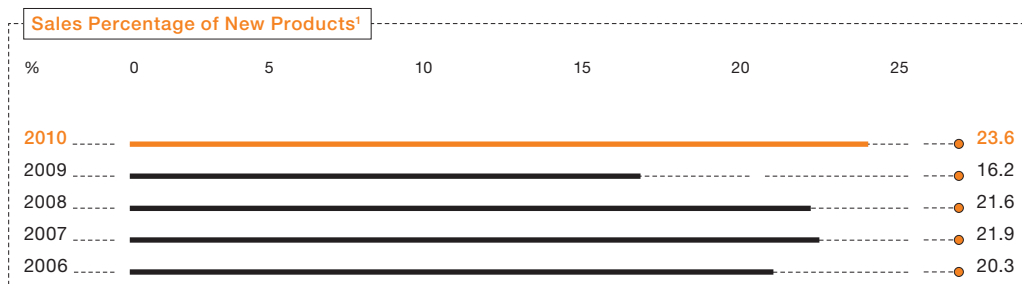
## Research and Development

WACKER focuses its R&D efforts on finding solutions for customers and for serving such global megatrends as rising energy needs, urbanization, digitization and demographic change.

WACKER is a highly research-intensive, international chemical company. R&D expenditure in 2010 came in at €165.1 million (2009: €164.0 million). The R&D rate – research and development spending as a percentage of Group sales – amounted to 3.5 percent, a decline against 2009 due to our robust sales growth.

### New Products Account for Higher Share of Sales

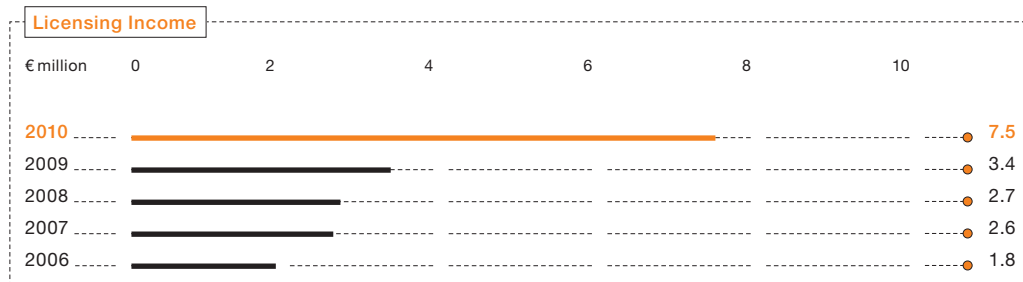
The new-product rate (sales percentage of products launched in the last five years) grew again, at 23.6 percent (2009: 16.2 percent). 2010's increase mainly stemmed from Siltronic, where new technologies for high-performance electronic components delivered higher sales. These technologies include wafers for chip generations with design rules of 32 nano-meters. Siltronic also notched up its first sales of products with design rules of 22 nano-meters. At WACKER POLYSILICON, we launched new products, too.



<sup>1</sup> Sales percentage of products launched in the last five years

In 2010, WACKER invested €13.4 million in R&D facilities (2009: €10.2 million). In the “Consortium für elektrochemische Industrie,” our corporate research facility in Munich, we erected a new test facility and invested in new analytical instruments. Further investments included lab-capacity expansions worldwide, new lab equipment, and pilot plants.

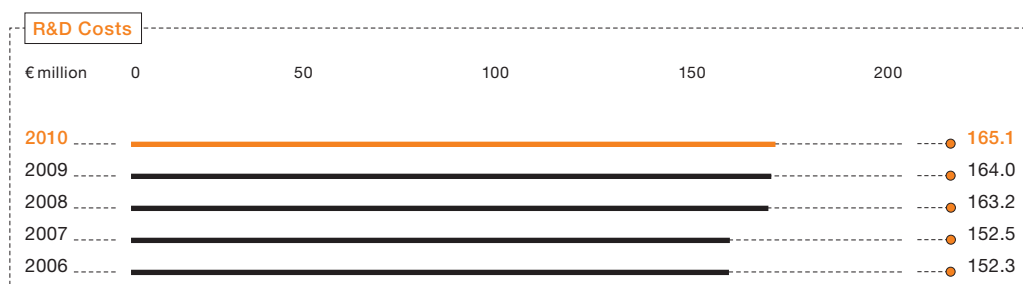
We generated about €7.5 million from licensing agreements in 2010 (2009: €3.4 million), on account of greater production capacity at the Siltronic Samsung Wafer joint venture.



WACKER's innovative strength is reflected in the number of patents held and patent applications submitted. In 2010, we filed 121 patent applications (2009: 150). Our patent portfolio contains 4,664 patents.

Most of the €165.1 million in R&D costs was spent on the development of new products and production processes.

R&D Expenditures  
Increase to €165.1 million



### Research and Development at Two Levels

WACKER conducts R&D at two levels: centrally at our Corporate Research & Development department and decentrally at our business divisions. Corporate R&D coordinates activities across the company in consultation with the Executive Board.

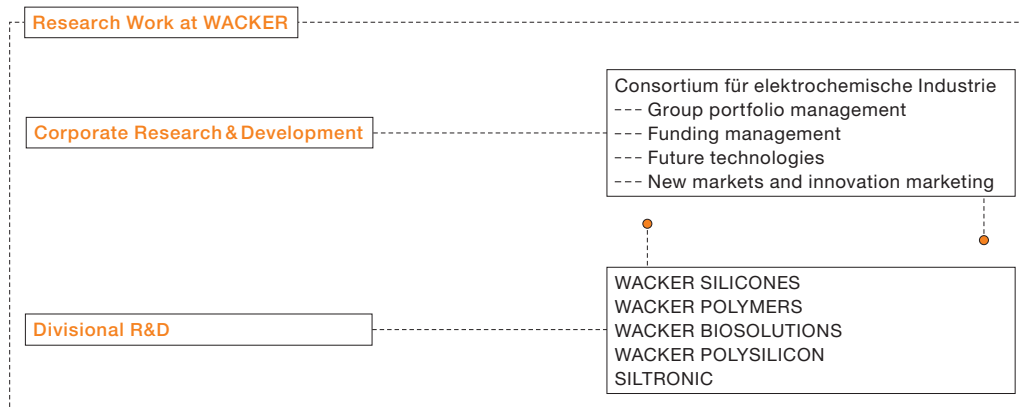
We have a portfolio-management process to ensure that our R&D project portfolio is transparent throughout the Group. We thus evaluate existing projects and select new ones in line with market needs.

WACKER scientists are currently working on around 220 topics based on 40 technology platforms. More than a quarter of these topics are key strategic projects, which account for 45 percent of all project costs incurred in 2010.

### Strategic Collaboration with Customers and Research Institutes

Our business divisions conduct application-driven R&D. They focus on product and process innovations relating to semiconductor technology, silicone and polymer chemistry, and biotechnology, as well as on new processes for producing polycrystalline silicon. To achieve successful research results more quickly and efficiently, we collaborate with customers, scientific institutes and universities. In 2010, WACKER worked with more than 30 European and American research institutes on around 50 research projects – covering topics such as white biotechnology, energy and 450 mm silicon wafers.

WACKER has also created a network of 20 technical competence centers worldwide. They liaise between sales offices and local production sites. At these centers, our specialists customize products to regional requirements, taking account of climatic conditions, national standards and local raw materials, for example.



As the center of WACKER’s R&D activities, the Consortium has the task of researching scientific correlations to develop new products and processes efficiently. Another Consortium task is to harness and develop new business fields that complement the Group’s core competencies.

Employees in R&D as of December 31, 2010					
Number	2010	2009	2008	2007	2006
Group R&D employees	1,057	1,072	1,078	1,038	1,024
R&D ratio <sup>1</sup> in Group (%)	6.5	6.9	6.8	6.9	7.0
R&D employees, Germany	855	860	836	835	819
R&D employees, international	202	212	242	203	205
Group R&D employees (Germany)	855	860	836	835	819
by qualification					
Scientists and engineers	337	332	311	302	288
Lab staff and technicians	344	349	345	344	349
Other personnel	174	179	180	189	182
Group R&D employees (international)	95	90	113	66	63
by qualification <sup>2</sup>					
Scientists and engineers	31	30	34	29	25
Lab staff and technicians	32	29	34	36	34
Other personnel	32	31	45	1	4

<sup>1</sup> Ratio of R&D employees to total number of Group employees  
<sup>2</sup> Excluding R&D employees at Siltronic AG

WACKER operates in the highly promising fields of biotechnology, energy, construction and automotive engineering. In biotechnology, WACKER BIOSOLUTIONS focuses on the growth areas of food, pharmaceuticals and agriculture. We further improved our ESETEC® process for the bacterial production of pharmaceutical proteins. This has led to the production of several such proteins in high yields to cGMP (current Good Manufacturing Practice) standards. Some of these are already undergoing clinical tests.

### Selected Divisional Research Projects

For the food industry, our researchers developed CAVAMAX® w8 CURCUMIN. This ring-shaped cyclodextrin sugar molecule renders the curcumin active ingredient more soluble in aqueous milieu, thereby increasing its bioavailability, i.e. the extent to which it can be absorbed in the human body. Curcumin has an antioxidant effect which stems from its ability to scavenge the free radicals that damage body cells. Studies have also revealed

that curcumin possesses anti-inflammatory properties, which can support the prevention and treatment of cancer.

In the energy sector, we continued our activities in electricity conversion and storage. We are working on materials for use in lithium-ion batteries and fuel cells. These are used mainly in cars and to supply energy to houses. WACKER is a member of the National Platform for Electric Mobility, an initiative launched jointly by the German government and industry. By 2020, there are expected to be at least one million electric vehicles on German roads.

Electricity Storage Is One of Wacker Chemie AG's Key Research Topics

WACKER SILICONES added the GENIOSIL® product family to its range of construction sealants. These hybrid adhesives and sealants combine the typical properties of silicones and organic polymers. They crosslink particularly quickly and retain their functionality over the long term, even in highly stressed areas. They are free of tin and plasticizers. GENIOSIL® N70 achieves unprecedented levels of bond strength on all kinds of substrates. As a result, it is now possible to bond numerous items that previously had to be joined with nails and screws.

Our researchers also developed powder modifiers for engineering materials. Epoxy adhesives which have been modified with these high-impact products are able to withstand severe mechanical stress, such as that generated in the rotor blades of wind turbines.

In the medical sector, WACKER SILICONES launched a UV-activated silicone adhesive for wound care and scar treatment. Sold under the name of SILPURAN® 2149 UV, this product cures to a soft elastic material on brief exposure to ultraviolet light. The silicone helps to create a moist environment that supports wound healing. Adhesion is dependable and so gentle that wound dressings can be removed without sticking to the skin.

Research at WACKER POLYMERS is geared toward improving production processes for dispersions and dispersible polymer powders. We slashed emission levels for polymer production by lowering consumption of vinyl acetate monomer and enhancing its level of recovery. New products included vinyl acetate-ethylene dispersions for zero-emission indoor paints and for plasticizer-free adhesives, as well as new water-repellent polymer powders for plasters and exterior insulation and finish systems.

WACKER POLYMERS collaborated with customers on developing biodegradable polymer products composed of VINNEX® binders and flour or starch. The properties of such polymer blends are similar to those of petroleum-based plastics. However, they can be fully biodegraded by industrial composting techniques. This renders them suitable for use in packaging materials and products for the catering, gardening and landscaping sectors.

To improve the energy balance of solar cells and lower our costs, we further reduced energy consumption in polysilicon production. The energy payback time – the length of time required to regenerate the energy needed for production – has become even shorter. It now ranges from between 10 to 18 months, the exact duration depending on the geographical location of the installed solar panels.

In Polysilicon Production, Energy Payback Time Reduced

#### Alexander Wacker Innovation Award for New Wafer-Grinding Method

WACKER honored two of its researchers with the Alexander Wacker Innovation Award 2010 for developing a method for grinding semiconductor wafers. Called Planetary Pad Grinding (PPG), this innovation allows ultra-flat silicon wafers to be manufactured for future generations of electronic components. It combines the advantages of lapping and grinding, two processing methods that were previously considered incompatible. We can now produce silicon wafers – in the required quality, in high yields and at competitive prices – for even more powerful electronic components.

Some semiconductor makers are considering the development of larger wafers, 450 mm in diameter, to enable further productivity gains and cost reductions. Siltronic is developing key processes for producing 450 mm wafers and is a member of EEMI450 (European Equipment and Materials Initiative for 450 mm), an EU-funded project.

### Transferring Knowledge Locally

At our international training centers, we expanded our programs in 2010 and offered more interdisciplinary courses. The WACKER ACADEMY serves as a forum for industry-specific knowledge transfer between customers, distributors and WACKER experts. It concentrates on construction-chemical courses (which, since 2010, have included silicone applications in addition to polymer chemistry) and on training for other industries, such as cosmetics and paints. The program is rounded out with basic courses on business administration, intercultural cooperation and the efficient use of e-business tools.

WACKER ACADEMY  
Training Program  
Expanded

The training centers' proximity to our development and test laboratories promotes exchanges of views and enables participants to conduct practical on-site tests. We work with company research facilities, universities and institutes to ensure our seminars remain state of the art.

WACKER attaches considerable importance to fostering young scientific talent and close contacts with universities. In 2010, we enlisted students from over 30 universities to write final-year projects and theses. We additionally sponsored 29 students at the Institute of Silicon Chemistry, which was founded at the Technical University of Munich four years ago.

#### Key Product Launches in 2010

Product	Description	Application	Sector
CAVAMAX® W8 CURCUMIN	Molecular encapsulation of the curcumin active ingredient in cyclodextrin	Anti-inflammatory, prevention/treatment of cancer	Dietary supplement
DEHESIVE® 971	Platinum-catalyzed, addition-curing silicone polymer	Production of labels and release papers	Paper and label production
ELASTOSIL® 76540 A/B	Two-component liquid silicone rubber	Assembly of plastic oil pans for engines	Automotive
ELASTOSIL® LR 3092/65 and ELASTOSIL® R plus 4060	Silicone elastomers with low compression set	Intercoolers, spark-plug boots	Automotive
ELASTOSIL® R 101	Highly elastic silicone elastomer	Damping vibrations in engine bearings	Automotive
ELASTOSIL® R 770	Flame-retardant silicone elastomer	Door and wall profiles, acoustic insulation mats	Shipbuilding, transport, aircraft makers
ELASTOSIL® R plus 4370 and ELASTOSIL® R plus 4070/60	Self-adhesive silicone rubbers	Manufacture of hard/soft combinations	Plastics
ELASTOSIL® LR 3040/40	Fast-curing silicone elastomer with high tear strength	Membranes, valves, pacifiers, teething rings	Automotive, household and leisure products, baby care

Product	Description	Application	Sector
ELASTOSIL® R <i>plus</i> 4366 and 4066	Solid silicone rubber with lubricious surface	Catheters, drains, metering and connecting tubes	Food and medical technology
GENIOSIL® N70	Silane-curing, hybrid organic polymers	Manufacture of elastic adhesives and sealants for plastics, tiles, plasterboard	Construction
POWERSIL® Fluid TR 20	Cold-start insulating fluid	Cooling and insulating transformers	Energy
SilGel® 613	UV-activated silicone gel	Encapsulating electronic components	Automotive, solar cells, electrical and electronic engineering
SILPURAN® 2149 UV	UV-activated, ultra-pure silicone rubber	Dressings for wounds and for treating scars	Medicine
SILPURAN® 8630/60	Solid silicone rubber	Parts for medical devices, such as catheters and drains	Medical technology
VINNAPAS® XD 05	Polymeric binder (vinyl acetate-based copolymer dispersion)	Adhesives, paper packaging for foodstuffs	Paper and packaging industry, adhesives manufacturers
VINNAPAS® EP 1400 and EP 441	Polymeric binder (vinyl acetate-based copolymer dispersion)	Adhesives, packaging, cardboard boxes, envelopes, bags	Paper and packaging industry, adhesives manufacturers
VINNAPAS® EP 710	Polymeric binder (vinyl acetate-based copolymer dispersion)	Adhesives, e.g. for cigarette paper	Paper and packaging industry, adhesives manufacturers, tobacco industry
VINNEX®	Polymeric binder (vinyl acetate-based copolymer dispersion)	Manufacture of polymer blends from renewable resources, e.g. flour and starch	Food packaging, gardening and landscaping
300 mm wafers with design rules of 32 nanometers	Wafer format	High-performance electronic components, e.g. microprocessors, data storage modules, signal processors	Semiconductors



## Procurement and Logistics

WACKER's procurement volumes increased substantially in 2010, primarily due to robust product demand. Volumes are broken down into raw materials, other services, and investments. WACKER spent €2.80 billion on raw materials, other materials, and services (2009: €2.34 billion), even surpassing 2008's level. 2010's figure includes investment-related procurements of €575 million (2009: €652 million). Our procurement rate – the volumes purchased for raw materials, services and other materials in relation to sales revenue – was 59 percent (2009: 63 percent). In 2010, we procured some 1,300 different raw materials, and numerous technical goods and services for plant-engineering and maintenance-related purposes.

Procurement Volumes (including Procurement for Capital Expenditures)					
€ million	2010	2009	2008	2007	2006
Procurement volumes	2,799	2,342	2,660	2,291	1,977

### Higher Quantities and Prices Raise Energy and Raw-Material Procurement Volumes

Procurement volumes for energy and raw materials rose in 2010. About two-thirds of the increase stemmed from higher quantities and about one-third from higher prices. We registered the sharpest price rises for petrochemicals – for methanol, ethylene and vinyl acetate monomer (VAM). Overall, the increase in energy and raw-material prices amounted to €105 million.

In 2010, we concluded new supply contracts for key raw materials, thus securing our future needs. In the case of silicon, WACKER negotiated and signed one three-year and one high-volume four-year contract. For methanol, we have one new three-year and two two-year contracts in place. We concluded a multiyear contract with a supplier for the delivery of vinyl acetate monomer (VAM). The contract covers a large part of our externally-sourced VAM. To better counter supply-market volatility, we negotiated even more flexible price and quantity conditions. As for natural gas, we improved purchasing terms and promoted competition by putting out partial quantities to tender and reviewing prices with our main supplier. Through this approach, we achieved a price reduction of about 10 percent.

**New Supply Contracts  
Concluded for Key Raw  
Materials**

As the example of gas shows, our Raw Materials Procurement department stimulated greater competition among suppliers. It also played a pivotal role in the backward-integration project for silicon metal and the acquisition of the silicon-metal plant at Holla. Assuring raw-material supplies is one this corporate department's key tasks.

### Technical Procurement & Logistics

Volumes also rose at WACKER's Technical Procurement & Logistics department. Here, too, strong demand lifted prices. The increases introduced by service providers and suppliers were particularly high in the areas of logistics and packaging.

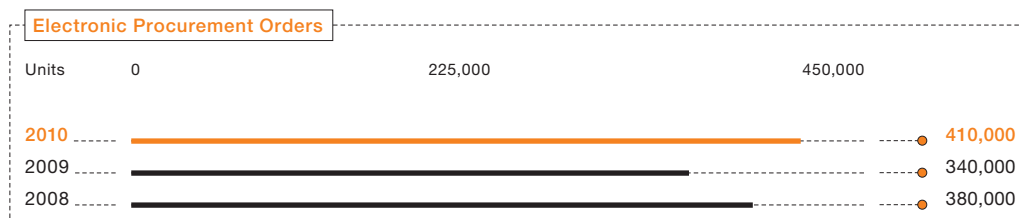
During 2010, WACKER concluded major framework contracts for piping construction and with temporary-employment agencies. On the logistics front, we put out to tender and negotiated overseas shipments to China, South Korea and the USA.

We expanded strategic-procurement management in 2010. Now, our Project Procurement unit provides assistance for large-scale investment projects worldwide. To reduce our dependence on individual suppliers, we launched 20 projects to increase supplier competition. We now systematically review supplier risks on a worldwide scale. Amid high demand for goods and services, 2010's market environment favored suppliers. As a result, WACKER's total procurement success declined to 11.7 percent, compared with 16.9 percent in 2009. After Siltronic expanded its procurement activities in China, South Korea and Taiwan, it has been working closely with new suppliers since 2009.

### Sharp Rise in Number of Electronic Procurement Transactions

The number of electronic procurement transactions rose markedly. Out of a total of over 570,000 orders, some 410,000 (over 70 percent) were processed electronically, compared with 340,000 in 2009. Because large-scale, individual orders increased in size, though, the total share of electronic orders remained at the prior-year level. Procurement via e-catalogs rose further, with the number of suppliers using them climbing from 71 to 104. There are over 1.4 million e-catalog articles and, in 2010, over 160,000 orders were placed using this system.

Some 400 Suppliers Evaluated in 2010

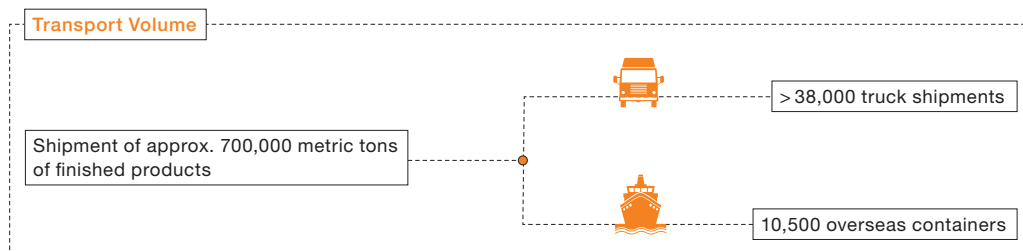


At our 15th Supplier Day, which was held in Nünchritz and attracted over 220 suppliers, three of our partners were presented with special commendations – GfE (in the Engineering Services category), Köhler (Technical Services) and ts Bau (as Best Local Service Provider). At our 12th Shipping Day in Burghausen, Leo Prünster won the Safest Shipper award and Hinterberger (tankers and silos) was commended as Best Shipper. Supplier evaluations are a further, useful tool. In 2010, WACKER evaluated about 400 suppliers.

### Burghausen's Shipping Volume almost Matches 2008's Record

In 2010, the number and volume of shipments from Burghausen approached the record levels of 2008. Our logistics hub shipped some 700,000 metric tons of finished products to customers (2009: 600,000 metric tons). In September 2010, it set a new all-time monthly record by dispatching 39,000 pallets. Up 15 percent, the annual number of shipments almost reached 43,000 (involving over 38,000 truck loads and 10,500 overseas containers). Thanks to our container center at the plant, we could dispatch products reliably to customers despite the soaring number of shipments.

Higher Sales Volumes Boost Number of Shipments



Given our high transport volumes, we had to revise the logistics structures of many sites. At Nünchritz, for example, we successfully implemented our logistics strategy for the Poly9 building site. At Burghausen, we started planning a new freight gate. Its purpose is to greatly facilitate incoming and outgoing freight and speed up throughput times at the plant. In addition, WACKER POLYMERS adopted a new strategy for raw-material supplies from ports in northwest Europe.

## Production

### Production Output Up 25 Percent

2010 was marked by a strong increase in production output at every division. Consequently, capacity utilization improved appreciably, averaging far in excess of 80 percent at our chemical divisions. There were no unplanned temporary or permanent facility shut-downs. Although production quantities increased by 25 percent, production costs only rose 18 percent.

Capacity Utilization  
High at All Divisions

**Capacity Utilization in 2010**

%	Plant Utilization
WACKER POLYSILICON .....	100
WACKER SILICONES .....	93
WACKER POLYMERS .....	80
SILTRONIC .....	80

Investments in new production facilities amounted to €597.1 million in 2010. Currently, our most important projects are setting up polysilicon production at Nünchritz and starting the preparatory work for polysilicon production in the us State of Tennessee. In 2010, we opened production facilities at Zhangjiagang (China), at Jandira (Brazil), and at Jena and Burghausen (Germany). The site in Duncan (USA), where WACKER used to produce silicone emulsions, was closed as planned. We took over Henkel's Jincheon production site (South Korea), where we manufacture silicone sealants under the Lucky-Silicone name.

**Key Start-Ups**

Site	Project	Start-Up
Jena .....	Small-scale biologics .....	2010 .....
Zhangjiagang .....	Polymers and fluids plant .....	2010 .....
Zhangjiagang .....	Siloxane and pyrogenic silica .....	2010 .....
Jandira .....	Silicone emulsions plant .....	2010 .....
Burghausen .....	Expansion of specialty silanes .....	2010 .....

Our own Corporate Engineering teams are responsible for running all investment projects. It is one of WACKER's great strengths to have in-house engineering specialists. This enables us to secure production expertise – for example, in the field of polysilicon.

**680 Productivity Projects Completed**

WACKER boosts productivity along the entire supply chain via its “Wacker Operating System” (wos) program. Our goal is to increase productivity by 10 percent annually, which we achieved in 2010. Specific production costs rose far less than production quantities. In the year under review, WACKER carried out around 680 productivity projects worldwide. Their main focus was on controlling energy and raw-material costs. 34 percent of all measures served to streamline the use of raw materials, with 16 percent tackling how to save energy in our production processes.

Specific Production Costs Rise Far Less than Production Quantities

Our wos ACADEMY (founded in 2009) held a total of 15 productivity seminars. On-site training sessions tailored to each sector's demands supplemented the training program. In all, 60 employees were trained in the application of new and proven productivity methods (such as Six Sigma) or in project management.

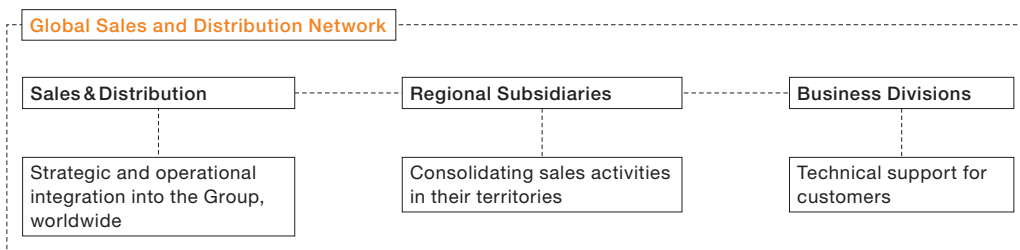
**Sales and Marketing**

**WACKER Products Post Strong Sales-Volume Gains**

After 2009's sharp decline, worldwide demand grew faster than expected in 2010. WACKER profited from this upturn in every division and across all sales regions. WACKER POLYSILICON, WACKER SILICONES and Siltronic reported the largest volume gains.

**Customer Proximity Secures Success**

One of WACKER's key advantages is its extensive sales and distribution network. Generally, our divisions are responsible for their own global sales, and for providing customers with technical support. Across 30 countries, our divisions are supported by around 100 subsidiaries and sales offices, which are assigned to regional subsidiaries. Our regional subsidiaries consolidate sales activities in their territories. They conduct daily business, acquire new customers and build up our local-market presence. The overarching control of WACKER's regional subsidiaries and of regional coordination lies with our Sales & Distribution department. Strategically and operationally, this department is responsible for integrating our German and international sales organizations into the Group. To this end, we use various instruments, such as key-account and distribution management, and an interdisciplinary “Sales Excellence” program.



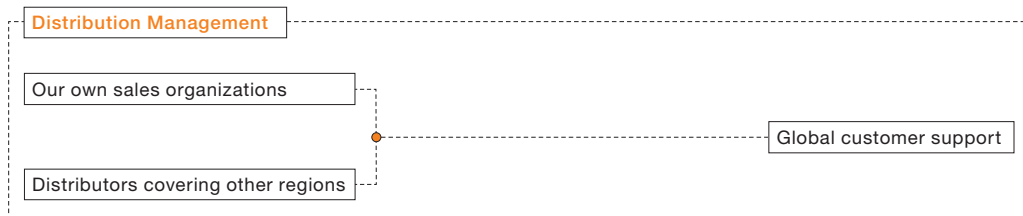
We greatly value direct and personal customer contact. It is vital for ensuring that our product and service portfolio is tailored to each customer and to region-specific conditions. Our technical competence centers play an important role here, offering customers the chance to familiarize themselves with our product lines, to discuss their specific requirements with experts, and to try out different approaches.

**Distribution Management Is a Cornerstone for Selling Chemicals**

Distribution management is a key strategic component at our three chemical divisions. Our use of distributors fulfills two key tasks:

- Opening up local markets where we do not yet have a presence or where our local sales organization offers only a limited service
- Optimally serving customers who order relatively low volumes

Through distributors, we save vital resource capacities and costs, and our sales teams can focus firmly on customer service. WACKER collaborates with some 259 distributors worldwide. Currently, they represent us in 87 countries. We conduct most of our distribution business through some 20 partner companies, who are often active on our behalf in several countries. Although our partner collaborations are always on a long-term basis, we subject our distribution network to a continual optimization and consolidation process.



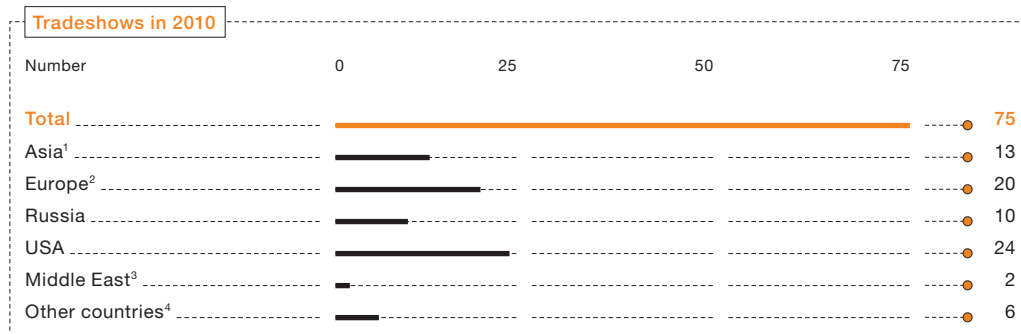
**New Medium and Long-Term Contracts for WACKER POLYSILICON**

Around 85 percent of chemical-division sales volumes (e.g. at WACKER SILICONES, WACKER POLYMERS and WACKER BIOSOLUTIONS) were handled by our own sales organizations in 2010, and 15 percent by distributors.

In 2010, WACKER POLYSILICON concluded additional medium to long-term contracts for large volumes of hyperpure polysilicon with solar-sector customers. This measure virtually ensures that our production capacities will be fully utilized until 2014.

**Attendance at 75 Tradeshows Worldwide**

WACKER attended 75 tradeshows around the globe in 2010 – simultaneously gaining new customer contacts and strengthening our existing customer base. We presented our varied product and service portfolio at a wide range of tradeshows, primarily in Europe (20), the USA (24) and in Asia (13). WACKER’s key tradeshow in 2010 was the “K,” the world’s largest plastics fair, held every three years in Düsseldorf, Germany. WACKER launched 12 new products at “K 2010.” We use a balanced scorecard (BSC) to measure the success of our tradeshow investment.



<sup>1</sup> India, Thailand, Vietnam, Indonesia, South Korea and China  
<sup>2</sup> Germany, France, Great Britain, Netherlands, Austria, Poland, Switzerland and Turkey  
<sup>3</sup> United Arab Emirates  
<sup>4</sup> Argentina, Brazil and Ukraine

WACKER spent €11.0 million on marketing-related communications in 2010, mainly for trade-shows, ads and product-related communications.

### Strong Corporate Reputation

WACKER has a very good reputation among its diverse target groups. In a 2010 reputation-related analysis, we achieved the very high score of 88 (maximum: 100 points). On average, industrial companies and service providers attain a score of just 51. There were 203 individuals participating in the study, which corresponds to a response rate of 47.4 percent. Those surveyed included employees, customers, suppliers, analysts, administrative and civil service staff, as well as NGOs and politicians.

WACKER Achieves Very High Reputation Score

## Employees

### Employee Numbers Rise

WACKER's workforce increased in 2010. We had 16,314 employees worldwide as of December 31, 2010, 4.5 percent more than a year earlier (December 31, 2009: 15,618). Employee growth was driven by higher plant utilization amid the economic recovery, and by expansion projects – particularly at WACKER POLYSILICON. Our acquisition of a Norwegian silicon-metal plant at Holla (129 employees) and a South Korean silicone site at Jincheon (40 employees) also enlarged the workforce. In 2010, there was no longer any major need for short-time work.

**Number of Employees on December 31, 2010**

	2010	2009	2008	2007	2006
Germany	12,235	11,925	12,110	11,624	11,340
International	4,079	3,693	3,812	3,420	3,328
<b>Group</b>	<b>16,314</b>	<b>15,618</b>	<b>15,922</b>	<b>15,044</b>	<b>14,668</b>

In the USA, we closed down the Duncan silicone-emulsions site in 2010, as scheduled. The 50 employees affected by the closure were nearly all able to find other jobs. Some of them were offered employment at our us site in Adrian.

In 2010, WACKER announced that it would also close its Kempten site in 2011. The Group produces pyrogenic silica there. The closure is part of previously-announced structural measures at WACKER SILICONES. In 2010, WACKER finalized a redundancy plan drawn up a year earlier for the 50 employees affected. There will be no involuntary layoffs thanks to a combination of natural fluctuation, phased early retirement, and termination agreements. The remaining employees have been offered jobs at Burghausen and Nünchritz.

Personnel expenses rose slightly. This item totaled €1.14 billion, up 4.2 percent on the previous year's figure of €1.09 billion. These expenses included outlays for social benefits and the company pension plan amounting to €214.2 million (2009: €236.3 million).

Slightly Higher  
Personnel Expenses

Personnel Expenses					
€ million	2010	2009	2008	2007	2006
Personnel expenses	1,135.7	1,090.3	1,086.1	1,014.9	962.4

In addition to their fixed base salary (which includes vacation and Christmas bonuses), WACKER employees receive variable compensation – a voluntary payment to employees both on the standard and above-standard pay scales. It consists of a profit-sharing amount and a personal-performance component. The 50-percent profit share from 2008 – which had been held over due to the economic crisis – was paid out to employees in 2010. Since profit sharing and the personal-performance component had been suspended in 2009, no variable compensation was paid in 2010. Due to the economic recovery, WACKER granted the employees of its chemical divisions a lump sum in 2010, totaling 3.75 percent of their fixed annual salaries.

In the year under review, we started supporting the introduction of working-life accounts. Over the next few years, we will provide a total of €15 million on top of the “demographic sum” agreed for the German chemical industry.

In 2010, WACKER granted its standard pay-scale employees in Germany a one-off payment. This was in addition to the one-off payment agreed in 2010's industrial pay settlement.

12,235 WACKER employees (75 percent) work in Germany and 4,079 (25 percent) elsewhere in the world. We also have 488 temporary workers.

As a manufacturing company, WACKER has a large contingent of industrial employees (56 percent) – about a seventh of whom are women (14.2 percent).

### Young People – the Key to Our Future

Vocational training has always been a mainstay of personnel development at WACKER. In 2010, 196 young people began their training at WACKER or at the Burghausen Vocational Training Center (BBiW). In total, the company employed 687 trainees, 22 more than a year earlier (2009: 665). Of these, 589 are in scientific and technical disciplines and 98 in business-related fields. At 5.3 percent, the percentage of trainees (number of trainees to Group employees in Germany) remains high (2009: 5.3 percent). After graduating, trainees have a good chance of receiving a job. We offered permanent jobs to most of our suitable and interested trainees in 2010. In total, 133 were kept on. The Burghausen Vocational Training Center (BBiW), a public foundation set up by WACKER, marked its 40th anniversary in 2010. Well known beyond the local area, the center also trains people from some 30 partner companies – in 2010, they sent 56 trainees to start courses at the BBiW.

Number of Trainees  
Increases Again

To recruit young management talent, WACKER runs a General Management Trainee Program for university graduates. In 2010, five graduates participated in the 18-month program. Launched in 1997, it has been completed by 67 young people to date.

We provide our employees with continuous training to promote their strengths and cultivate the skills they need to succeed. At performance reviews, held at least once a year, employees and supervisors agree on development measures. This approach applies to every employee, from shift workers to top management. In 2010, about 100,200 e-learning sessions were completed and more than 8,700 participants attended seminars, advanced training courses and conventions, or received tutoring.

#### Developing Leadership Skills

Identifying “high potentials” and training them for leadership is a crucial aspect of WACKER’s HR work. In 2010, we opened two management programs to international participants for the first time: the Focus Program for employees who show executive potential (and are above the standard pay scale) and the Executive Management Circle for recently appointed executives. In 2010, 13 people completed the Focus Program and 14 the Executive Management Circle. Overall, WACKER’s 2010 investments in personnel-development measures and advanced training amounted to €5.8 million (2009: €5.3 million).

In 2010, WACKER joined a German Ministry of Education and Research study investigating women’s development for executive positions at large companies. Alongside WACKER, five other chemical and technology companies are taking part. The study’s focus is on developing the careers of women with university or technical-college degrees. 14 percent of graduates employed in Germany are women. By participating in the study, WACKER intends to analyze why women are under-represented and determine what it needs to do to deploy its female employees more effectively. The research project is scheduled to end in 2012.

Participation in Study  
on Women’s Careers at  
Large Companies

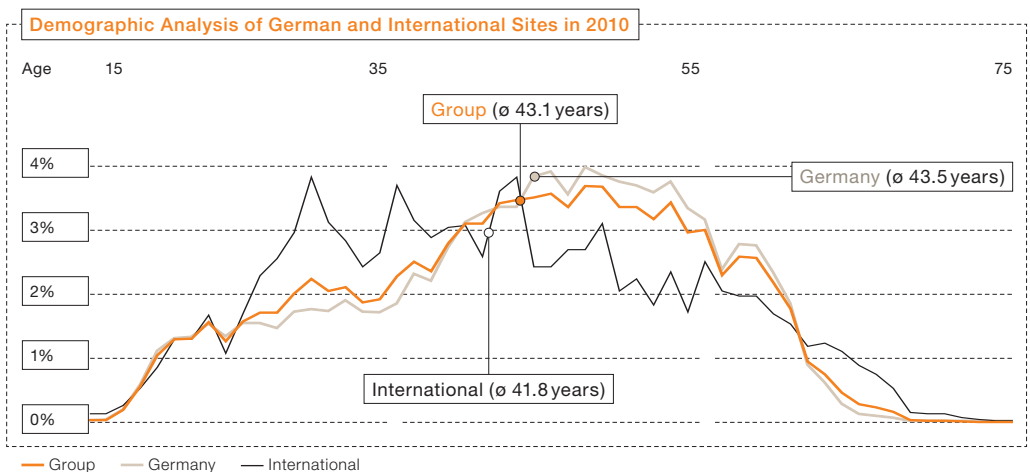
#### Proactive Employees – Bright Ideas

Our employees’ ideas and suggestions are vital for keeping our Group competitive on world markets. 2010 saw substantially more suggestions being submitted to WACKER’s Idea Management team than in the previous year. Overall, employees submitted 7,702 suggestions – roughly 34.5 percent more than 2009 (5,724). The participation rate (number of submitters per 100 employees) also increased to 33 percent, up from 28 percent in 2009. The calculable benefit amounted to €10.5 million (2009: €11.2 million).



Idea Management					
	2010	2009	2008	2007	2006
Number of improvement suggestions	7,702	5,724	5,808	4,440	3,816
Participation rate (%)	33	28	28	24	24
Calculable benefit (€ million)	10.5	11.2	13.5	7.6	3.8

A WACKER pension is an important compensation component and is available at our major German and international sites – except for regions where legal provisions are inadequate or the statutory pension appears sufficient. In Germany, we offer employees an attractive company pension plan via our Wacker Chemie VVaG pension fund, which was established in 1928. The fund has some 16,000 members and provides pension payments to around 7,000 retirees. The average pension paid was around €630 per month. WACKER pays up to 2.5 times its employees’ annual pension contributions, with the exact amount being determined by the type of agreement. In addition, employees have the opportunity to enlist in a private plan that minimizes their tax burden while saving for retirement.



WACKER has been addressing demographic change intensively for many years. The average age of the Group’s workforce at the reporting date was 43.1 (permanent staff). Employees at non-German sites are younger (average age: 41.8) than in Germany (43.5). The age structure abroad varies greatly from region to region. Staff at Asian sites are comparatively young (average age: 35.6), while staff at us locations have an average age of 48.5. Age structure variations are not exclusive to WACKER. They reflect each continent’s and country’s age structure.

**Our Employees’ Health Is Vital**

To maintain our long-term innovative and competitive strength, we have specified ten strategic goals, involving measures ranging from health programs to basic and advanced training aimed at career flexibility.

New Project on Workplace Health

WACKER launched a pilot project in 2010 together with the South German branch of the statutory pension insurance system (Deutsche Rentenversicherung Süd). The goal is to improve the effectiveness of rehabilitation measures for employees, the Group and the insurer. WACKER’s Health Services department can now submit rehabilitation applications on an employee’s behalf, for expedited processing by the insurance system. For the project, WACKER’s company doctors work with partner clinics to tailor rehabilitation measures to the employee’s job profile. The pilot project is initially restricted to WACKER’s largest site, Burghausen.

### Strong Loyalty to Employer

To remain attractive to current and future employees and retain them long term, we offer exemplary social benefits, performance-oriented compensation and challenging tasks. The 2010 fluctuation rate was 2.9 percent groupwide (2009: 2.3 percent) and in Germany only 0.6 percent (2009: 0.7 percent). At non-German sites, it was 10.1 percent (2009: 7.5 percent). The average length of service in Germany was 17.2 years (2009: 17.1 years).

Strong Employee  
Loyalty to WACKER

Fluctuation Rate					
%	2010	2009	2008	2007	2006
Germany	0.6	0.7	0.9	0.9	0.8
International	10.1	7.5	9.3	9.1	8.5
Group	2.9	2.3	2.9	2.8	2.6

In an annual satisfaction analysis by Germany’s Association of Chemical-Industry Executives (VAA), WACKER was overtaken by some pharmaceutical companies that had been less affected by the economic crisis. We achieved fifth place out of 26 companies surveyed (2009: second place). A reputation analysis conducted in 2010 highlighted how strongly our employees identify with WACKER. On a scale of 1 (lowest) to 5 (highest), they awarded WACKER a confidence rating of 4.4. Indeed, 6 out of 10 employees were true ambassadors for WACKER, fully endorsing the Group’s expertise and entrepreneurial strength. Companies like WACKER that stake their reputation on innovation and productivity need a highly committed workforce. A comparison with an annual Gallup poll reveals how good our rating was: only 13 percent of German employees feel they have a strong emotional bond to their employer and are fully committed to their jobs.

### WACKER Named Top Employer in China

In 2010, the Corporate Research Foundation (CRF) recognized WACKER Greater China as a “Top Employer 2010.” The jury assessed such criteria as management style, personnel development, and corporate objectives and strategies. Alongside WACKER Greater China, the jury considered 250 other companies from various industries.

WACKER will not be resting on its laurels after this excellent result. As part of our personnel-marketing strategy, we aim to intensify our efforts to recruit engineers and other specialists from fields vital to our success. Fifteen students from seven universities took part in our 2010 summer course devoted to process and chemical engineering.

## Sustainability

### Managing Sustainability

We are convinced that companies can only be profitable in the long term if they take their responsibility toward the environment and society seriously. Sustainability has thus been firmly rooted in both our production and business processes for many years.

### Sustainability on a Global Basis

Our sustainability activities are underpinned by our membership in two global initiatives: Responsible Care® (the chemical-industry initiative) and the UN's Global Compact. Through this voluntary commitment, WACKER undertakes to protect the environment, employees and society above and beyond legal requirements. Importantly, we expect our suppliers to respect the principles of the Global Compact, and we evaluate them on this point in our risk assessments.

In recent years, WACKER has grown worldwide. We have set up new production sites and expanded others. As globalization proceeds, we adapt our sustainability practices accordingly. The linchpin of our operational processes is our integrated management system (IMS).

WACKER has been pursuing several strategic projects in the field of sustainability management:

- One focus has been on Group certification of our operational processes to ISO 9001 (quality) and ISO 14001 (environment) by 2011.
- Every WACKER site is to be certified to OHSAS, (Occupational Health and Safety Advisory Series), an occupational health management system recognized all around the world.
- Our Global EHS&PS Excellence project aims to standardize the management of environmental protection, health, safety and product stewardship worldwide, while taking account of regional requirements.
- We are extending our compliance system across every region where WACKER operates.

Substantial progress was made on these projects in 2010:

- Group certification: all sites in the USA and at WACKER Greater China are now covered by the Group certificate. It encompasses all production sites – except for those in Brazil and India, our Jena plant (Germany), and 2010's new acquisitions. This has roughly halved the company's previous annual expenditure on external audits.
- Preparations for OHSAS certification of our occupational health and safety management system commenced. We compiled a checklist for sites to gauge their degree of compliance with OHSAS and to identify shortfalls.
- The Global EHS&PS Excellence project was completed. Global responsibilities and reporting lines were simplified and rendered more transparent. We revised our policy on environmental protection, health, safety and product stewardship and adapted them to regional needs. We also created a new process that helps us set and track long-term sustainability goals.

Group Certification of All Sites in the USA and at WACKER Greater China Completed

In 2010, WACKER Greater China worked toward having its key, majority-owned production facilities certified as national environmentally-friendly enterprises by the Chinese Environmental Protection Bureau. Our Zhangjiagang site met all the requirements for the certificate, and is now awaiting an official audit. In 2010, Nanjing (a relatively new site) attained ISO 14001 certification for its environmental management system – a requirement for recognition as a national environmentally-friendly enterprise.

### Compliance System Expanded

WACKER's ethical and legal principles of corporate management exceed legal requirements. In 2010, the Group expanded its compliance system. For example, WACKER Greater China set up a compliance hotline. Our other subsidiaries each have a compliance officer who is contacted directly. We expanded our compliance team beyond Germany, the USA and China by appointing and training new compliance officers at other major production locations. As a result, employees in Japan, India, South Korea, Brazil and Singapore now have direct access to compliance officers. In 2010, the Compliance Management department held numerous classroom seminars to inform employees about WACKER's ethical and legal management principles. We developed an online course that has been used to train people across the Group who have regular business contacts. Additionally, our workforce in Germany has been encouraged to undergo online training on data protection. If employees notice any violations, they have been instructed to inform their supervisors, the employee council, their designated HR contacts or the compliance officers.

### Environmental Protection

All WACKER's processes focus on the need to protect the environment and to manufacture safely. We attach particular importance to integrated environmental protection. This commences with product development and plant planning. In 2010, WACKER spent €11.8 million on environmental investments (2009: €9.1 million). Environmental operating costs amounted to €65.2 million.

In 2010, we began expanding Nünchritz's wastewater treatment plants in readiness for the polysilicon production facility due to come on stream there in 2011. This expansion will double the capacity for treating inorganic wastewater.

In 2010, we continued working on our groundwater remediation strategy at Nünchritz. We conducted a field test to determine whether contaminants (solvent residues) in the groundwater there can be degraded by naturally occurring microorganisms. The test's results are expected in 2011. The land for Nünchritz's new polysilicon facility was remediated in 2010, as part of the construction work there. Some 75,000 metric tons of sludge contaminated with heavy metals and hydrocarbons were removed and disposed of properly. The remediation enabled us to avoid using virgin land for the new facility. The groundwater and soil contamination was a legacy of production activities prior to WACKER's acquisition of the site.

Our environmental indicators revealed divergent trends in 2010. Water consumption fell thanks to a new recooling plant used in the cooling-water system at Burghausen, our largest site. The amount of non-methane volatile organic compounds (NMVOCs) rose, due to higher production-capacity utilization and plant start-ups in China. Overall, our environmental figures showed a positive trend. WACKER continuously strives to close its material loops and recycle byproducts from other areas into production – and, thus, to prevent or reduce waste.

Environmental Indicators from 2008 to 2010<sup>1</sup>

	2010	2009	2008
Air			
CO <sub>2</sub> emissions	986,000 t	969,000 t	976,041 t
Nitrogen oxides (NO <sub>x</sub> )	926 t	963 t	997 t
Non-methane volatile organic compounds (NMVOCs)	415 t	383 t	501 t
Water			
Water consumption	252,151,000 m <sup>3</sup>	264,532,000 m <sup>3</sup>	241,286,375 m <sup>3</sup>
Chemical oxygen demand (COD)	1,820 t	2,730 t	4,782 t
Halogenated organic hydrocarbons (AOX)	6 t	6 t	7 t
Waste			
Disposed of	48,520 t	80,860 t	87,293 t
Recycled	77,030 t	63,430 t	74,327 t
Hazardous <sup>2</sup>	69,320 t	100,860 t	108,458 t
Non-hazardous	56,230 t	43,430 t	53,161 t
Energy			
Electricity consumption	3.8 TWh	2.7 TWh	2.4 TWh
Primary energy			
Natural gas	5.5 TWh	5.4 TWh	5.4 TWh
Solid fuels <sup>3</sup> (coal, charcoal, wood)	0.4 TWh	-	-
Heat (supplied by third parties) <sup>4</sup>	0.2 TWh	0.2 TWh	0.2 TWh
Heating oil	0.01 TWh	0.01 TWh	0.01 TWh

<sup>1</sup> Except for energy, the data do not cover silicon production at Holla, Norway

<sup>2</sup> Reduced by change in waste accounting at Calvert City, USA

<sup>3</sup> Used in silicon-metal production at Holla, Norway

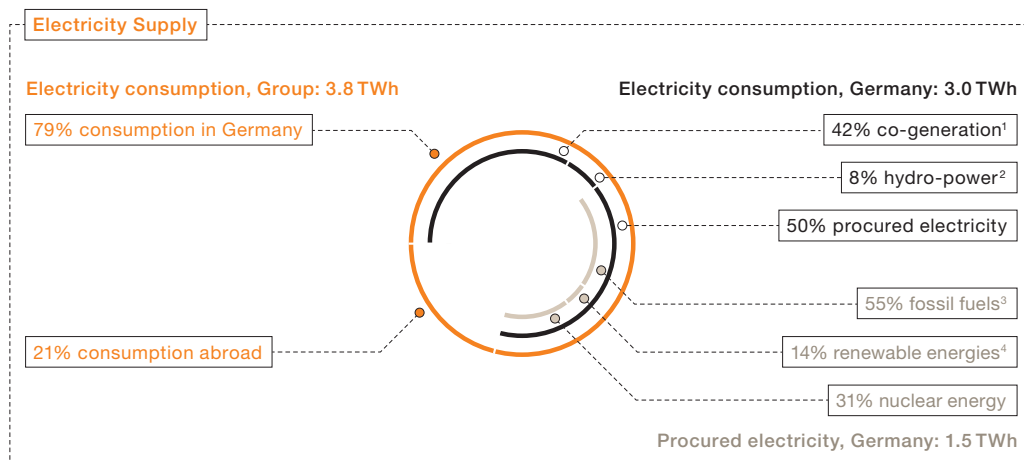
<sup>4</sup> Steam, district heating

## Energy Management

The chemical industry is an extremely energy-intensive sector. WACKER is constantly improving the energy efficiency of its processes. This enables us to remain globally competitive and to support climate protection. At Burghausen, for example, we generate hydroelectric power and our new Norwegian production site at Holla obtains its electricity mainly from hydroelectric power (as is usual in Norway). Our primary source of energy, though, is climate-friendly natural gas. At WACKER's large Burghausen and Nünchritz sites, steam and electricity are produced in cogeneration systems. These combined heat and power (CHP) plants have more than 80 percent fuel efficiency, twice that of conventional power-generation plants.

In 2010, WACKER's electricity consumption rose to 3.8 million MWh (2009: 2.7 million MWh), primarily due to expansion of polysilicon production at Burghausen and the acquisition of the silicon-metal plant at Holla, Norway. The Group's captive power plants – the hydroelectric and CHP (gas and steam turbine) generating stations in Burghausen and the CHP in Nünchritz – produced 1.5 million MWh. This means that WACKER covered roughly 40 percent of its total electricity needs itself. Groupwide, CO<sub>2</sub> emissions totaled 986,000 metric tons, of which 83 percent resulted from captive power plants that are subject to emissions legislation.

WACKER Relies on Energy Mix



<sup>1</sup>Burghausen and Nünchritz  
<sup>2</sup>Burghausen  
<sup>3</sup>Coal, lignite, oil, gas  
<sup>4</sup>Hydro, wind, solar power

WACKER's German production sites account for 79 percent of its electricity needs. In Germany, we purchased enough electricity from utilities to cover 50 percent of our electricity requirements there. In line with the utilities' primary energy sources, about half of this electricity was generated from fossil fuels (55 percent). 31 percent came from nuclear energy, and 14 percent from renewable energy sources.

2010 saw POWER PLUS, our energy-efficiency project, implementing further measures. Due to the purchase of the Holla site, heat consumption rose to 3.4 TWh (2009: 2.8 TWh) across the Group. The heat consumption figures reflect for the first time the use of solid fossil fuels (coal, charcoal, wood) at the newly acquired silicon-metal plant.

### Workplace, Plant and Transport Safety

The primary goal of safety management at WACKER is not only to protect our employees, our neighbors and the environment, but also to safeguard our productivity. We analyze plant risk in two stages. First, we conduct a danger-scope analysis where we simulate a potential damaging event, such as a fire or product spill. We investigate possible causes and adopt preventive measures. Second, we examine critical plant components for potential error sources and then create a risk matrix. This matrix helps our experts to assess and classify risks and to take appropriate protective measures.

### Production-Plant Safety Plans Reviewed

In 2010, as part of our ANSIKO 2010 project, we randomly reviewed the safety plans of all production plants that could prove especially hazardous. One focus was on facilities with a dust-explosion risk. That review was prompted by a dust explosion at Burghausen in 2009. While property had been damaged (costing some €0.5 million), no harm had been done to people or the environment.

New Safety Program to Prevent Accidents

WACKER attaches particular importance to providing ongoing training to its safety experts. We hold regular training sessions, for example, on plant safety and explosion protection. Experts from the Group organize safety training at international WACKER sites – in the year under review, they held safety courses at Ulsan (South Korea) and Zhangjiagang (China).

In 2010, there were 4.3 workplace accidents groupwide (2009: 4.0) per 1 million hours worked. Most accidents are not of a chemical nature. They are caused by tripping, slipping, falling, and manual activities. WACKER's accident rate is higher than the global chemical-industry average. The ICCA (the global chemical association) cited an average of 3.65 accidents per 1 million hours worked in 2008. At WACKER, the accident rate is fueling our efforts to further enhance occupational safety. In 2010, we started rolling out a new safety program in Germany. Called WACKER Safety Plus, it adopts safety elements that Group companies and sites with particularly low accident rates have successfully employed. These include safety patrols, analysis of near-misses, and group discussions with the workforce.

Reportable Accidents per 1 Million Hours Worked <sup>1</sup>					
Accident Rate	2010	2009	2008	2007	2006
Reportable accidents involving Group employees	4.3	4.0	3.7	3.8	4.1

<sup>1</sup> Accident rate includes accidents leading to days off work

In addition to occupational and plant safety, we ensure that our products are safely stored and transported. Before loading dangerous goods vehicles, we carry out stringent checks on them. We reject any that are defective. The defect rate has been at a low level for years. In 2010, it was 3.0 percent in Germany. Every two years, WACKER audits hazardous goods shippers. We regularly review aspects of transport safety with our logistics providers, e.g. during the annual Shipping Day. If deficiencies are found, we agree on specific improvements and then follow up on their implementation. To evaluate shippers' performance, we use in-house criteria and internationally recognized systems, such as the Safety and Quality Assessment System (SQAS) operated by the European chemical association (CEFIC), to evaluate shippers' performance. Our evaluation criteria include driver qualifications and training, vehicle equipment and accident response.

In 2010, we recorded 5 transport accidents. This number includes not only accidents involving the delivery of our products where we commissioned the transport, but also incidents that do not adversely impact people or the environment.

Transport Accidents			
Number of Accidents	2010	2009	2008 <sup>1</sup>
Road	4	5	11
Rail	1	-	4
Sea	-	-	2
Inland waterways	-	-	-
Air	-	-	-

<sup>1</sup> In 2008, the criteria for recording and evaluating transport accidents were redefined. Consequently, no comparable data exist for 2006 and 2007.

### Product Stewardship

WACKER ensures that all its products, if used properly, pose no risk to people or the environment. Product information is always up to date and any new findings are reflected in risk assessments. We compile material safety data sheets for all our sales products, regardless of legal provisions. WACKER publishes over 54,000 material safety data sheets in up to 33 languages.

We continuously strive to eliminate or minimize substances harmful to human health or the environment in our products and processes. We pursue this goal in different ways:

- We seek to replace hazardous substances with alternatives
- If no alternative substance is available, we supply (wherever possible) products containing hazardous substances only to commercial and industrial customers
- We develop innovative alternatives to standard market products containing hazardous ingredients

#### LCAs for Dispersions and Dispersible Polymer Powders

In a pilot project carried out during 2010, WACKER POLYMERS prepared life cycle assessments (LCAs) for key intermediates and for dispersions and dispersible polymer powders belonging to our VINNAPAS®, VINNEX® and ETONIS® brands. This means that there are now life cycle assessments for all of WACKER POLYMERS' major product families. Our LCAs look at the environmental impact caused by a specific product family throughout its life cycle – a “cradle-to-gate” assessment extending from manufacturing to the factory gate. The analyses allow us to assess the sustainability of our products and production processes, and improve them accordingly.

#### Social Commitment

Companies can only be successful if they have society's trust. Consequently, we take our social responsibilities seriously, especially toward communities near our sites. We attach particular importance to young people's scientific and technical education. We will need committed scientists and engineers in the future if we are to remain competitive. In 2010, we acted as sponsor and organizer of the state-wide “Young Scientist” competition in Bavaria for the seventh time. We also again sponsored the Dresden / East Saxony regional heat of “Young Scientist.”

In 2010, the Technical University of Munich (TUM) set up the TUM University Foundation. WACKER supported this sponsoring body with an initial donation of €250,000. In the future, the charitable foundation will aid research projects of outstanding merit, provide grants, and help cut through the red tape whenever leading academics are recruited from abroad.

WACKER Supports the  
Technical University of  
Munich

#### Children's Charity “Die Arche” Supported Again

A further social priority consists of projects to help children and young people. Since 2007, WACKER has supported a German religious charity, “Die Arche” (The Ark), which aids children and young people from socially disadvantaged families in several German cities. It provides the children with hot meals and extra tuition, organizes leisure activities and offers counseling. In 2010, WACKER again made a donation of €100,000 to the charity's Munich branch.

WACKER's relief fund, which helps the victims of disasters, supported three projects in 2010:

#### Haiti

In response to the Caribbean country's dire situation, Wacker Chemie AG donated an initial €50,000 to the Group's relief fund and pledged to match all employee donations. With more than €125,000 now raised, the relief fund will assist the “Don Bosco Dritte Welt” aid organization in rebuilding a destroyed elementary and high school in Gressier. The new school will offer around 350 places for boys and girls aged 6 to 18.



### **Pakistan**

Torrential monsoon rains in northwest Pakistan in July 2010 caused flooding accompanied by mudslides and landslides. Many thousands were killed. Houses and crops were destroyed. Over 20 million people are believed to have been directly affected. WACKER's relief fund has joined forces with Malteser International to rebuild an elementary school in the Swat district. The new school building is intended for around 250 girls. Wacker Chemie AG made an initial donation of €50,000 towards this project.

### **Sri Lanka**

WACKER's relief fund has been helping tsunami victims since 2005. Our employees' donations have been used to rebuild schoolhouses in Kosgoda and to finance the teaching of four classes. The fund has pledged to extend its commitment beyond 2011. The aim is to support students through to their diplomas. To this end, the fund staged another donation campaign at its global sites in December 2010.

# Risk Management Report

Description and Statement Relating to Internal Control and Risk Management

## Risk Management Is an Integral Part of Corporate Management

Risk management is an integral part of corporate management at WACKER. As a globally active company, WACKER is exposed to numerous risks directly attributable to our operational activities. Starting from an acceptable level of overall risk, the Executive Board decides which risks we should take to utilize the opportunities available to us. The goal of risk management at WACKER is to identify risks as early as possible, to evaluate them appropriately, and – if necessary – to eliminate them using suitable measures.

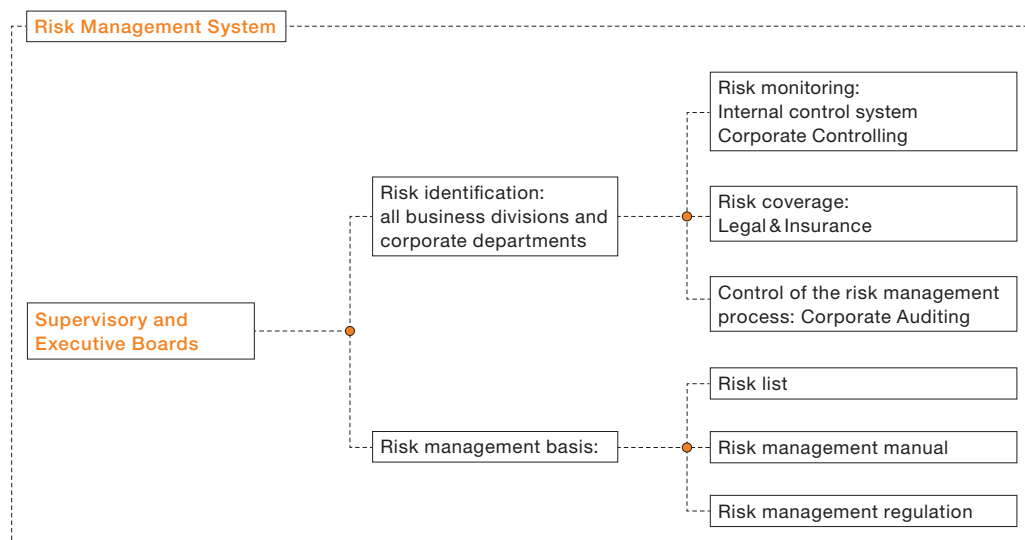
As a specialty-chemical and semiconductor company, we have a particular responsibility to ensure plant safety and to protect health and the environment. This is why all our production sites have coordinators who manage plant and workplace safety, alongside health and environmental protection. Our risk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

All Corporate Areas  
Integrated into Risk  
Management System

WACKER focuses on identifying, evaluating, managing and monitoring risks as part of a transparent risk management and control system for all company processes. The system is based on a defined risk strategy and an efficient reporting procedure. The Executive Board regularly reviews and enhances our risk strategy, particularly with regard to our groupwide processes for strategic planning and reporting. The Executive Board regularly keeps the Supervisory Board's Audit Committee abreast of existing risks.

All corporate levels are included in risk management. It consists of three intermeshed aspects:

- Divisional-specific risk management, including early-warning systems
- Groupwide risk coverage
- Groupwide risk mapping



## Risk Management Structures and Tools

There are various aspects to WACKER's risk management system. This groupwide system draws on existing organizational and reporting structures, supplemented by additional elements. Our risk management manual contains the system's principles and processes. It explains reportable levels of risks and how risks are to be covered and mapped. Our risk management regulation stipulates reporting requirements, including when a specific committee must be informed. A central risk management coordinator is responsible for the risk management system and is supported by local risk coordinators. In a risk list, we record each special risk facing our divisions and other corporate sectors.

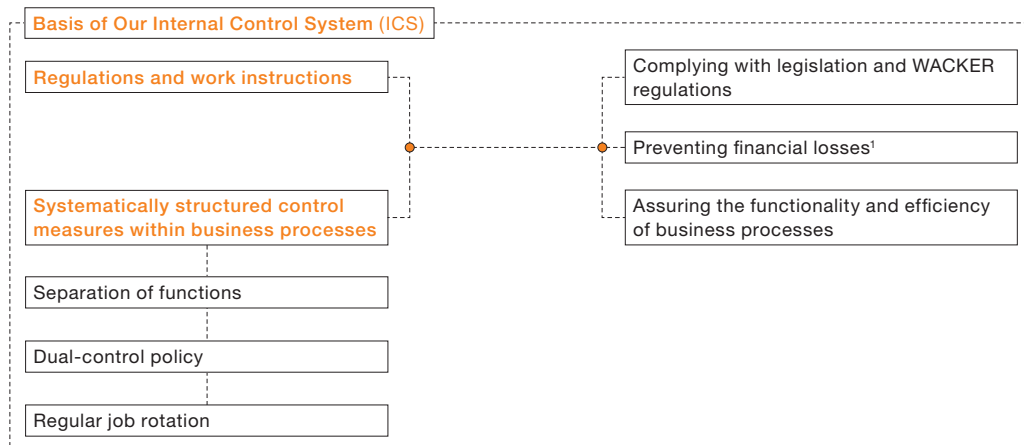
We analyze and assess each identified risk's probability of occurrence and potential effects on earnings. Corporate Controlling compiles a monthly report to inform the Executive Board of current and future business developments. We evaluate and balance risks and opportunities at regular meetings with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

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

Financial risks are managed at Corporate Finance, which is responsible for all measures relating to exchange-rate and interest-hedging transactions. Detailed specifications and regulations covering, for example, separation of trading and settlement functions, define WACKER's scope of action. Corporate Accounting monitors receivables management vis-à-vis customers and suppliers.

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

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



<sup>1</sup> Possible financial losses due to the intentional or inadvertent misconduct of our employees or third parties

The purpose of our internal control system for accounting practices is to ensure their compliance with legal stipulations, with the principles of proper accounting, with the rules in the International Financial Reporting Standards (IFRS) and with groupwide regulations. This compliance is essential for providing our stakeholders (such as banks, analysts and investors) with proper and reliable information.

**Internal Control System  
Ensures Proper and  
Reliable Information**

In addition to the ICS principles already mentioned, we perform assessments and analyses to help identify and minimize any risks with a direct influence on financial reporting. We continually monitor changes in accounting standards and extensively and regularly train our employees accordingly. We enlist external experts to reduce the risk of accounting misstatements in complex and challenging issues, such as pensions.

Our internal accounting control system is designed to ensure that our accountants process every business transaction correctly, promptly and uniformly and that reliable data on the company's financial situation are constantly available. It ensures compliance with legal stipulations, accounting standards and internal accounting rules that are binding for all Group companies included in our consolidated financial statements. A key accounting regulation takes the form of an accounting manual, which is valid groupwide. It is available in the WACKER intranet. Additionally, we define organizational workflows in accounting and organizational regulations, and in book-entry instructions. A groupwide calendar of deadlines guarantees the complete and timely processing of financial statements. By separating financial functions between accounting, statement analysis and strategy, we ensure that potential errors (prior to preparation of the statements) are identified and accounting standards complied with. To uphold the completeness and accuracy of processes, we have implemented access rules for IT systems and pursue dual-control policies for accounting at individual entities and for consolidating figures within the Group.

Our subsidiaries ensure that existing stipulations are implemented decentrally in their regions. In doing so, they are supported and monitored by Corporate Accounting. Additionally, country-specific accounting standards exist that must be complied with.

We guarantee the effectiveness of controls not only through feedback talks with the employees responsible, but also by continually monitoring key financial indicators in our monthly management reports and in system-supported test runs. Moreover, regular external audits and reviews are carried out at year-end and for each quarter.

### Internal Controls

Corporate Auditing rounds out our risk management system. This department regularly checks all corporate entities on behalf of the Executive Board. Our auditing manual serves as the basis for these checks. The Executive Board adopts a risk-driven approach when choosing audit topics, which, if necessary, are flexibly adjusted during the year to take account of changes in underlying conditions. In 2010, WACKER focused on the following topics:

Auditing Is a Key Risk Management-System Component

- Subsidiaries' general handling of business
- IT-related aspects of security and project management
- Awarding of orders and settlement of investment-related invoices
- Accounting processes

In total, Corporate Auditing conducted 37 audits in 2010 (2009: 36 audits). The proposed audit plan was essentially implemented, with some topics or items for review to be completed before the end of 2011. The audits did not reveal any major complaints. Audit recommendations to optimize processes are being implemented.

### External Controls

An external auditor examines our early-warning, risk-detection system when auditing our annual financial statements. The auditor then reports to the Executive and Supervisory Boards.

## Central Risk Areas

### Overall Economic Risks

#### Scenario

A sharp slowdown in the pace of economic recovery.

#### Impact on WACKER

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

#### Measures

We counter this risk by continuously observing economic trends in our key sales markets. If we detect economic weakness, we take early precautions to flexibly realign production capacities, resources and inventories to meet customer demand. In such cases, we focus on production locations with the best cost position and temporarily shut down some production facilities. During the recent economic crisis, we successfully used short-time work as an instrument to adapt staffing levels to sinking capacity utilization.

#### Assessment

For 2011, we expect the economic recovery to continue, though not at the same pace as in the first half of 2010. There are still downward economic risks that could dampen positive developments. If the us economy fails to recover substantially, this could impact our sales opportunities in the USA. We do not anticipate a slowdown in Asian markets. Should the pace of global growth continue, this will lead to further increases in raw-material and energy prices.

## Sales-Market Risks

### Scenario 1

Chemical-segment overcapacity.

#### Impact on WACKER

Price pressure on our products.

#### Measures

We minimize these risks in various ways. For example, we align production with demand and perform quantity controls to ensure appropriate plant-utilization rates. Our approach also includes structured price management, process optimization and intense cultivation of growth markets. Importantly, a key ongoing goal is to increase the share of resilient product groups in our portfolio and to rank among the global leaders in all our business fields. By cooperating closely with customers, we strive to quickly open the way to novel applications and, thus, foster long-term customer loyalty.

#### Assessment

We expect overcapacity-related risks for our products to remain low in 2011. All three of our chemical divisions anticipate that 2011's sales volumes will rise.

### Scenario 2

Cyclical fluctuations and intense competition on the semiconductor market.

#### Impact on WACKER

Volume and price declines.

#### Measures

Siltronic tries to reduce these risks through systematic cost management and production flexibility.

#### Assessment

We expect higher wafer demand (by surface-area sold) in the global semiconductor sector in 2011. The key growth engine is the 300 mm silicon wafer. For smaller diameters, we anticipate demand remaining stable. In our opinion, accelerating 300 mm demand will increase Siltronic's capacity utilization in this segment compared to 2010 and may lead to a slight price recovery. We consider the risk that Siltronic could face sales-volume declines and much stronger price pressures in 2011 to be rather low.

### Scenario 3

Polysilicon price risks, greater competition among producers, and more subdued market growth due to lower state incentives.

#### Impact on WACKER

A potential loss of market share – plus stronger, competitive price pressure on margins – could hold back sales and earnings, as could lower state incentives for photovoltaic systems in certain countries.

#### Measures

We counter this risk by continually improving our productivity, cost positions and quality. We secure most of our production capacities via long-term contracts with customers. We flexibly align capacity expansion to meet market growth.

### **Assessment**

In Germany (our key photovoltaic market), feed-in tariffs will fall by 13 percent per kilowatt hour in 2011. Plus, Italy is planning to cut its incentives by a total of 18 percent per kilowatt hour. This could slow market growth. WACKER has already sold its entire production output for 2011. We consider the risk of being unable to sell our output as low. Expansion of polysilicon-production capacities continues. In our view, this may lead to surplus capacities in the medium term and to falling polysilicon prices. However, cost and quality leaders will not be as strongly affected by this as other players.

### **Procurement-Market Risks**

#### **Scenario**

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

#### **Impact on WACKER**

Earnings dampened by higher raw-material and energy prices. In the event of supply bottlenecks, delivery times to customers grow longer and there could be sales-volume losses.

#### **Measures**

To counter these risks, we continuously monitor our key raw materials. Moreover, we minimize risks by concluding long-term supply contracts with highly creditworthy partners, by negotiating procurement agreements centrally and by having multiple suppliers for any one product. With the acquisition of the silicon-metal production site in Holla (Norway), we have achieved backward integration for one of our key raw materials and have greatly cut our dependency on suppliers. We now produce nearly a third of the quantities we need. Structured procurement on the electricity market reduces energy-related price risks.

#### **Assessment**

The economic recovery will continue in 2011. As a result, prices for certain raw materials (such as silicon metal) will keep rising. Other raw materials (such as methanol) will remain comparatively stable. As for energy prices, we foresee strong price increases in 2011, especially for electricity. Gas prices should remain more or less stable compared to the previous year.

### **Market-Trend Risks**

#### **Scenario**

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

#### **Impact on WACKER**

If we misjudge future market trends, this could impact our market strength and our earnings position. New product developments that fail to meet market needs could negatively impact our sales and earnings trends.

#### **Measures**

We counter these risks by monitoring the market and our competitors intensively (all the way down to a business-field level), by holding customer and supplier interviews and by regularly attending tradeshows that are vital to WACKER. We minimize risks relating to product developments by collaborating on specific projects with customers. WACKER also cooperates with universities and scientific institutions on R&D projects to stay abreast of state-of-the-art technological and product-development trends.

### Assessment

WACKER has many years of market experience and can update its detailed planning as soon as market developments change. We consider the risk of misjudging market trends, or not reacting to them appropriately, to be low.

### Investment Risks

#### Scenario

Bad investments, higher-than-expected investment costs, and postponed plant start-ups.

#### Impact on WACKER

Bad investments lead to idle-capacity expenses and/or impairments on assets. Higher investment costs can lower the sales-volume potential. Postponed start-ups pose the risk of not being able to fulfill supply agreements and thus of posting sales-revenue and earnings declines.

#### Measures

We reduce this risk by fixing future production quantities (e.g. for polysilicon) through customer contracts, which sometimes include advance payments. We only approve investments in stages. By establishing joint ventures with companies like Samsung, we reduce our own investment risk. There are, however, long-term purchase obligations relating to these joint ventures. We monitor projects very closely to minimize or eliminate delays. In contrast to many competitors, WACKER has its own Corporate Engineering department with some 800 employees. This department ensures that projects are implemented as timely and on-budget as possible, thanks to its many years of experience in planning new production facilities, in monitoring assembly lines and construction sites, in project-budget management, and in plant start-ups.

### Assessment

Over the past few years, we have proven that we can complete complex technical investment projects on schedule, or even earlier than planned, without exceeding budgeted costs. WACKER's Corporate Engineering department plays a major role here via its engineering expertise. Currently, we see no major risks due to investment activity.

### Production Risks

#### Scenario

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

#### Impact on WACKER

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

#### Measures

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



**Assessment**

Risks stemming from the production, storage, filling and transport of raw materials, products and waste can never be completely ruled out. Currently, we see no risks that could constitute a serious threat.

**Financial Risks**

WACKER is exposed to financial risks from ongoing operations and financing. We define financial risks as credit, market-price, financing and liquidity risks. Different WACKER departments are responsible for controlling these risks. We employ primary and derivative financial instruments to cover and control the financial needs and risks necessitated by our operations. Such financial instruments are not to be used unless they are based on actual or planned operational business. The Notes to the Group management report provide extensive information about risk hedging using derivative financial instruments.

See Note 20

Controlling Financial Risks	
Risk	Corporate Department Responsible
Credit risks .....	Corporate Finance .....
Market-price risks .....	Corporate Finance .....
Liquidity risks .....	Corporate Finance .....
Currency-exchange and interest-rate risks .....	Corporate Finance .....
Raw-material price risks .....	Raw Materials Procurement .....

**Credit Risks**

**Scenario**

Customers or business partners fail to meet their payment obligations.

**Impact on WACKER**

Loss of receivables due to trade receivables. Bank failures due to the banking crisis.

**Measures**

We lower this risk by demanding sufficient collateral to cover the nature and extent of the product/service provided. Collateral includes retention of title. Other preventive measures range from references and credit checks, to the evaluation of historical data from our business relationship to date (particularly payment behavior). In addition, we take out credit insurance to minimize the risk of default.

**Assessment**

The risks stemming from credit business are manageable and we consider the probability of their occurrence to be low. Credit risks from other contractual obligations are posed by "other" financial assets, current banking assets, and derivative financial instruments. Our Corporate Finance department centrally handles global dealings with currency-exchange and interest derivatives, as well as liquidity management. We prevent counterparty risk vis-à-vis banks and contractual partners by carefully selecting these partners. Cash investments and derivative dealings are strictly limited to banks with a minimum rating of A- from Standard & Poor's or a comparable rating agency. Investment activities are additionally subject to maximum investment and term limits. In exceptional cases, investments or derivative dealings may be conducted with banks of lower creditworthiness within tight limits and terms. We expect this approach to minimize our risk concentration.

## Market-Price Risks and Risks of Fluctuating Payment Flows

### Scenario

Fluctuations in currency exchange rates, interest rates and raw-material prices.

### Impact on WACKER

Diminished earnings, liquidity and financial investments.

### Measures

Currency-exchange risks primarily arise from exchange-rate shifts for receivables, liabilities, and cash and cash equivalents that are not held in euros. The currency risk stemming from financial instruments is of particular importance for the us dollar, Japanese yen, Singapore dollar and Chinese renminbi. WACKER hedges the resultant net exposure via derivative financial instruments. Their use is governed by WACKER's regulation on currencies. We employ currency-option and forward-exchange contracts, and foreign-exchange swaps. Foreign currencies are hedged predominantly for the us dollar, Japanese yen and Singapore dollar. Plus, we counter exchange-rate risks through our local production sites, and through local bank financing.

Interest-rate risks arise due to changes in market rates that impact future interest payments for variable-rate loans and investments. Thus, the changes have a direct influence on the Group's liquidity and financial assets. When an exposure is identified, interest-rate hedging is performed predominantly for the euro and the us dollar. The use of derivative financial instruments is governed by internal regulations that separate trading and settlement functions and is subject to strict controls within the entire processing procedure. The effectiveness of measures taken is continually monitored.

### Assessment

We hedge part of our us dollar, yen and Singapore dollar business. In comparison to 2010, we assume that the euro will strengthen against the main foreign currencies relating to WACKER. However, we will use hedging measures to partially counter the impact that is likely to result. Consequently, we do not expect any significant effects from exchange-rate shifts in 2011. Currently, we consider the influence of interest-rate risks to be low.

## Liquidity Risk

### Scenario

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

### Impact on WACKER

Higher financing costs, and modifications to further expansion plans.

### Measures

Liquidity risk is managed centrally at WACKER. Our Corporate Finance department employs efficient systems to control both cash management and rolling liquidity planning. To counter financing risks, WACKER holds sufficient credit lines and long-term bonds.

### Assessment

In 2010, we enhanced our liquidity, which totaled €797.4 million on the reporting date. At that time, liquidity (consisting of current and noncurrent securities, and cash and cash equivalents) exceeded financial liabilities by €264.0 million. Concurrently, there were used and unused credit lines of some €1.2 billion. We consider the probability of financing and liquidity risks actually occurring to be low. At the moment, we see no risks relating to financial-covenant infringements.

## Pensions

### Scenario

The greater life expectancy of pension-fund beneficiaries – and additional obligations due to pension adjustments – raise pension obligations. Low capital-market interest rates impair the investment result.

### Impact on WACKER

Pension provisions increase, additional payments to the pension fund possibly needed; and Group net income affected.

### Measures

The majority of WACKER's pension guarantees are covered by the Wacker Chemie VVaG pension fund, by pension-related funds and special-purpose assets, and by insurance plans. The largest contribution comes from the pension fund. It manages the pension insurance of our German-based employees in accordance with its Articles of Association and General Terms and Conditions of Insurance. To ensure a sufficient rate of return and to limit investment risks, the fund diversifies its investment portfolio among various asset classes and regions. As part of its asset-liability management, the pension fund controls and optimizes all asset items to attain the required return within specified risk limits. As one of the fund's sponsoring entities, WACKER makes payments to it (when necessary) to enable sufficient coverage for pension obligations.

### Assessment

Pension-fund beneficiaries are getting ever older. The rate of return is insufficient to fulfill long-term pension obligations. This is why the risk of further payments by Wacker Chemie AG to the pension fund will rise over the short and medium term.

## Other Risks

### Emission Allowances

#### Scenario

WACKER's CO<sub>2</sub> emissions exceed allotted emission certificates.

#### Impact on WACKER

Acquisition of emission certificates, and higher specific production costs.

#### Measures

The only emissions-trading effects that WACKER has experienced to date relate to electricity price rises. The exact nature of European emissions trading as of 2013 is currently unclear. According to existing EU decisions, large parts of the chemical industry will be included in the trading system. WACKER has installed an early warning system that enables us to react quickly if our emission allowances are inadequate for our needs.

#### Assessment

The exact nature of emissions trading as of 2013 is not conclusively assessable. We expect that we will have to contend with additional, medium-term charges due to emissions trading.

## Legal Risks

### Scenario

Diverse tax, brand, patent, competition, antitrust and environment-related legal risks could arise from our international business.

### Impact on WACKER

Drawn-out legal disputes that could impact our company's operations, image and reputation, and could be costly.

### Measures

We limit legal risks via centralized contract management and legal review by our legal department. In many cases, we seek highly-qualified and specialized external legal advice.

Our Intellectual Property department protects and monitors patents, brands and licenses. By reviewing patent regulations, we determine – before initiating R&D projects – whether existing third-party patents and intellectual property rights could impair the competitive marketing of any newly developed products, technologies or processes.

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

### Assessment

We currently do not foresee any legal disputes, patent infringements or other legal risks that could significantly influence our business.

## IT Risks

### Scenario

Attacks on, interference with, and unauthorized access to, IT systems and networks, threatening data security.

### Impact on WACKER

Negative impact on the company's financial situation, on production processes and on workflows; plus loss of know-how.

### Measures

We continually monitor our use of information technology and do everything we can to ensure that IT-supported business processes function securely. Our IT security and risk management specialists are responsible for handling hazards in a cost-efficient way. Their work is based on ISO 27001. Using risk analyses, we define the requirements for WACKER's central systems – in terms of availability and data integrity/confidentiality. We anchor these requirements in service level agreements (SLAs) at our business divisions and corporate departments. For 2010, our central ERP (enterprise resource planning) systems attained an availability rate of 99.5 percent. This figure was possible thanks to our systems' setup, to a related backup/recovery process and to emergency preparations (business continuity management).

We minimize project-related IT risks via a uniform project-management method. This ensures changes are integrated into our system landscape in a controlled manner. As part of risk management, we log and evaluate operation-related risks and initiate counter-measures. We use state-of-the-art hardware and software solutions to counter network downtime, data loss or manipulation, and unauthorized access to our network. We protect ourselves against "malware" via efficient software security programs. We regularly conduct audits and penetration tests at domestic and international sites to prevent hacker attacks.

### Assessment

We can never completely rule out interference with, and attacks on, our IT systems and networks. However, thanks to our precautionary measures, we continue to classify the associated risks as being low.

### Personnel-Related Risks

#### Scenario

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

#### Impact on WACKER

The lack of technical and managerial employees could dampen our continued growth and lead to the loss of our technological edge.

#### Measures

We counter this risk with a series of personnel-policy measures. For example, we offer exemplary benefits, performance-oriented compensation and attractive training programs. We also offer a wide range of working-time models and policies, and opportunities to achieve work-family balance.

For executive positions, WACKER has a detailed successor-planning process and deputizing regulation. As part of groupwide successor planning, we observe up to three potential candidates for every upper management position to correctly evaluate their potential and performance. In successor planning, WACKER distinguishes between short-term needs (up to two years) and medium-term ones (two to four years). Regardless of the above distinction, WACKER has appointed a deputy for each executive member in the event of a lengthy absence or illness.

#### Assessment

Demographic change and the related lack of qualified technical and managerial employees will increase the medium-term risk of not being able to find enough appropriate personnel. For 2011, we only see minor risks to our personnel needs.

## Evaluation of Overall Risk

WACKER's risk management system serves as the basis for the Executive Board to estimate the overall risk situation. The system assesses every risk indicated by our divisions, corporate departments and regional entities. It is regularly reviewed by the Group's management. Our goal is to further optimize risk management to detect and counter potential risks even more rapidly.

No Risks Endangering  
the Company's  
Continued Existence

We consider the above-mentioned risks to be manageable. As per this report's publication date, the Executive Board does not see any individual or aggregate risk that could endanger WACKER's future in any material way. The overall risk situation has improved compared to a year earlier thanks to the strong economic rebound in 2010. We remain confident that WACKER is strategically and financially so well-positioned that we can take advantage of any opportunities that arise.

## Supplementary Report

No major events took place between the closing date of December 31, 2010, and this Annual Report's preparation date of February 21, 2011. There were no fundamental changes in our overall economic and business environment either.

The Group's organizational and legal structures remained unchanged in the first few weeks of 2011.

# Management Report of Wacker Chemie AG

(Summary as per German Commercial Code)

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

Wacker Chemie AG is the parent company of the WACKER Group and is headquartered in Munich, Germany. The parent company operates through four business divisions – WACKER SILICONES, WACKER POLYMERS, WACKER POLYSILICON and WACKER BIOSOLUTIONS – which generate a substantial part of the Group's sales. Wacker Chemie AG's Executive Board exercises key leadership functions for the whole Group. The Executive Board determines the Group's strategy, allocates resources (such as investment funds) and is responsible for the management of executives and of corporate finances. It also oversees communication with important target groups, especially shareholders and capital markets.

Wacker Chemie AG had 8,886 employees as of December 31, 2010.

The annual financial statements of Wacker Chemie AG were prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). Furthermore, the German Accounting Law Modernization Act (BilMoG), which took effect in 2009, was applied for the first time.

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

<b>Statement of Income</b>		
€ million	2010	2009
<b>Sales</b> .....	<b>3,416.9</b>	2,722.4
Changes in inventories .....	14.1	5.5
Other capitalized self-constructed assets .....	40.7	46.7
<b>Operating performance</b> .....	<b>3,471.7</b>	2,774.6
Other operating income .....	104.7	97.9
Cost of materials .....	-1,216.7	-927.5
Personnel expenses .....	-706.9	-678.9
Depreciation .....	-307.4	-267.8
Other operating expenses .....	-595.8	-588.4
<b>Operating result</b> .....	<b>749.6</b>	409.9
Result from investments in joint ventures and associates .....	-134.3	-203.6
Net interest income .....	-38.7	0.3
Other financial result .....	-1.7	-0.8
<b>Financial result</b> .....	<b>-174.7</b>	-204.1
<b>Pre-tax income</b> .....	<b>574.9</b>	205.8
Extraordinary result .....	-94.7	-64.4
Income taxes .....	-178.7	-95.6
<b>Net income</b> .....	<b>301.5</b>	45.8
Profit carried forward from the previous year .....	533.3	576.9
Dividends paid .....	-59.6	-89.4
Allocations to retained earnings .....	-45.1	-
Withdrawals from reserves for treasury shares .....	45.1	-
<b>Retained profit</b> .....	<b>775.2</b>	533.3

Only a limited comparison is possible between 2010's earnings performance and the previous year's because Wacker Polymer Systems GmbH & Co. KG (WPS) was merged into Wacker Chemie AG on July 1, 2009. As a consequence, Wacker Chemie AG's 2009 statement of income only recognized WPS for six months. Another limiting factor was the first-time application, effective January 1, 2010, of the German Accounting Law Modernization Act. 2009's figures have not been adjusted.

Wacker Chemie AG's earnings reflected the positive trend at the whole Group. Whereas high non-recurring impairments had dampened earnings in the crisis year of 2009, every business division posted new records in 2010. Net income climbed strongly to €301.5 million (2009: €45.8 million).

Sales also grew substantially at every division. Up 26 percent, Wacker Chemie AG's sales reached €3.42 billion (2009: €2.72 billion). At WACKER POLYMERS, sales soared 49 percent to €558.5 million, partly due to the integration of WPS. WACKER SILICONES increased its sales by 24 percent to €1.29 billion. WACKER POLYSILICON's sales rose 24 percent to €1.31 billion. At WACKER BIOSOLUTIONS, sales also climbed, up 37 percent to €104.0 million. Operating performance rose to €3.47 billion (2009: €2.77 billion). This item was influenced by an inven-



tory build-up of €14.1 million (2009: €5.5 million) due to the need to hold higher inventories on the reporting date.

Cost of materials increased 31 percent to €1.22 billion (2009: €927.5 million), pushed up by the integration of WPS, by substantial production-volume growth and by higher prices for energy and raw materials.

Personnel expenses were up from 2009's €678.9 million to €706.9 million in 2010 amid a series of sometimes divergent effects. While the WPS merger and higher variable compensation led to an increase, expenses for pension provisions were, in contrast, lower than in 2009 because the interest component was reclassified as interest cost. Similarly, expenses fell for severance payments and pension plans – for which non-recurring items of €41.2 million had been recognized as personnel expenses in 2009.

At €307.4 million, depreciation rose against 2009 (€267.8 million), primarily due to the first-time depreciation of Burghausen's polysilicon expansion stage 8, which came on stream in 2010.

Other operating income grew slightly from 2009's €97.9 million to €104.7 million. Other operating expenses of €595.8 million also showed little change year on year (2009: €588.4 million). Exchange-rate gains increased substantially, from €48.8 million in 2009 to €66.8 million in 2010. Exchange-rate losses under other operating expenses likewise rose, reaching €55.1 million (2009: €40.5 million). In both cases, the higher figures stemmed from increased sales in foreign currencies. The currency translation result was positive at €11.7 million (2009: €8.3 million). Additional effects influencing other operating income were a fall in reversals of customer advance payments, which dropped to €8.5 million (2009: €19.7 million), and reversals of provisions, which rose to €16.1 million (2009: €6.9 million). As for other operating expenses, additional effects were: foreign-freight expenses, customs duties, other selling expenses, other contractor work, and repair and maintenance. In 2009, this line item had been negatively impacted by losses of €70.8 million, relating to the sale of our stake in WACKER SCHOTT Solar. Other operating expenses also include provisions for environmental protection and for damages relating to onerous contracts. These items rose amid business-volume growth and the integration of WPS.

In 2010, Wacker Chemie AG posted an operating result of €749.6 million (2009: €409.9 million), a rise of 83 percent, spurred mainly by the above effects. The integration of WPS – which, in 2009, had already led to a gain of €42.5 million – also had a positive impact on 2010's operating result.

The result from investments in joint ventures and associates amounted to €-134.3 million (2009: €-203.6 million). It contains the net losses from profit and loss transfers of €64.5 million (2009: €-211.8 million), resulting mainly from the two-stage profit-and-loss transfer agreement of €96.6 million between Wacker Chemie AG, Wacker Dritte Venture GmbH and Siltronic AG. In 2010, Wacker Chemie AG lowered the value of its investment in Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, by €78.9 million. This decision was due to a long-term purchase obligation involving high, long-term transfer prices, agreed between WACKER's Chinese subsidiaries and the siloxane-production joint venture with Dow Corning.

Net interest income fell by €39.0 million to €-38.7 million (2009: €0.3 million). The decrease stemmed from interest effects relating to noncurrent provisions, especially pension provisions, which were reclassified from operating result to interest cost. Other interest income and expenses remained at the prior-year level.

The extraordinary result posted in 2010 mainly comprised the effects of accounting changes due to the first-time application of the German Accounting Law Modernization Act. These effects amounted to €97.0 million. The greatest impact here came from changes in the valuation of pension provisions. In 2009, the extraordinary result had carried a merger loss arising from the integration of WPS.

Income tax expenses climbed from €95.6 million in 2009 to €178.7 million in 2010, yielding a tax rate of 31 percent.

Net income amounted to €301.5 million. After adding profit carried forward from 2009 and deducting €59.6 million in dividends paid, Wacker Chemie AG posted a retained profit of €775.2 million.

In 2010, the company's R&D expenses amounted to €87.3 million (2009: €88.8 million).

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

Statement of Financial Position		
€ million	2010	2009
<b>Assets</b>		
Intangible assets .....	6.2	16.2
Property, plant and equipment .....	1,814.4	1,679.5
Financial assets .....	708.2	722.2
<b>Fixed assets</b> .....	<b>2,528.8</b>	<b>2,417.9</b>
<b>Inventories</b> .....	<b>304.6</b>	<b>272.4</b>
Trade receivables .....	319.2	271.1
Other receivables and other assets .....	628.6	587.8
<b>Receivables and other assets</b> .....	<b>947.8</b>	<b>858.9</b>
Securities .....	316.7	73.6
Cash on hand, central bank balances, demand deposits .....	411.6	40.0
	728.3	113.6
<b>Current assets</b> .....	<b>1,980.7</b>	<b>1,244.9</b>
<b>Prepaid assets</b> .....	<b>36.4</b>	<b>37.9</b>
	4,545.9	3,700.7
<b>Equity and Liabilities</b>		
Subscribed capital .....	260.8	260.8
Less nominal value of treasury shares .....	-12.4	-
Issued capital .....	248.4	260.8
Capital reserves .....	157.4	157.4
Reserves for treasury shares .....	-	45.1
Other retained earnings .....	630.2	600.0
Retained profit .....	775.2	533.3
<b>Equity</b> .....	<b>1,811.2</b>	<b>1,596.6</b>
Provisions for pensions and similar obligations .....	445.2	318.8
Other provisions .....	389.4	412.1
<b>Provisions</b> .....	<b>834.6</b>	<b>730.9</b>
Financial liabilities .....	615.8	348.3
Trade payables .....	207.6	124.6
Sundry liabilities .....	1,076.7	899.7
<b>Liabilities</b> .....	<b>1,900.1</b>	<b>1,372.6</b>
<b>Deferred income</b> .....	<b>-</b>	<b>0.6</b>
	4,545.9	3,700.7

Wacker Chemie AG's total assets increased robustly to €4.55 billion (2009: €3.70 billion), a 23-percent rise mainly stemming from higher business-related volumes in current assets and from greater liquidity.

Fixed assets climbed by €110.9 million to €2.53 billion, up 4 percent (2009: €2.42 billion). Growth here was primarily due to strategic investment projects at WACKER POLYSILICON, resulting in additions to property, plant and equipment of €309.9 million. Compared to 2009, financial assets decreased by €14.0 million to €708.2 million. Impending losses from purchase obligations that will impact financial developments at Chinese subsidiaries led Wacker Chemie AG to lower the value of the carrying amount of its investment in Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, from €98.9 million to €20.0 million. For operating reasons, the ratio of fixed assets to total assets decreased from 2009's 65 percent to 55 percent in 2010.

As a result, inventories expanded at every division, up 12 percent to €304.6 million (2009: €272.4 million). Trade receivables also increased, reaching €319.2 million (2009: €271.1 million). This 18-percent rise was due to the fact that customer demand and sales volumes remained high in the fourth quarter and far exceeded prior-year figures. Other receivables and other assets climbed from €587.8 million in 2009 to €628.6 million. Receivables from affiliated companies edged down in 2010 to €437.6 million (2009: €487.2 million). Other assets jumped to €180.3 million (2009: €92.0 million) on the back of higher VAT receivables and receivables from an investment grant for the polysilicon plant under construction at Nünchritz.

In the fourth quarter of 2010, Wacker Chemie AG invested part of its surplus liquidity in securities (from various bond issuers) with a term of over three months. As a result, current securities soared from €73.6 million in 2009 to €316.7 million.

Cash on hand also rose, reaching €411.6 million (2009: €40.0 million), supported by robust operating cash flow.

The equity ratio was 39.8 percent (2009: 43.1 percent). Equity climbed €214.6 million to €1.81 billion (2009: €1.60 billion). There were several reasons behind our equity performance. Effects arising from the switchover to the German Accounting Law Modernization Act (BilMoG) reduced equity by a total of €124.3 million. Of this, €–27.3 million was directly recognized in equity. Expenses of €–97.0 million were included in net income. The retained profit of €775.2 million mainly comprised the profit carried forward from 2009 (€533.3 million) and 2010's net income of €301.5 million. In 2010, the dividend payout for 2009 amounted to €59.6 million.

Provisions for pensions and similar obligations rose – alongside the normal additions arising from the changeover to Germany's "BilMoG" regulations – by €94.2 million to €445.2 million (2009: €318.8 million). Other provisions declined from €412.1 million in 2009 to €389.4 million because tax provisions were lower, due primarily to payments for a concluded audit. Miscellaneous other provisions remained almost unchanged at €322.5 million (2009: €301.8 million).

Financial liabilities grew by €267.5 million to €615.8 million (2009: €348.3 million). Bank loans amounted to €280.9 million (2009: €242.4 million). Financial liabilities from cash pooling and loans increased the liabilities owed to affiliated companies from €102.5 million in 2009 to €330.9 million.

Trade payables climbed to €207.6 million (2009: €124.6 million) – a rise of 67 percent, stemming primarily from December's very intensive investment activity and the fourth quarter's much higher year-on-year business volumes. In total, other liabilities rose by €177.0 million to €1.08 billion (2009: €899.7 million). This increase stemmed from the advance payments which were contained in other liabilities and which rose by €171.7 million to €1.05 billion (2009: €873.9 million). Sundry liabilities were positively impacted by newly concluded supply contracts involving advance payments by customers. As a result, incoming advance payments far exceed those settled when deliveries were effected.

In 2010, Wacker Chemie AG's healthy financial position reflected vibrant business activities, which generated a strong cash flow from operating activities of €981.1 million (2009: €840.9 million). Net income came in at €301.5 million (2009: €45.8 million). It still has to be adjusted not only for non-cash items from depreciation, but also for the establishment or reversal of provisions and for other non-cash expenses. Higher advance payments received, in particular, resulted in a cash inflow of €171.7 million (2009: €50.7 million). Net working capital increased, which lowered operating cash flow.

The cash flow from investment activities amounted to €-745.3 million (2009: €-661.4 million). This amount includes investments of €249.6 million in securities. Compared to 2009, investments in property, plant and equipment decreased by €107.0 million. Adjusted for the influence of securities, the cash outflow from noncurrent investment activities amounted to €495.7 million.

Net cash flow (the difference between cash inflow from operating activities and cash outflow from noncurrent investment activities) came in at €485.4 million, rising €305.9 million year on year (2009: €179.5 million). Consequently, Wacker Chemie AG could finance investments entirely from operating cash flow.

In 2010, cash flow from financing activities was in positive territory, at €114.1 million (2009: €-334.7 million). The dividend payout of €59.6 million for 2009 was one item impacting cash. As part of cash management, we use liquidity surpluses at individual Group companies to cover the financing needs at others. Netted via intra-Group financing accounts, these centralized financial settlements reduce the need for external debt. At Wacker Chemie AG, intra-Group financing resulted in a net cash inflow.

Liquidity – defined as the balance of securities in current assets and of cash on hand and demand deposits – rose from €113.6 million at the start of 2010 to €728.3 million at year-end. This item includes €80.8 million from the merger of WACKER POLYSILICON GmbH & Co. KG, Nünchritz. Net financial receivables (balance of liquidity and liabilities to financial institutions) amounted to €112.5 million at year-end.

### Risks and Opportunities

Wacker Chemie AG's business performance is essentially subject to the same risks and opportunities as the WACKER Group. As a rule, Wacker Chemie AG's exposure to risks at subsidiaries and holdings depends on its stake in each entity. Through our subsidiaries and holdings, we could face impairments arising from legal or contractual contingencies (especially financing). These contingencies are explained in the Notes of Wacker Chemie AG.

## Outlook

Essentially, Wacker Chemie AG's prospects for the next two years mirror the business trend at WACKER, which is fully explained in the Group's Outlook section.

We expect sales at Wacker Chemie AG to climb in 2011. Sales in 2012 will rise further if economic conditions develop as favorably as forecast. We anticipate that net income will remain in solidly positive territory in 2011 and 2012.

The annual financial statements of Wacker Chemie AG have been submitted to the publisher of the online German Federal Bulletin and can be viewed on the website of the German register of companies. KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements and provided them with an unqualified audit certificate. The statement of financial position and the statement of income are the main documents published here. Wacker Chemie AG's annual financial statements are published together with those of the WACKER Group. The annual financial statements can be requested from Wacker Chemie AG, Hanns-Seidel-Platz 4, 81737 München, Germany. They can also be accessed on the internet at: [www.wacker.com](http://www.wacker.com)

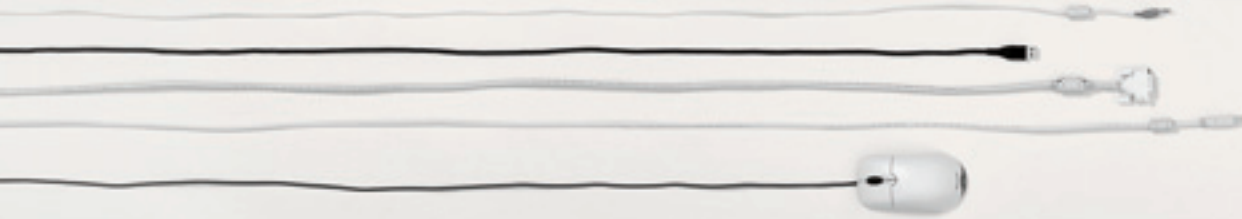
Telecommunications



# 4

## Combined Management Report Outlook

Cables



Hardware



### IT-Related Procurement

Today, almost every WACKER process relies on computer support. The Group spends an annual €55 million or so on IT products and services for office and production-related use.



Peripherals



Software and  
Storage Media



# 4

## Combined Management Report Outlook

Outlook ..... 141



# Outlook

The global economic upturn is very likely to continue in 2011, albeit at a slower pace than last year. We expect to increase our sales in 2011 and generate further growth in 2012. We anticipate further rises in energy and raw-material costs. In our opinion, this trend will be the biggest drag on our operations.

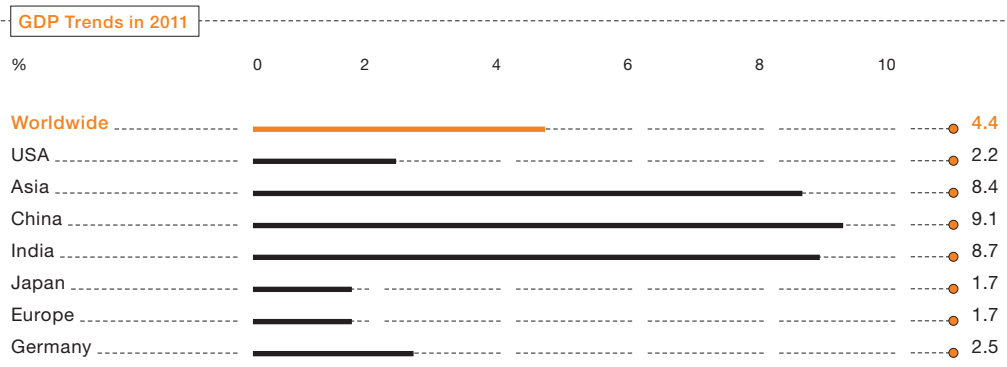
Global Economic Recovery to Continue in 2011

## Underlying Economic Conditions

The world economy remains on a growth path. According to the International Monetary Fund (IMF), global growth will reach 4.4 percent in 2011. For 2012, the IMF predicts 4.5 percent. Emerging markets will expand at a faster pace than advanced economies. Rising gross capital investments are one of the factors behind the uptrend. In contrast, high sovereign-debt levels in certain countries have prompted budget austerity that could hold back economic progress.

### US Economy to Grow More Slowly in 2011

In the USA, economic expansion will probably be slower in 2011 than last year. The Organisation for Economic Co-Operation and Development (OECD) expects growth of 2.2 percent there. High unemployment still dampens consumer spending. According to OECD estimates, GDP will be stronger in 2012, with growth forecast at 3.1 percent.



Sources – worldwide: IMF; USA: OECD; Asia: IMF; China: ADB; India: ADB; Japan: ADB; Europe: OECD; Germany: OECD (Dec. 2010, Jan. 2011)

### Asia Remains a Growth Driver

Asia will again deliver much higher growth rates than all other regions over the next two years. The IMF forecasts 8.4-percent growth there in 2011. The large economies of China and India will continue to expand. The Asian Development Bank (ADB) forecasts 8.7-percent growth for India in 2011. Expansion in China will be slightly below 2010's level due to the impact of more restrictive monetary and financial policies. According to ADB projections, China will achieve 9.1-percent growth. In 2012, the IMF predicts 9.5 percent. Japan's economy will expand by 1.7 percent in 2011 and 1.3 percent in 2012.

### Pace of European Growth Unchanged in 2011

The OECD anticipates European growth of 1.7 percent in 2011, the same level as in the previous year, with 2.0 percent forecast for 2012. The German economy will expand more vigorously. Based on OECD figures, Germany will post 2.5-percent growth in 2011, its economy returning to pre-crisis levels of activity. Thanks to falling unemployment, consumer spending will bolster growth. German GDP is forecast to grow 2.0 percent in 2012.

## General Sector-Specific Conditions

We expect that the positive business trends in WACKER-relevant industries will continue during 2011.

### Semiconductor-Wafer Demand to Increase in 2011

According to Gartner, a market research institute, the semiconductor market will expand in 2011. Worldwide silicon-wafer sales by surface area sold will rise 4.0 percent year on year to around 65,200 million cm<sup>2</sup>. In terms of wafer sizes, 300 mm sales volumes will increase faster than small and mid-sized diameters. Similarly, we anticipate stronger wafer demand, especially in the 300 mm sector. For 2012, Gartner forecasts further sales growth of over 7 percent.

Semiconductor Sector  
Expected to Grow

WACKER's Key Customer Sectors		
Sectors	Trend in 2010	Trend in 2011/2012
Construction	Slight decline	Growth mainly in Asia
Photovoltaic	Strong growth	Further growth, but cyclical
Semiconductor	Strong recovery	Growth for 300 mm wafers, but still highly cyclical market
Energy/electrical	Strong recovery	Growth
Chemical	Strong recovery	Moderate growth

### Photovoltaic Market Continues to Expand

The EPIA (European Photovoltaic Industry Association) predicts further photovoltaic-market growth for the coming years. 2011 will see newly installed, photovoltaic (PV) capacity of 15.4 gigawatts (GW) worldwide, the same high level as last year. In Germany, however, newly installed capacity is expected to fall in 2011, mainly because its feed-in tariffs were cut by

13 percent on January 1, 2011, with further reductions possible during the year. Italy, the second-largest European market, is likewise planning to cut its incentives in 2011, by a total of 18 percent. According to the EPIA, the main growth drivers will be the USA, China and “other” regions. In 2012, newly installed PV capacity is expected to reach 19 GW worldwide. Consequently, polysilicon manufacturers are expanding capacities further. Like WACKER, they have given the go-ahead for various projects that will increase global polysilicon output over the next few years. In 2011, polysilicon production is expected to exceed 200,000 metric tons worldwide. WACKER has already sold its entire annual output for 2011 to diverse customers. The Group has also signed contracts for 2012’s annual production.

**Installation of New PV Capacity in 2011 and 2012**

	Installation of New PV Capacity (MW)		CAGR <sup>1</sup> 11-12
	2011	2012	%
Germany .....	4,000	4,000	-
Italy .....	1,250	1,500	20
Spain .....	750	820	9
Other European countries .....	2,405	3,370	40
USA .....	2,000	3,000	50
Japan .....	1,800	2,000	11
Asia .....	1,500	1,950	30
Other regions .....	1,700	2,450	44
<b>Total</b> .....	<b>15,405</b>	<b>19,090</b>	<b>24</b>

Sources: European Photovoltaic Industry Association (EPIA), Global Market Outlook for Photovoltaics until 2014 (May 2010)  
<sup>1</sup> CAGR: compound annual growth rate

**Slowdown in Chemical-Industry Growth**

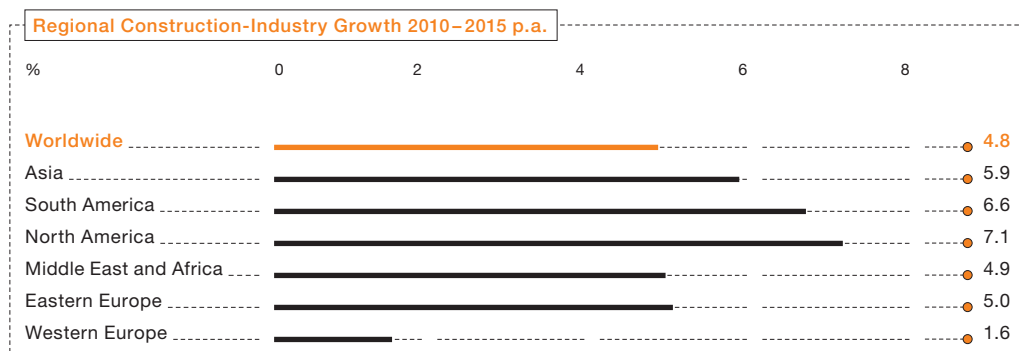
The chemical industry will increase its output and sales in 2011. After 2010’s growth spurt to make up for lost ground, production is expected to rise by 2.5 percent and sales revenue by 4.0 percent in 2011. The German Chemical Industry Association (vci) forecasts a 1.5-percent rise in producer prices. The vci sees particularly good prospects for the chemical sector in the BRIC countries (Brazil, Russia, India and China). Although the export total to these countries is less than 8 percent, it is growing at a dynamic rate. WACKER has been preparing for this development in recent years, expanding its global production and sales network. Over the next two years, we expect Brazil, China and India to deliver particularly robust growth due to further rises in their standard of living.

**Construction Industry Emerging from Trough**

According to Global Insight, a market research institute, the construction industry bottomed out in 2010 and will slowly start to expand again in 2011. Growth is expected to continue in 2012, driven mainly by Asia and by the revival of America’s construction market. Western Europe’s performance lags well behind. WACKER believes it is well positioned for the years ahead, thanks to its construction-sector product portfolio. By 2025, two-thirds of the world’s population will be living in megacities, creating fresh challenges for how people build and live, and for the infrastructure needed. WACKER has the right

**Construction Industry  
About to Rebound**

products and solutions to benefit from the drive to cut CO<sub>2</sub> emissions and from the resulting demand for energy-efficient building techniques. In particular, we see good growth prospects for thermal insulation systems.



Source: Global Insight (September 2010)

### Further Expansion in Electrical and Electronics Sectors

The electrical and electronics sectors will continue to grow worldwide in 2011. According to the German Electrical and Electronic Manufacturers' Association (ZVEI), market volumes will rise by 6 percent to more than €2.8 trillion. The rate of growth in emerging and developing countries will be greater, at 8 percent. As for advanced economies, growth is expected to reach 4 percent. WACKER SILICONES sees potential for increased product sales in the fields of automotive electronics and power generation.

## Positioning the Group for the Next Two Years

WACKER will adhere to its fundamental growth strategy over the next two years. Prior to the economic crisis, this strategy enabled us to increase sales and earnings continuously. It also proved robust throughout the downturn and was instrumental in helping us emerge from the crisis in good shape. The three levers of our strategy – expansion into emerging markets and regions, substitution of existing products with WACKER products, and innovations – equip us for further growth.

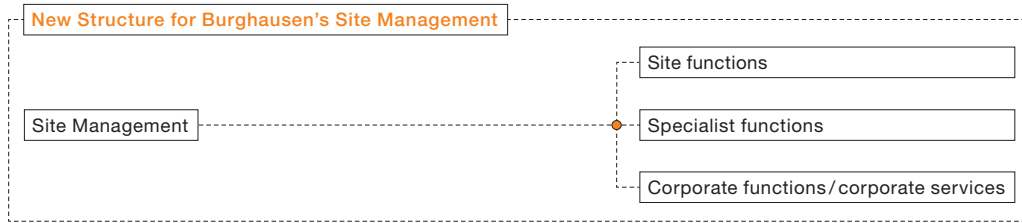
### Making WACKER Even More International

In 2011 and 2012, we will strengthen the Group's international presence. This goal is reflected in our decision to build our first polysilicon manufacturing plant outside Germany. We intend to not only broaden our sales network and technical support, but also make our production operations more internationally diversified. As a result, WACKER aims to seize local opportunities in various key growth markets, and benefit from the lower factor costs offered by manufacturing locally.

One priority is to safeguard our silicon-metal supply following last year's backward integration when we acquired the silicon-metal plant at Holla.

Site Management at Burghausen is WACKER's largest corporate department with over 900 employees. The site has expanded rapidly in recent years and also performs specialist and corporate functions for the entire Group. We therefore took the decision to reorganize Site Management, effective January 1, 2011.

Restructuring of Burghausen Site Management



Another key change was the consolidation of our sustainability activities to make us even more efficient and effective in this important area. Thus, we set up a new Corporate Sustainability unit on January 1, 2011. It handles sustainability management for the entire Group.

New Corporate Sustainability Management Unit Set Up

At Nünchritz, WACKER will have a second, integrated, multi-divisional site alongside Burghausen once the Poly9 expansion stage comes on stream there. Consequently, we created a new Site Management corporate department at Nünchritz, effective January 1, 2011. We currently do not foresee any other major changes in business policies and organizational orientation.

## The WACKER Group's Prospects

We expect that the world economy will expand in 2011, though not as dynamically or as rapidly as in 2010. The BRIC countries and other emerging markets will be the main growth drivers.

### WACKER Investing More

WACKER's record 2010 earnings will support the Group's development in 2011. Despite high investment spending, we posted a net cash inflow of over €400 million last year. Thanks to the continuing healthy state of our finances, we are able to focus on expansion, especially on boosting polysilicon-production capacity. Thus, WACKER's investment activity will grow appreciably over the next two years. In 2011, we will start constructing a polysilicon site in the US State of Tennessee. Our main challenges there are to identify and qualify new suppliers and logistics providers, and to install a local project team.

Investment Continues to Grow

At Nünchritz, the start-up of the Poly9 expansion stage (which will reach full production capacity in 2012) will boost overall annual capacity from 30,500 to over 40,000 metric tons in 2012. As a result, WACKER will be able to benefit from the photovoltaic industry's continuing growth.

In 2011 and 2012, capital spending will mainly focus on polysilicon-production expansion. Expenditures will increase as a result – totaling some €900 million in 2011 and rising to over €1 billion in 2012. Consequently, investments will rise to twice the depreciation amount over the next two years.

### Future Products and Services

WACKER is developing a broad variety of new products and product specifications for diverse markets. In 2011, WACKER POLYMERS will market a polymer blend under the VINNEX® trademark. Mixed with flour or starch, this blend is processed into biodegradable granules. Areas of application include horticulture and crop cultivation. For healthcare, WACKER SILICONES will be supplying more products for medical uses, such as elastomer infusion sets and tubes.

### Research and Development

In 2011 and 2012, we will place greater emphasis on our research and development work for key strategic projects. WACKER intends to spend just under 25 percent of its R&D budget on such projects in 2011. Our overall R&D budget for 2011 is expected to be slightly higher than in 2010.

Our R&D priorities remain the highly promising fields of biotechnology, energy, catalysis, and construction applications. We are devoting particular attention to the issue of energy storage.

### Production

Over the next two years, WACKER will bring additional production capacity on stream. The most important start-up is Nünchritz’s Poly9 expansion stage, with a nominal capacity of 10,000 metric tons. Production there is due to begin in the second half of the year. At our Siltronic Samsung Wafer joint venture in Singapore, further production-capacity expansion is expected.

Production Facility Start-Ups in 2011		
Site	Project	Start-Up
Nünchritz	Poly9 expansion stage	2011
Zhangjiagang	HDK® Facility 2, China	2011
Zhangjiagang	Expansion of silicone sealants	2011
Nanjing	Merchant dispersions	2011
Burghausen	Expansion of 300 mm epitaxy capacity	2011

As announced last year, our Kempten production site will be closed in 2011. We will transfer its production volumes to the existing high-volume facilities at Burghausen and Nünchritz. WACKER will stop making its own acetic acid in 2012 because we can buy in the amounts more economically and with a similar level of reliability.

**Kempten Site Set to Close in 2011**

We are extending our “Wacker Operating System” (wos) program to encompass the entire cost chain. One particular priority of our wos projects is to explore how we can further increase our energy and raw-materials efficiency, because both aspects make up a major portion of our costs.

In China and the USA, we will continue establishing regional planning teams, which will collaborate closely with WACKER's engineering units in Germany. Our objective is to boost engineering expertise internationally, and standardize and optimize our engineering processes across every region.

Maintenance costs will rise in 2011 due to substantial asset additions.

### Procurement and Logistics

The positive economic trend will be reflected in 2011's energy and raw-material prices. We are seeing substantially higher prices for electricity in Germany, mainly as a result of the levy to fund feed-in tariffs for renewables. As for silicon, the terms of our long-term contracts will no longer compensate fully for its sharp rise in price. We will probably have to pay higher prices for sourcing silicon externally. We anticipate modest price rises for gas and petrochemical raw materials. For 2011, our volume requirements for silicon – our most important raw material – have largely been covered. Ethylene, methanol, VAM and gas supplies have likewise been contractually secured. Most of the electricity we use is also covered by contracts.

When negotiating new contracts, we try to shift away from conventional, fixed annual contracts with rigid price structures. Our goal is to negotiate prices that reflect market and cost trends so that we can respond better to volatility on raw-material markets. In 2011, we will finalize not only the energy and electricity procurement process for commissioning the Poly9 expansion stage at Nünchritz, but also the electricity contract for the polysilicon plant to be built in Tennessee. The coal and quartz supplies for our new Holla site in Norway are contractually fixed, and its electricity has also been secured in the long term. We will remain on the lookout for new suppliers and sources of silicon.

One of Technical Procurement's main tasks is to qualify and integrate new US suppliers for constructing the polysilicon site in Tennessee. To handle procurement processes and supplier management even more effectively, we will introduce the new version of SAP-SRM (Supplier Relationship Management) in 2011. Another focus will be to continue setting up category management teams (including networking processes) in China and the USA. We will also push for greater standardization in supplier qualification and assessment, and in procurement approvals.

Turning to Logistics, the main task for 2011 and 2012 is to secure supply and distribution logistics for our polysilicon projects. Additionally, we are preparing logistics masterplans for Nünchritz, Nanjing and Zhangjiagang, to enhance the handling of rising sales volumes. The plans concern incoming and outgoing shipments, warehousing and supply logistics. At Burghausen, we are making good progress with plans for a freight gate that is expected to be ready at the same time as a public handling terminal.

### Sales and Marketing

Over the next two years, we will further intensify our efforts to identify and meet customer and market needs. To be launched in 2011, our new customer relationship management system (or CRM for short) will provide valuable support here. This software solution bundles together customer and market information efficiently. It will make it easier for 1,500 WACKER employees worldwide to record, analyze and report on information and processes that

Introduction of New  
Customer and Market  
Information System  
in 2011

affect customers. There are benefits for customers, too. By standardizing information processes, we will be able to respond faster to their needs and improve our customer service.

We plan to extend our distribution network in Africa in 2011. As yet, it covers only northern regions and South Africa. We aim to widen our limited presence on the African continent and to sell our products in other countries, too.

### Employees

In 2011, our workforce will rise substantially to over 17,000. Personnel costs will increase accordingly. This higher employee growth rate is necessitated by the start-up of Nünchritz's Poly9 expansion stage, by the construction of the polysilicon facility in the US State of Tennessee, and by increased technical spending. In line with market trends, employee levels at WACKER Greater China will continue to grow, too, over the next two years. We are keeping the number of vocational training places continuously high. The need to attract fresh talent to WACKER remains a priority.

Employee Numbers  
Rise Markedly

To prepare for the new challenges facing us over the next few years, we reassessed our HR work in 2010. Effective January 1, 2011, we reorganized Human Resources and reallocated responsibilities. The new organization is based on two main components: first, HR support for business divisions and corporate departments and, second, strategic HR activities. The latter includes personnel marketing and development, compensation systems and new approaches to HR work. These tasks are now consolidated across the entire Group. They also cover Siltronic, which previously handled such issues within its own organization.

### Sustainability

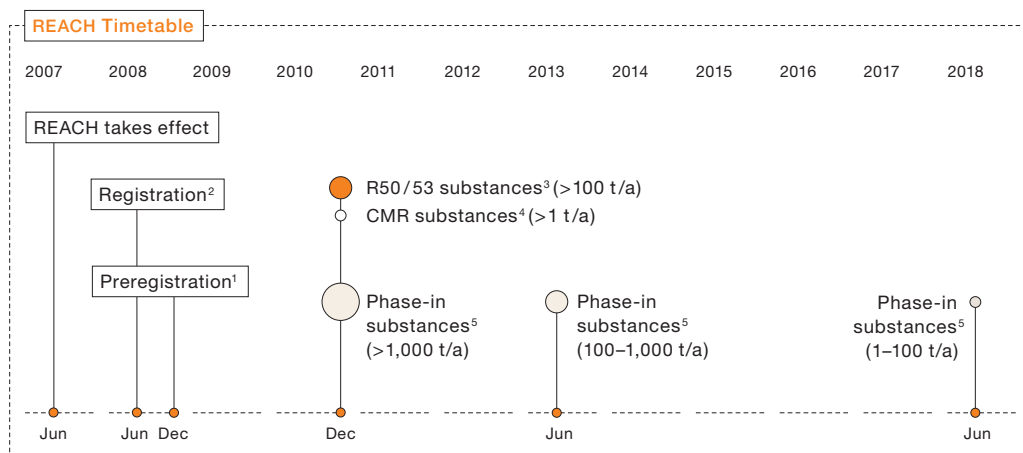
2011 will see WACKER publish its new Sustainability Report for 2009/2010.

Our production sites in Holla (Norway) and Jincheon (South Korea) will be integrated into our Group management system. In order to certify all sites to the OHSAS occupational health and safety standard, we will be identifying requirements for each site during 2011. The aim is then to obtain a groupwide OHSAS certificate by 2016.

Our primary-energy consumption will be higher in 2011 as a result of our silicon-metal plant in Holla, Norway. Furthermore, we expect our electricity needs to increase due to both the Holla plant and the start-up of the Poly9 expansion stage at Nünchritz.

By 2015, we aim to have reduced our accident rate (the number of workplace accidents per million hours worked) to 2.0, roughly halving it compared to 2010. REACH will be a major issue for us during the next eight years. By June 2013, we will have sent the European Chemicals Agency (ECHA) over 60 dossiers on substances manufactured in quantities of between 100 and 1,000 metric tons annually.





<sup>1</sup> Phase-in substances > 1 metric ton/year  
<sup>2</sup> New substances > 1 metric ton/year  
<sup>3</sup> R50/53: "highly toxic to aquatic organisms" and "may have long-term harmful effects in bodies of water"  
<sup>4</sup> CMR: carcinogenic, mutagenic, toxic to reproduction  
<sup>5</sup> Phase-in substances: predominantly old substances on the EINECS inventory (European Inventory of Existing Commercial Chemical Substances on the market before 1981)

WACKER will take part in the German Chemical Industry Association's open day. We will be welcoming the public to our Burghausen, Nünchritz, Freiberg and Cologne sites on September 24, 2011.

WACKER Participates in Chemical-Industry "Open House" on September 24, 2011

**Expected Earnings Performance**

The main assumptions underlying WACKER's plans relate to raw-material and energy costs, to personnel costs and to exchange rates. For 2011, we are planning on an exchange rate of US\$1.40 to €1.

**Group Sales to Rise Further in 2011**

We expect sales revenues in 2011 to exceed €5 billion for the first time, with all five divisions boosting their revenues. Sales volumes will be the main growth driver. Revenues will continue rising in 2012 provided the economic upswing remains robust.

**Outlook for 2011**

€ million	2011	2010
Sales	> 5,000	4,748.4
EBITDA	At the high prior-year level	1,194.5
Investments (incl. financial assets)	Approx. 900	695.1

2011's EBITDA is expected to reach the high prior-year level. At WACKER POLYSILICON and Siltronic, we anticipate EBITDA growth. At our three chemical divisions, EBITDA will be below 2010's level, due to increasing energy and raw-material costs, which we cannot fully recoup through price increases. As in 2010, we expect Group net income to reach a high positive figure.

### Divisional Performance

**WACKER SILICONES** will remain on its growth path in 2011. Rising prosperity in emerging markets – such as Brazil, China and India – is prompting higher per capita consumption of silicone products. Additionally, ever more stringent quality demands are accelerating the process of substituting simple products with value-added products incorporating silicones. Earnings are being held back by the anticipated rise in raw-material costs, especially for methanol and silicon metal. Our Holla silicon-metal plant and our planned price increases will help counter these higher costs, but will not compensate for them entirely.

Silicone-Product Sales Increase, Especially in Emerging Markets

At **WACKER POLYMERS**, the outlook for 2011 is bright. We expect continued sales growth. VAE dispersions will benefit from increasing environmental awareness, and dispersible polymer powders from urbanization and infrastructure projects in emerging markets. **WACKER POLYMERS** will also face higher raw-material costs, the increase depending on oil-price developments. In China, we will continue expanding our Nanjing production operations.

At **WACKER BIOSOLUTIONS**, we expect a slight rise in 2011's sales revenues. We aim to extend the division's market leadership for gumbase and tap into Asia's disproportionately high growth. In food, life sciences and biopharmaceuticals, we see attractive opportunities for our products over the next few years.

**WACKER POLYSILICON** is well positioned for 2011. It has already sold all the production volumes planned for 2011 until 2014. Because Nünchritz's Poly 9 expansion stage is not scheduled to start up until late in the second half of 2011, volume growth will not be as high as in 2010. There will be more significant volume gains in 2012.

Of all our divisions, we expect **WACKER POLYSILICON** to generate the strongest growth. On the earnings side, we will face substantial start-up costs for the new polysilicon site at Nünchritz. In contrast, earnings will benefit from productivity advances and scale effects due to output growth.

Expansion in the semiconductor market will continue, supported by image and video applications that require higher-performance processors and memory chips. Growth is focusing mainly on 300 mm wafers, which will benefit plant utilization at **Siltronic's** 300 mm segment. Demand for small and mid-sized wafer diameters remains stable. We expect to see a slight rise in **Siltronic's** sales in 2011. The earnings improvement should be stronger.

### Expected Liquidity and Financial Performance

WACKER entered 2011 with a strong net cash position. In 2010, we had concluded numerous supply contracts for polysilicon and received many advance payments for them. This year, advance payments are also likely to exceed prepayment outflow from deliveries made to customers. The total amount received in advance payments will rise again. Although our investment spending will go up, we expect a positive net cash flow in 2011, too. Our equity ratio will continue rising.

Positive Net Cash Flow  
Expected in 2011

### Future Dividends

Our policy on dividends is generally oriented toward distributing at least 25 percent of net income to shareholders, assuming the business situation allows this and the committees responsible agree.

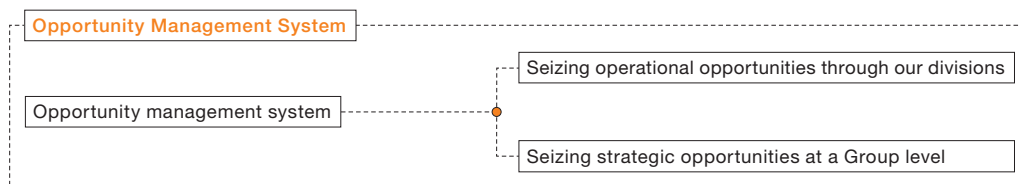
### Financing

In 2011, we will adhere to our conservative financial policy. We already laid the groundwork for medium-term Group financing over the past few years. As of December 31, 2010, WACKER had some €1.2 billion in used and unused credit lines. The terms of two sizable credit lines do not expire until 2013.

## Opportunities Report

### Opportunity Management System

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



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

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

### Overall Economic-Growth Opportunities

WACKER is systematically geared toward not only supplying emerging markets and sales regions with suitable WACKER products, but also reinforcing its presence in established markets, such as Europe and the USA. We consider Brazil, China, India and Russia to be among the markets with the highest growth potential. Here, we see the greatest overall opportunities for us. Thanks to globalization, our products' growth will outstrip world economic growth. We have been especially active in China, successfully enhancing our sales, services and production operations. We also achieved substantially higher sales in Brazil and India in 2010. We intend to generate above-average growth in these markets over the next few years.

Overview of Business Opportunities	
Overall economic opportunities	Growth in Asia and other emerging countries
Sector-specific opportunities	Good product portfolio for megatrends, such as energy, greater prosperity, urbanization and digitization
Strategic opportunities	Expansion of our production capacities Repositioning of WACKER BIOSOLUTIONS New high-quality products via innovations
Performance-related opportunities	Higher plant productivity Faster start-ups for polysilicon facilities Extension of our sales organization and establishment of technical competence centers Region-specific product development via complete supply chain for dispersions and dispersible polymer powders

### Sector-Specific Opportunities

Sector-specific opportunities arise mainly due to our extensive product portfolio, which enables us to respond to global megatrends with great success.

At the forefront is the energy megatrend, where the photovoltaic industry is playing a highly crucial role. Worldwide, many countries are increasingly harnessing renewable energy sources. Since solar power is becoming ever more competitive, demand for solar installations will go up. As a polysilicon producer and cost and quality leader, WACKER POLYSILICON will benefit from this megatrend.

Energy Megatrend Offers Growth Opportunities

Importantly, WACKER's portfolio includes products that conserve energy. WACKER POLYMERS supplies innovative products for the thermal insulation of buildings, for example. The Chinese government has cited energy conservation as one of its key environmental goals for the next few years. Thanks to our products, we can play a significant role here.

Greater prosperity is a feature of Asia's growth markets and of other regions' emerging economies. As a result, there is an increasing need for high-quality products incorporating silicones. By 2014, the silicones market is expected to expand to €11.1 billion – growing at

Market for Silicone Products to Continue Expanding

an average of 6 percent annually. In almost every sector, WACKER SILICONES offers products and solutions that support rising prosperity and promote urbanization, infrastructure expansion and environmental protection.

The digital processing and storage of information is progressing fast. As a manufacturer of silicon wafers, WACKER benefits from this megatrend. The demand for silicon wafers is climbing, fueled by semiconductor products for consumer electronics and by volume growth in Asia. The market share of 300 mm wafers is rising. WACKER will have ample capacity to participate in this growth due to the expansion measures planned in 2011 at Siltronic Samsung Wafer, our Singapore-based joint venture.

### Strategic Opportunities

Production-capacity expansion is WACKER's main source of strategic opportunities. As a result of our decision to build an integrated polysilicon site in the US State of Tennessee, we will benefit from the photovoltaic market's continuing growth. The development of high-quality products opens up further opportunities.

### Performance-Related Opportunities

With our "Wacker Operating System" (WOS), we continuously strive to improve our costs, processes and productivity. Our aim is to boost productivity by 10 percent each year. The overriding objective is to defend WACKER's superior cost and quality position against competitors. Crucially, we are supported by our own engineering teams, who have a wealth of plant expertise.

At our new silicon-metal site in Holla, we see good opportunities for enhancing process efficiency. Additionally, we are investigating whether we can increase the site's production capacity.

WACKER is systematically expanding its sales organization, technical competence centers and WACKER ACADEMY training facilities. With this even stronger market presence, we will be able to enhance our market share.

Our complete supply chain for dispersions and dispersible polymer powders also offers WACKER good perspectives for the future. We are able to tailor products to local requirements by maintaining production sites in Europe, the Americas and Asia. When it comes to VAE dispersions and dispersible polymer powders, WACKER is the only company with global access to a complete supply chain.

### Overall Business Expectations

We expect the world economy to continue expanding through 2011 and 2012. Customer demand, however, is no longer likely to rise as dynamically as in 2010. Growth will be strongest in Asia, especially China and India, and we anticipate higher demand for our products and services in Brazil and the Middle East. Although sustained economic growth boosts our business, it pushes up energy and raw-material prices at the same time. Compensating for these price rises will be one of our main challenges. Group sales for 2011

are forecast to exceed €5 billion for the first time, with every division contributing to this growth. As for EBITDA, it should reach the high prior-year level. If economic conditions develop as positively as predicted, our sales and EBITDA will continue climbing in 2012.

As in previous years, WACKER's investments will focus on polysilicon-capacity expansion. Already high in 2010, investments will grow markedly over the next two years amid strong and sustained polysilicon demand for manufacturing solar cells and modules. The numerous contracts we have concluded with customers for future polysilicon deliveries reflect the robust demand for high-quality material. We have contractually secured most of our planned polysilicon deliveries until 2014, including the output from the plant being built in Tennessee, which is expected to come on stream in late 2013.

Most of Polysilicon  
Output Contractually  
Secured until 2014

This forecast takes account of all events that were known at the time of preparing the annual financial statements and that could influence our operations in 2011 and beyond.



Employee Catering



### Employee-Related Procurement

WACKER's workforce numbers around 16,000 employees, over half of whom are in production. The high-quality protective equipment required by production staff alone costs €6 million every year.



Employee ID Cards



Personal Protective Equipment



Office Supplies



Employee Newspaper



Sports School for Kids at sv WACKER Burghausen sports club



# 5

## Consolidated Financial Statements

# 5

## Consolidated Financial Statements

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# Statement of Income

For the Period January 1 to December 31

Statement of Income				
€ million	Notes	2010	2009	
<b>Sales</b>	01	4,748.4	3,719.3	
Cost of goods sold		-3,402.1	-2,875.8	
<b>Gross profit from sales</b>		1,346.3	843.5	
Selling expenses		-269.6	-246.4	
Research and development expenses		-165.1	-164.0	
General administrative expenses		-113.3	-95.5	
Other operating income	01	214.1	207.8	
Other operating expenses	01	-209.8	-391.3	
<b>Operating result</b>		802.6	154.1	
Income from investments in joint ventures and associates	02	-38.0	-127.4	
Other investment income	02	-	0.1	
<b>EBIT (earnings before interest and taxes)</b>		764.6	26.8	
Interest income	02	7.1	6.3	
Interest expenses	02	-9.1	-2.0	
Other financial result	02	-30.3	-27.8	
<b>Financial result</b>	02	-32.3	-23.5	
<b>Income before taxes</b>		732.3	3.3	
Income taxes	03	-235.3	-77.8	
<b>Net income for the year</b>		497.0	-74.5	
Of which				
Attributable to shareholders of Wacker Chemie AG		490.7	-70.8	
Attributable to non-controlling interests	12	6.3	-3.7	
<b>Earnings per common share (€) (basic/diluted)</b>	19	9.88	-1.43	

# Statement of Comprehensive Income

For the Period January 1 to December 31

Statement of Comprehensive Income		2010		2009	
		Before taxes	Deferred taxes	Before taxes	Deferred taxes
€ million					
<b>Net income for the year</b>			<b>497.0</b>		<b>-74.5</b>
Difference from foreign currency translation adjustments	58.4	-	58.4	-6.8	-6.8
Changes in market values of the securities available for sale	-0.1	-	-0.1	0.2	0.2
Changes in market values of derivative financial instruments (cash flow hedge)	15.6	-4.3	11.3	27.8	-7.8
Of which recognized in profit and loss	9.8	-2.7	7.1	20.7	-5.7
Share of cash flow hedge in associates accounted for using the equity method	-4.1	-	-4.1	3.9	-
Non-controlling interests	2.2	-	2.2	-0.7	-0.7
<b>Income and expenses recognized in equity</b>	<b>72.0</b>	<b>-4.3</b>	<b>67.7</b>	<b>24.4</b>	<b>-7.8</b>
<b>Total income and expenses reported in the fiscal year</b>			<b>564.7</b>		<b>-57.9</b>
Of which					
Attributable to Wacker Chemie AG shareholders			556.2		-53.5
Attributable to non-controlling interests			8.5		-4.4

# Statement of Financial Position

As of December 31

Assets				
€ million	Notes	2010	2009	
Intangible assets	04, 05	33.2	22.0	
Property, plant and equipment	04, 06	3,025.7	2,778.5	
Investment property	07	1.5	1.7	
Investments in associates accounted for using the equity method	08	111.7	140.2	
Financial assets	08	101.4	75.1	
Noncurrent securities	11	210.8	–	
Other assets	10	37.1	81.2	
Tax receivables	10	12.7	12.3	
Deferred tax assets	03	13.5	9.2	
<b>Noncurrent assets</b>		<b>3,547.6</b>	<b>3,120.2</b>	
Inventories	09	530.7	441.2	
Trade receivables	10	596.0	466.8	
Other assets	10	153.2	97.9	
Tax assets	10	87.1	52.2	
Current securities	11	41.4	–	
Cash and cash equivalents	11	545.2	363.6	
<b>Current assets</b>		<b>1,953.6</b>	<b>1,421.7</b>	
		<b>5,501.2</b>	<b>4,541.9</b>	

Equity and Liabilities				
€ million	Notes	2010	2009	
Subscribed capital of Wacker Chemie AG		260.8	260.8	
Capital reserves of Wacker Chemie AG		157.4	157.4	
Treasury shares		-45.1	-45.1	
Retained earnings		2,022.8	1,591.7	
Other equity items		26.2	-39.3	
<b>Equity attributable to Wacker Chemie AG shareholders</b>		<b>2,422.1</b>	<b>1,925.5</b>	
Non-controlling interests		24.7	16.9	
<b>Equity</b>	12	<b>2,446.8</b>	<b>1,942.4</b>	
Provisions for pensions	13	475.4	445.1	
Other provisions	14	227.6	234.5	
Tax provisions	14	42.8	47.4	
Deferred tax liabilities	03	36.0	13.6	
Financial liabilities	15	407.1	363.8	
Other liabilities	16	873.0	763.0	
<b>Noncurrent liabilities</b>		<b>2,061.9</b>	<b>1,867.4</b>	
Other provisions	14	85.2	51.8	
Tax provisions	14	62.2	89.0	
Tax liabilities	16	16.6	15.7	
Financial liabilities	15	126.3	75.9	
Trade payables	16	335.2	217.9	
Other liabilities	16	367.0	281.8	
<b>Current liabilities</b>		<b>992.5</b>	<b>732.1</b>	
<b>Liabilities</b>		<b>3,054.4</b>	<b>2,599.5</b>	
		<b>5,501.2</b>	<b>4,541.9</b>	

# Statement of Cash Flows

For the Period January 1 to December 31

Statement of Cash Flows	Notes	2010	2009
€ million			
Net income for the year		497.0	-74.5
Write-downs and impairments/write-ups of noncurrent assets		429.9	579.9
Changes in provisions		58.8	158.4
Changes in deferred taxes		15.0	-23.7
Other non-cash expenses and income		-58.7	-17.7
Result from disposal of noncurrent assets		-13.5	1.7
Result from equity accounting and joint venture dividends		38.8	87.6
Changes in inventories		-46.7	55.9
Changes in trade receivables		-78.6	1.4
Changes in other assets		-36.2	45.1
Changes in liabilities		132.1	-83.5
Changes in advance payments made and received		165.2	36.9
<b>Cash flow from operating activities (gross cash flow)</b>	21	<b>1,103.1</b>	<b>767.5</b>
Investment in intangible assets, property, plant and equipment, and investment property		-617.3	-770.5
Investment in financial assets		-1.4	-32.7
Payments for loans to associates accounted for using the equity method		-11.7	-
Proceeds from the disposal of intangible assets, property, plant and equipment		4.7	2.7
Proceeds from the disposal of associates accounted for using the equity method		25.4	0.1
Investments in acquisitions		-81.2	-
<b>Cash flow from noncurrent investment activities before securities</b>		<b>-681.5</b>	<b>-800.4</b>
Acquisition of securities		-252.2	-
Disposal of securities		-	101.1
<b>Cash flow from investment activities</b>	21	<b>-933.7</b>	<b>-699.3</b>
Dividends paid		-59.6	-89.4
Capital contributions from non-controlling interests		-	11.3
Dividends paid to non-controlling interests		-0.7	-0.7
Bank loans raised		303.7	232.1
Bank loans repaid		-230.5	-16.4
Other financial liabilities incurred		0.9	0.8
Other financial liabilities repaid		-10.1	-45.2
<b>Cash flow from financing activities</b>	21	<b>3.7</b>	<b>92.5</b>
Changes due to exchange-rate fluctuations		8.5	-1.3
<b>Changes in cash and cash equivalents</b>	11	<b>181.6</b>	<b>159.4</b>
At the beginning of the year		363.6	204.2
At the end of the year		545.2	363.6
<b>Additional information</b>			
Cash flow from operating activities (gross cash flow)		1,103.1	767.5
Cash flow from noncurrent investment activities before securities		-681.5	-800.4
<b>Net cash flow</b>		<b>421.6</b>	<b>-32.9</b>
<b>Additional information on payment transactions included in the cash flow from operating activities</b>			
Taxes paid		-286.1	-74.0
Interest paid		-22.9	-14.0
Interest received		7.1	6.3
Dividends received		0.8	1.2

# Statement of Changes in Equity

For the Period January 1 to December 31

Statement of Changes in Equity								
€ million	Sub-scribed capital	Capital reserves	Treasury shares	Retained earnings	Other equity items	Total	Non-controlling interests	Total
<b>Jan. 1, 2009</b>	260.8	157.4	-45.1	1,751.9	-56.6	2,068.4	14.4	2,082.8
Net result for the year	-	-	-	-70.8	-	-70.8	-3.7	-74.5
Dividends paid	-	-	-	-89.4	-	-89.4	-0.7	-90.1
Capital contributions	-	-	-	-	-	-	11.3	11.3
Income and expenses recognized in equity	-	-	-	-	17.3	17.3	-0.7	16.6
Scope of consolidation/Other	-	-	-	-	-	-	-3.7	-3.7
<b>Dec. 31, 2009</b>	260.8	157.4	-45.1	1,591.7	-39.3	1,925.5	16.9	1,942.4
<b>Jan. 1, 2010</b>	260.8	157.4	-45.1	1,591.7	-39.3	1,925.5	16.9	1,942.4
Net income for the year	-	-	-	490.7	-	490.7	6.3	497.0
Dividends paid	-	-	-	-59.6	-	-59.6	-0.7	-60.3
Income and expenses recognized in equity	-	-	-	-	65.5	65.5	2.2	67.7
<b>Dec. 31, 2010</b>	260.8	157.4	-45.1	2,022.8	26.2	2,422.1	24.7	2,446.8

# Reconciliation of Other Equity Items

For the Period January 1 to December 31

Reconciliation of Other Equity Items				
€ million	Changes in market values of securities available for sale	Difference from foreign currency translation adjustments	Changes in market values of derivative financial instruments (cash flow hedge)	Total (excluding non-controlling interests)
<b>Jan. 1, 2009</b>	0.4	-44.1	-12.9	-56.6
Additions	0.2	-	11.1	11.3
Disposals	-	-	-2.2	-2.2
Reclassification in the statement of income	-	-	15.0	15.0
Changes in exchange rates	-	-6.8	-	-6.8
<b>Dec. 31, 2009</b>	0.6	-50.9	11.0	-39.3
<b>Jan. 1, 2010</b>	0.6	-50.9	11.0	-39.3
Additions	-	-	5.3	5.3
Disposals	-0.1	-	-5.2	-5.3
Reclassification in the statement of income	-	-	7.1	7.1
Changes in exchange rates	-	58.4	-	58.4
<b>Dec. 31, 2010</b>	0.5	7.5	18.2	26.2

# Segment Information by Division

For the Period January 1 to December 31

2010								
€ million	Silicones	Polymers	Bio-solutions	Polysilicon	Siltronic	Other	Consolidation	Group
External sales	1,563.3	788.9	138.0	1,177.5	1,018.7	62.0	-	4,748.4
Internal sales	17.2	21.1	4.4	191.2	6.1	95.1	-335.1	-
<b>Total sales</b>	<b>1,580.5</b>	<b>810.0</b>	<b>142.4</b>	<b>1,368.7</b>	<b>1,024.8</b>	<b>157.1</b>	<b>-335.1</b>	<b>4,748.4</b>
<b>EBIT</b>	<b>150.0</b>	<b>82.2</b>	<b>16.6</b>	<b>586.7</b>	<b>-3.5</b>	<b>-65.5</b>	<b>-1.9</b>	<b>764.6</b>
Write-downs and impairments/ write-ups of noncurrent assets	79.9	40.4	8.4	146.7	91.2	63.3	-	429.9
<b>EBITDA</b>	<b>229.9</b>	<b>122.6</b>	<b>25.0</b>	<b>733.4</b>	<b>87.7</b>	<b>-2.2</b>	<b>-1.9</b>	<b>1,194.5</b>
EBIT includes:								
Income from investments in joint ventures and associates	-14.1	-	-	-	-24.0	0.1	-	-38.0
Impairment losses	-7.5	-3.5	-1.4	-	-0.3	-	-	-12.7
Additions to property, plant and equipment <sup>1</sup>	92.1	13.1	6.5	309.9	63.8	115.4	-	600.8
Additions to financial assets <sup>2</sup>	0.8	-	-	-	11.7	0.6	-	13.1
<b>Asset additions</b>	<b>92.9</b>	<b>13.1</b>	<b>6.5</b>	<b>309.9</b>	<b>75.5</b>	<b>116.0</b>	<b>-</b>	<b>613.9</b>
<b>Acquisitions</b>	<b>81.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81.2</b>
Assets (Dec. 31)	1,084.7	413.1	91.8	1,476.6	1,237.2	1,542.0	-344.2	5,501.2
Liabilities (Dec. 31)	524.5	172.9	36.9	1,391.0	293.9	976.1	-340.9	3,054.4
<b>Net assets (Dec. 31)</b>	<b>560.2</b>	<b>240.2</b>	<b>54.9</b>	<b>85.6</b>	<b>943.3</b>	<b>565.9</b>	<b>-3.3</b>	<b>2,446.8</b>
Investments in joint ventures and associates included in net assets (Dec. 31)	42.7	-	-	-	69.0	-	-	111.7
Research and development expenses	-25.3	-14.0	-3.5	-12.8	-72.3	-39.3	2.1	-165.1
Employees (Dec. 31)	3,892	1,377	363	1,763	5,025	3,894	-	16,314
Employees (average)	3,737	1,369	354	1,715	5,024	3,834	-	16,033

<sup>1</sup> Intangible assets; property, plant and equipment; investment property

<sup>2</sup> Investments in joint ventures and associates, financial assets

The segment information by division is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, see Note 22.



2009								
€ million	Silicones	Polymers	Bio-solutions	Polysilicon	Siltronic	Other	Consolidation	Group
External sales	1,219.2	732.7	100.5	968.1	632.6	66.2	-	3,719.3
Internal sales	19.6	11.1	4.4	153.1	4.9	114.6	-307.7	-
<b>Total sales</b>	<b>1,238.8</b>	<b>743.8</b>	<b>104.9</b>	<b>1,121.2</b>	<b>637.5</b>	<b>180.8</b>	<b>-307.7</b>	<b>3,719.3</b>
<b>EBIT</b>	<b>33.5</b>	<b>77.8</b>	<b>4.7</b>	<b>414.1</b>	<b>-414.7</b>	<b>-89.9</b>	<b>1.3</b>	<b>26.8</b>
Write-downs and impairments/ write-ups of noncurrent assets	124.4	39.4	5.2	106.7	252.3	51.9	-	579.9
<b>EBITDA</b>	<b>157.9</b>	<b>117.2</b>	<b>9.9</b>	<b>520.8</b>	<b>-162.4</b>	<b>-38.0</b>	<b>1.3</b>	<b>606.7</b>
EBIT includes:								
Income from investments in joint ventures and associates	-17.8	-	-	-74.8	-36.7	1.9	-	-127.4
Impairment losses	-36.8	-4.3	-0.2	-0.1	-139.2	-1.5	-	-182.1
Additions to property, plant and equipment <sup>1</sup>	70.1	40.0	12.7	400.1	73.0	111.5	-	707.4
Additions to financial assets <sup>2</sup>	32.1	-	-	-	-	0.6	-	32.7
<b>Asset additions</b>	<b>102.2</b>	<b>40.0</b>	<b>12.7</b>	<b>400.1</b>	<b>73.0</b>	<b>112.1</b>	<b>-</b>	<b>740.1</b>
<b>Acquisitions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Assets (Dec. 31)	907.8	400.7	86.4	1,290.0	1,114.1	1,023.7	-280.8	4,541.9
Liabilities (Dec. 31)	397.4	125.9	29.4	1,140.9	269.8	893.9	-257.8	2,599.5
<b>Net assets (Dec. 31)</b>	<b>510.4</b>	<b>274.8</b>	<b>57.0</b>	<b>149.1</b>	<b>844.3</b>	<b>129.8</b>	<b>-23.0</b>	<b>1,942.4</b>
Investments in joint ventures and associates included in net assets (Dec. 31)	56.6	-	-	-	83.6	-	-	140.2
Research and development expenses	-26.9	-14.2	-4.4	-11.3	-62.9	-44.3	-	-164.0
Employees (Dec. 31)	3,873	1,362	344	1,600	5,096	3,343	-	15,618
Employees (average)	3,869	1,454	302	1,484	5,238	3,372	-	15,719

<sup>1</sup> Intangible assets; property, plant and equipment; investment property

<sup>2</sup> Investments in joint ventures and associates, financial assets

The segment information by division is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, see Note 22.

# Segment Information by Region

For the Period January 1 to December 31

2010							
€ million	Germany	Rest of Europe	The Americas	Asia	Other regions	Consolidation	Group
External sales by customer headquarters	887.3	1,175.4	818.2	1,717.4	150.1	-	4,748.4
External sales by Group company headquarters	4,150.9	74.3	779.4	684.1	6.3	-946.6	4,748.4
Additions to property, plant and equipment <sup>1</sup>	505.5	1.4	23.1	70.6	0.2	-	600.8
Additions to financial assets <sup>2</sup>	1.4	11.7	-	-	-	-	13.1
<b>Asset additions</b>	<b>506.9</b>	<b>13.1</b>	<b>23.1</b>	<b>70.6</b>	<b>0.2</b>	<b>-</b>	<b>613.9</b>
<b>Acquisitions</b>	<b>-</b>	<b>66.5</b>	<b>-</b>	<b>14.7</b>	<b>-</b>	<b>-</b>	<b>81.2</b>
Assets (Dec. 31)	5,135.3	799.3	433.3	653.8	5.9	-1,526.4	5,501.2
Liabilities (Dec. 31)	2,937.0	174.4	152.8	492.8	3.9	-706.5	3,054.4
<b>Net assets (Dec. 31)</b>	<b>2,198.3</b>	<b>624.9</b>	<b>280.5</b>	<b>161.0</b>	<b>2.0</b>	<b>-819.9</b>	<b>2,446.8</b>
Noncurrent assets <sup>3</sup>	2,699.4	285.7	146.7	297.9	3.7	-130.8	3,302.6
Research and development expenses	-144.8	-	-12.6	-13.7	-	6.0	-165.1
Employees (Dec. 31)	12,235	321	1,689	2,025	44	-	16,314

2009							
€ million	Germany	Rest of Europe	The Americas	Asia	Other regions	Consolidation	Group
External sales by customer headquarters	774.6	944.1	636.3	1,252.9	111.4	-	3,719.3
External sales by Group company headquarters	3,272.0	23.5	599.2	491.4	3.5	-670.3	3,719.3
Additions to property, plant and equipment <sup>1</sup>	606.1	0.1	36.8	62.8	1.6	-	707.4
Additions to financial assets <sup>2</sup>	32.7	-	-	-	-	-	32.7
<b>Asset additions</b>	<b>638.8</b>	<b>0.1</b>	<b>36.8</b>	<b>62.8</b>	<b>1.6</b>	<b>-</b>	<b>740.1</b>
<b>Acquisitions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Assets (Dec. 31)	4,381.5	741.9	386.5	454.8	5.0	-1,427.8	4,541.9
Liabilities (Dec. 31)	2,558.3	70.8	135.3	341.5	3.1	-509.5	2,599.5
<b>Net assets (Dec. 31)</b>	<b>1,823.2</b>	<b>671.1</b>	<b>251.2</b>	<b>113.3</b>	<b>1.9</b>	<b>-918.3</b>	<b>1,942.4</b>
Noncurrent assets <sup>3</sup>	2,632.9	214.1	141.8	220.8	3.7	-106.5	3,106.8
Research and development expenses	-146.8	-	-13.1	-9.8	-	5.7	-164.0
Employees (Dec. 31)	11,925	172	1,635	1,849	37	-	15,618

<sup>1</sup> Intangible assets; property, plant and equipment; investment property

<sup>2</sup> Investments in joint ventures and associates, financial assets

<sup>3</sup> Noncurrent assets as per IFRS8 (excluding financial instruments, deferred tax assets and benefits after termination of the employment relationship)

The segment information by region is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, see Note 22.

# Notes

## Accounting Principles and Methods

The WACKER Group (WACKER) is a globally active chemical group with divisions operating in the following fields: 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. For further details, refer to page 86 onward

The Group's parent company, Wacker Chemie AG, is a listed company with headquarters in Munich, Germany. Its address is Wacker Chemie AG, Hanns-Seidel-Platz 4, 81737 München, Germany.

Wacker Chemie AG is registered under the number HRB 159705 at the Munich District Court. 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. The consolidated financial statements and the combined management report for the WACKER Group and Wacker Chemie AG can also be viewed on the WACKER website. [www.wacker.com](http://www.wacker.com)

The declaration concerning the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) has been submitted and made accessible to the shareholders on WACKER's website. [www.wacker.com](http://www.wacker.com)

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 315a (1) of the German Commercial Code (HGB). All of the IFRS published by the International Accounting Standards Board (IASB) and valid for the fiscal year in question were adopted by the European Commission for application in the EU. The consolidated financial statements are, therefore, in compliance with the IFRS. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are applicable for the current fiscal year are likewise 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 fulfill 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.

The Executive Board of Wacker Chemie AG authorized the consolidated financial statements on February 21, 2011. They will be submitted to the Supervisory Board for its meeting on March 10, 2011.

## New Accounting Standards

### Accounting Standards Applied for the First Time in 2010

Standard/ Interpretation		Mandatory from	Endorsed by EU	Substantial Changes and Impact on WACKER
Revised IFRS 1	First-Time Adoption of the International Financial Reporting Standards	Jan. 1, 2010	Nov. 25, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRS 1	Additional Exemptions for First-Time Adopters	Jan. 1, 2010	June 23, 2010	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRS 2	Share-Based Payment: Group Cash-Settled Share-Based Payment Transactions in the Statement of Financial Position	Jan. 1, 2010	March 23, 2010	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
IFRS 3	Business Combinations	July 1, 2009	June 3, 2009	If less than 100 percent of the shares are acquired, the purchaser had a new option either to recognize the entire amount of goodwill (including the minority stake) or, as was the case to date, only a pro rata amount for the acquired share. Incidental acquisition costs are to be expensed as incurred. The revised standard leads to different results in the case of business combinations, especially when not all the shares in a company are acquired.
Improvements to IFRS (May 2008)	Amendments to IFRS 5	July 1, 2009	Jan. 24, 2009	The changes had no impact on the statement, presentation, and valuation of the figures in the consolidated financial statements of Wacker Chemie AG.
Improvements to IFRS 2009	Annual Improvements Project	Jan. 1, 2010	March 24, 2010	The changes had no impact on the statement, presentation and valuation of the figures in the consolidated financial statements of Wacker Chemie AG.
IAS 27	Consolidated and Separate Financial Statements	July 1, 2009	June 3, 2009	The revised standard defines acquisitions and disposals of shares without loss of control as transactions between shareholders, and states that they be recognized in equity. In the case of sales involving loss of control, the remaining shares are to be reported at fair value. Any differences from the carrying amount are to be reported in the statement of income. Application of the standard had no substantial impact on the statement, presentation and valuation of the figures in the consolidated financial statements.
Amendments to IAS 39	Eligible Hedged Items (Financial Instruments: Recognition and Measurement)	July 1, 2009	Sept. 15, 2009	Application of the standard had no substantial impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IAS 39	Reclassification of Financial Assets: Effective Date and Transition	July 1, 2009	Sept. 9, 2009	Application of the standard had no substantial impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 12	Service Concession Arrangements	April 1, 2009	March 26, 2009	Application of the standard had no substantial impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 15	Agreements for the Construction of Real Estate	Jan. 1, 2010	July 22, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.

Standard/ Interpretation		Mandatory from	Endorsed by EU	Substantial Changes and Impact on WACKER
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 1, 2009	June 4, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 17	Distributions of Non-Cash Assets to Owners	Nov. 1, 2009	Nov. 26, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 18	Transfers of Assets from Customers	Nov. 1, 2009	Nov. 27, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.

### Accounting Standards/Interpretations Not Applied Prematurely

The International Accounting Standards Board (IASB) has published the following standards, interpretations, and changes to existing standards of which the application is not yet mandatory and which Wacker Chemie AG is not applying earlier than required.

### Standards, Interpretations, and Changes to Existing Standards Already Endorsed by the EU

Standard/ Interpretation		Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters	July 1, 2010	June 30, 2010	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IAS 32	Classification of Rights Issues	Feb. 1, 2010	Dec. 23, 2009	Application of the revised standard has no substantial impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010	July 23, 2010	Application of the revised standard has no substantial impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRIC 14	Advance Payments in the Context of Minimum Funding Requirements	Jan. 1, 2011	July 19, 2010	The changes may have an impact on the statement, presentation and valuation of the figures in the consolidated financial statements of Wacker Chemie AG.
IAS 24	Related Party Disclosures	Jan. 1, 2011	July 19, 2010	The revised version clarifies the definition of the term "related party." At the present time, Wacker Chemie AG does not expect this to result in any substantial changes in the representation of the figures in its consolidated financial statements.

## Standards, Interpretations and Changes to Existing Standards Not Yet Endorsed by the EU

Standard/ Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 9	Financial Instruments	Nov. 12, 2009	Jan. 1, 2013	Deferred	In the future, financial assets will be measured either at amortized cost or at fair value, depending on the business model of the company in question. At the moment, Wacker Chemie AG cannot conclusively assess what impacts the first-time application of this standard will have, should it be endorsed by the EU in its current form.
Miscellaneous	Improvements to IFRS 2010	May 6, 2010	July 1, 2010	Expected in Q1 2011	The changes may have an impact on the statement, presentation and valuation of the figures in the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRS 7	Financial Instruments: Disclosures in Notes	Sept. 28, 2010	July 1, 2011	Expected in Q2 2011	Application of the revised standard will have no substantial impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	Dec. 20, 2010	Dec. 1, 2012	Expected in Q3 2011	The amendment contains a partial clarification on the treatment of temporary taxable differences in connection with the adoption of IAS 40's fair value model. Investment property often makes it difficult to assess whether existing differences are recovered as part of continuing use or in the wake of a sale. The amendment therefore generally makes it necessary to presume recovery due to a sale. The adoption will have no substantial impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRS 1	Severe Hyper- Inflation and Removal of Fixed Dates for First-Time Adopters	Dec. 20, 2010	July 1, 2011	Expected in Q3 2011	The amendment replaces the existing references to the date of January 1, 2004 by a reference to the timing of the transition to IFRS. This amendment also includes rules for those cases in which hyperinflation makes it impossible for an entity to comply with all IFRS stipulations. The adoption will have no impact on the consolidated financial statements of Wacker Chemie AG.

### Scope of Consolidation

The consolidated financial statements include the financial statements of Wacker Chemie AG and its subsidiaries. Subsidiaries are defined as companies in which Wacker Chemie AG directly or indirectly holds a voting majority or has, in any other way, the power to govern the financial and business policies of an entity in order to benefit from its activities. In assessing control, we take potential voting rights that presently are exercisable or convertible into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Joint ventures and associated companies are defined as companies in which Wacker Chemie AG exercises significant influence. This normally means that it holds 20–50 percent of the voting rights. These companies are included in the consolidated financial statements using the equity method. If joint ventures and associated companies have their own subsidiaries, these are not included in the table below. Companies in which Wacker Chemie AG has a shareholding of less than 20 percent are shown as other investments under noncurrent financial assets.

Number	Germany	Rest of Europe	The Americas	Asia	Other regions	Total
<b>Fully consolidated subsidiaries (incl. parent company)</b>						
Jan. 1, 2010	15	12	5	20	2	54
Additions	-	1	-	-	-	1
Disposals and mergers	-1	-	-	-4	-	-5
Reclassifications	-	-	-	-	-	-
<b>Dec. 31, 2010</b>	<b>14</b>	<b>13</b>	<b>5</b>	<b>16</b>	<b>2</b>	<b>50</b>
<b>Companies consolidated using the equity method</b>						
Jan. 1, 2010	1	-	1	4	-	6
Disposals and mergers	-	-	-1	-	-	-1
<b>Dec. 31, 2010</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>5</b>
<b>Non-consolidated affiliated companies<sup>1</sup></b>						
Jan. 1, 2010	1	-	-	-	-	1
<b>Dec. 31, 2010</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Total</b>						
Jan. 1, 2010	17	12	6	24	2	61
Additions	-	1	-	-	-	1
Disposals and mergers	-1	-	-1	-4	-	-6
<b>Dec. 31, 2010</b>	<b>16</b>	<b>13</b>	<b>5</b>	<b>20</b>	<b>2</b>	<b>56</b>

<sup>1</sup>Not consolidated on grounds of insignificance (W.E.L.T. Reisebüro GmbH; shareholding: 51 percent; sales in 2010 below €1 million; total assets below €0.5 million)

#### Changes in the Scope of Consolidation

<b>Additions of fully consolidated subsidiaries</b>	
Wacker Chemicals Norway AS, Holla, Norway (founded in 2010)	100%
<b>Disposals/mergers of fully consolidated subsidiaries</b>	
Wacker Silicones Technology (Shanghai) Ltd., China (liquidated as of March 1, 2010)	100%
Wacker Polymer Materials (Shanghai) Ltd., China (merged with Wacker Chemicals China (Holding) Co. Ltd., China, as of September 30, 2010)	100%
Wacker Polymer Systems (Zhangjiagang) Co. Ltd., China (merged with Wacker Chemicals (Zhangjiagang) Silicone Co. Ltd., China, as of September 30, 2010)	100%
Wacker Polysilicon GmbH & Co. KG, Nünchritz, Germany (merged with Wacker Chemie AG as of October 1, 2010)	100%
Wacker Chemicals China Ltd., China (liquidated as of October 29, 2010)	100%
<b>Additions/mergers of companies consolidated using the equity method</b>	
Thin Materials AG, Eichenau, Germany (successive acquisition of shareholding)	35%
<b>Disposals of companies consolidated using the equity method</b>	
Planar Solutions LLC, Adrian, Michigan, USA	50%

The changes in the scope of consolidation had no substantial impact on the Group's earnings, assets or financial position.

### Consolidation Methods

The consolidated financial statements are based on the separate financial statements of Wacker Chemie AG and its consolidated subsidiaries. With one exception, all of the companies have their statement of financial position date on December 31. The company with the divergent reporting date prepares interim financial statements as of December 31 for the purpose of inclusion in the consolidated financial statements.

All of the financial statements included in the consolidated financial statements were audited by independent auditors.

First-time consolidation is carried out in accordance with the purchase method, by setting off the acquisition cost against the Group's share in the equity of the consolidated subsidiaries at the time of their acquisition or first inclusion in the consolidated financial statements. The consolidated subsidiaries' equity is calculated on the basis of all identifiable assets, liabilities and contingencies, while all statement of financial position items are measured at fair value. Any positive difference between the subsidiary's acquisition cost and the pro rata equity ascertained in this way is capitalized as goodwill and subjected to an annual impairment test. Any negative difference is recognized directly as income. The capital consolidation is carried out by setting off the carrying amounts of the investments against the proportional equity of the subsidiaries.

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 statement of financial position 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 cost is increased or reduced annually by the changes in equity corresponding to the proportion of the capital held by WACKER.

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 which affect income, the income tax effect is taken into account and deferred taxes are included.

### Acquisitions and Disposals

Acquired businesses are accounted for using the purchase method, which requires that the assets acquired and liabilities assumed be recorded at their respective fair values applicable on the date WACKER gains control.

The determination of the fair values requires certain estimates and assumptions especially concerning the acquired intangible assets, 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 acquisitions, 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.

#### Disclosures on the Acquisition of Holla Metall on July 1, 2010, as per IFRS 3

Wacker Chemie AG concluded its acquisition of the silicon-metal production site in Holla (near Trondheim), Norway, from the FESIL Group (Norway) on July 1, 2010. This strategic investment secures WACKER's long-term supply of silicon metal and makes it more independent of fluctuating raw-material prices. Holla Metall's production capacity is around 50,000 metric tons of silicon metal per year, which corresponds to about a third of WACKER's current annual needs. The purchase price of €66.5 million was fully paid in cash during Q3 2010. There are no contingent considerations or outstanding purchase-price installments.

Silicon metal is one of WACKER's key raw materials. It is primarily used for producing silicones and hyperpure polysilicon. The silicon-metal market is volatile. This is because there are roughly ten silicon-metal manufacturers worldwide and their plant-utilization levels vary. The Holla site is able to supply a very pure grade of silicon metal that meets WACKER's requirements.

As part of an asset deal effective as of July 1, 2010, WACKER acquired all of FESIL's production facilities in Holla, including the related real estate and working capital. WACKER has taken on the 129 employees at Holla. The purchase price allocation complied with IFRS 3 because the acquisition of the site meets IFRS 3 criteria. First-time consolidation of the transaction took effect July 1, 2010.

The values determined at the time of acquisition and the fair values of the assets acquired and liabilities assumed pursuant to IFRS 3 are as follows:

€ million	Value determined on July 1, 2010	Purchase price allocation (PPA)	Fair value
Other intangible assets	–	10.7	10.7
Land, buildings	3.1	3.1	6.2
Property, plant and equipment	15.9	15.9	31.8
Inventories	13.0	–	13.0
Trade receivables	14.2	–	14.2
Other current financial assets	0.1	–	0.1
Cash and cash equivalents	0.4	–	0.4
<b>Total assets acquired</b>	<b>46.7</b>	<b>29.7</b>	<b>76.4</b>
Provisions for pensions and similar obligations	0.5	–	0.5
Finance lease obligations	2.3	–	2.3
Trade payables	3.5	–	3.5
Other current financial liabilities	2.5	–	2.5
Other provisions and non-financial obligations	1.1	–	1.1
<b>Total obligations assumed</b>	<b>9.9</b>	<b>–</b>	<b>9.9</b>
<b>Total net assets acquired</b>	<b>36.8</b>	<b>29.7</b>	<b>66.5</b>

The hidden reserves, reported as intangible assets in the purchase price allocation, mainly consist of the acquired technological expertise and acquired order backlog from existing supply contracts.

A minor negative difference of €24,000 is retained from the purchase of Holla. This difference has been reported under other operating income. No contingent liabilities or contingent assets have been recognized. Trade receivables were measured at fair value at the time of acquisition. No impairments were applied to the contractual receivables.

Since the time of acquisition, the Holla production site contributed €-1.8 million to the Group's EBITDA. The Holla site posted sales to external third parties of €25.5 million for the period July 1 through December 31, 2010. If the transaction had taken place as of January 1, 2010, consolidated sales would have been around €17 million higher and consolidated EBIT would have increased by about €1.1 million.

In addition, as part of an asset deal, WACKER acquired the South Korean brand Lucky-Silicone and its production facilities, including the related real estate, effective as of December 6, 2010. The inventories and receivables related to this business were also assumed. On the whole, silicone sealants are manufactured and marketed in South Korea under the Lucky-Silicone brand. The purchase price was €14.7 million and was fully paid in cash. At the time of the acquisition, the carrying amount of the acquired assets was €9.2 million, compared to liabilities of €0.3 million. The difference between the carrying amount of the acquired net assets and the purchase price is mainly accounted for by the hidden reserves in the fixed assets (€0.9 million), acquired intangible assets derived from trademark rights and the customer base (€4.5 million), and a small amount of goodwill (€0.4 million). The purchase price allocation was concluded on December 31, 2010. No substantial impact on the Group's sales and earnings resulted from the purchase. Had this transaction taken place as per January 1, 2010, consolidated sales would have been around €20 million higher and EBIT would have been up some €2 million.

The transaction costs attributable to the acquisition totaled €0.3 million and were reported in the statement of income.

In December 2010, WACKER sold its 50-percent stake in the joint venture Planar Solutions LLC, USA, for €25.4 million to its joint venture partner FUJIFILM Electronic Materials. The carrying amount of the equity investment was €6.9 million. Profit from the sale is reported under other operating income. The disposal proceeds of \$34.5 million were paid entirely in cash.

### 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 statement of financial position date, regardless of whether or not they have been hedged. Forward contracts which, 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 there are cash flow hedges, under other equity items.

The financial statements of consolidated companies which 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 statement of financial position date, while income statement amounts are translated using the period's average exchange rates. As the Group's subsidiaries conduct their business along autonomous lines financially, commercially and organizationally, the functional currency is basically identical to the company's local currency. Any currency differences arising from the translation of equity are recognized in the other equity items. Translation differences resulting from divergent exchange rates in the statement of income are likewise included there. If any 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.31,2010	Dec.31,2009	2010	2009
US dollar .....	USD	1.33	1.44	1.33	1.39
Japanese yen .....	JPY	108.46	132.98	116.36	130.14
Singapore dollar .....	SGD	1.71	2.02	1.81	2.02
Chinese renminbi .....	CNY	8.79	9.84	8.98	9.52

### Estimates and Assumptions Used in Preparing the 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 contingencies. These assumptions and estimates comply with the conditions and appraisals prevailing on the statement of financial position 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 the assumptions 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.

The expected useful life and depreciation of intangible assets, property, plant and equipment 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 and from future technical advancements.

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 value of the fair value less cost to sell or the value in use. 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 additional impairments or reversals of impairment losses in the future.

Significant risks inherent in the environmental protection provisions and in provisions stemming from claims for damages and onerous contracts are possible changes in the cost estimates, changes in the likelihood of their utilization, and enhanced statutory provisions concerning the elimination and prevention of environmental damage. [See Note 14](#)

The accounting of pensions and similar obligations is in accordance with actuarial valuations. These valuations are based on statistical and other factors in order to anticipate future events. The factors include the discount rate, the expected return on plan assets, expected salary and pension increases, the mortality rate and rate increases for preventive healthcare. These assumptions could, due to changed market and economic conditions, vary considerably from actual developments, consequently leading to essential changes to pension and similar obligations, as well as the associated future expenses.

[Refer to Note 13](#)

At the end of each reporting period, the Group assesses whether the probability of future tax benefits being realized is sufficient to recognize deferred taxes. 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.

### Accounting Principles

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

The Group's consolidated financial statements are based on the principle of the historical cost of acquisition and production, with the exception of the items reflected at fair value, such as available-for-sale financial assets and derivatives.

Except for the circumstances described in the explanatory notes under changes in valuation methods, the accounting methods correspond to those used for the last consolidated financial statements as of the end of the previous fiscal year. There may be limits to comparability in the case of significant acquisitions of fully consolidated companies. This topic is dealt with in the explanation of the scope of consolidation. Insofar as amounts from the previous year are adjusted, these are explained in the relevant Notes.

**Sales** encompass the counterperformance or claim received for the fair values for the sale of goods and services within the scope of ordinary activities. These are reported without VAT and other taxes incurred in connection with sales and without discounts and price reductions. The sales are deemed to be recognized when the deliveries and services owed have been rendered and the main opportunities and risks of ownership have passed to the purchaser. Sales from services are recognized once services are rendered. 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 using the percentage-of-completion method for recognizing sales of long-term construction contracts.

**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, they encompass overheads including depreciation and inventory write-downs. This item also includes the cost of outward freight.

**Selling expenses** include costs incurred by the sales organization, advertising, market research, and application support on customers' premises. This item also includes commission expenses.

**Research and development expenses** include costs incurred in the development of products and processes. Research costs in the narrower sense are recognized as expenses when they are incurred. They are not capitalized. Development costs are capitalized only when all the prescribed recognition criteria have been met cumulatively, 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. Due to the many interdependencies within the development projects and the uncertainty about which products will ultimately become marketable, not all of the capitalization criteria in IAS 38 are currently satisfied.

**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 hence, in certain circumstances, to other functional areas.

Operating expenses are reported as expenses when the performance is utilized, i.e. when the expense is incurred. Interest income is valued pro rata temporis, taking account of the outstanding loan amount and the effective interest rate to be applied. Dividend income from financial investments is reported when the legal claim to payment arises.

**Intangible assets acquired against payment** are measured at cost and, if their useful lives can be determined, are amortized regularly on a straight-line basis. The useful life is taken to be between four and 15 years unless otherwise indicated, e.g. by the life of a patent. Amortization of intangible assets (apart from goodwill) is allocated to the functional areas that use them. Intangible assets with indefinite useful lives undergo an annual impairment test. At present, no intangible assets with indefinite useful lives have been capitalized.

**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 recognized at cost and amortized regularly using the straight-line method. Their stated useful lives correspond to those of the intangible assets acquired against payment. If development costs are capitalized, they consist of the costs directly attributable to the development process. Capitalized development costs are amortized regularly over the useful life of the corresponding production facilities as from the start of production.

**Goodwill** is not amortized regularly. 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. The impairments of goodwill are presented under other operating expenses.

**Property, plant and equipment** is capitalized at cost and depreciated regularly using the straight-line method over its expected economic useful life. 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. There was no revaluation of property, plant and equipment on the basis of the provisions in IAS 16. Day-to-day maintenance and repair costs are expensed as incurred. Costs for replacing parts or for major overhauls are capitalized if items of property, plant and equipment embody future economic benefits that are likely to flow 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 that are not offset by future expenses are recognized as income. Until the funds have been received, grants are recognized as separate assets. For grants involving a legal claim, the claim to the grant is posted in profit or loss if the company has, on the reporting date, fulfilled the material requirements for provision of such a grant and has, by the closing date, submitted the necessary application form or is highly likely to do so by this date.

**Financing costs** which were incurred in connection with particular, qualified assets and can be attributed directly to them are recognized as part of acquisition or production costs until the assets are used for the first time. In addition, financing costs are not reported as part of acquisition or production costs. WACKER accounts for financing costs as per IAS 23 (Borrowing Costs) if they concern major, long-term investments in production plants.

The cost of **internally generated assets** includes all costs directly attributable to the production process, as well as appropriate portions of the production-related overheads.

If **property, plant and equipment is shut down, sold or abandoned**, the gain or loss from the difference between the sale proceeds and the residual carrying amount is recognized under other operating income or expenses. The acquisition or production costs, and the accumulated depreciation, are derecognized.

Property, plant and equipment also includes assets relating to leases. Items of property, plant and equipment hired 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 regularly using the straight-line method over the expected useful life or the shorter contractual term. 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.

The **depreciation** of property, plant and equipment is generally carried out in accordance with the following useful lives:

	Useful life in years
Production buildings .....	20 to 40
Other buildings .....	10 to 30
Plant and machinery .....	6 to 12
Motor vehicles .....	4 to 6
Factory and office equipment .....	6 to 10

If, having been measured in accordance with the above principles, the carrying amounts of intangible assets or items of property, plant and equipment that were amortized or depreciated are higher than their recoverable amounts as of the reporting date, corresponding **impairment losses** are recognized as an expense.

The impairment is tested when relevant events or changes in circumstances indicate that it might no longer be possible to realize the net carrying amount. At the end of every reporting period, WACKER checks whether there are triggering events for recognizing (or reversing) impairments. An impairment loss is recognized, corresponding to the net carrying amount that exceeds the recoverable amount. The recoverable amount is the higher amount of the fair value less cost to sell, and 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 assessing this value, risk-adjusted pre-tax interest rates are used in a segment-specific manner. For the Group, an average rate of 12 percent (2009: 12 percent) was applied. In order to determine the cash flow, assets are, if required, combined at the lowest level for which cash flows can be identified separately (cash-generating units). If the impairment loss no longer exists or has decreased, impairment losses are fully or partially reversed. 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** is measured in accordance with the acquisition cost model. Investment property consists of land and buildings that are held to earn rental income or for capital appreciation, rather than for use in captive production, supply of goods or services, for administrative purposes or for sale in the normal course of business. The fair value of this property is regularly measured through external property valuations.

**Leasing transactions** are classified as either a finance lease or an operating lease. Assets used within the scope of an operating lease are not capitalized. Leasing payments to be made are recognized in profit or loss in that period in which they are due. A finance lease is a leasing arrangement where essentially all of the benefits and risks incident to the ownership of the property are transferred. Assets used within the scope of 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, then the contractual components are separated, and recognized and measured according to the respective rules.

**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 by disposal or if the market value falls below the

acquisition cost. Loans are valued at amortized cost, except for non-interest-bearing and low-interest loans, which are measured 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. In the process, pro rata net results are posted to the consolidated income statement and increase or decrease the carrying amount. Any changes in equity recognized directly in the investee's equity are also recognized directly under 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, the carrying amount of the investment is written off in full in the consolidated statement of financial position. Further losses are taken into account only if there are noncurrent unsecured receivables against the associated company or the Group has entered into additional obligations or made payments for the associated company. The carrying amount is not increased until the loss carryforward has been set off and the equity is positive again.

A **financial instrument** is a contract that gives rise to a financial asset at one company and a financial liability or equity instrument at another company. Financial instruments are recognized in the consolidated financial statements at the time that WACKER becomes a contracting party to the financial instrument.

In the case of purchase or sale on usual market terms (purchase or sale within the framework of a contract of which the terms require delivery of the asset within the timeframe generally established by regulations or conventions prevailing on the market in question), the settlement date is relevant to the initial recognition or derecognition. This is the date on which the asset is delivered to or by WACKER. In general, financial assets and financial liabilities are not offset. A net amount is presented in the statement of financial position when, and only when, the entity currently has a right to set off 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. In the process, 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 and 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 immediately available, they must be calculated using standard valuation models on the basis of current market parameters.

The **fair value** of financial instruments is generally equal to the amount the Group would receive or pay if it exchanged or settled the financial instruments on the statement of financial position date. If available, quoted market prices are used for financial instruments. Otherwise, fair values are calculated based on the market conditions prevailing on said reporting date – interest rates, exchange rates, commodity prices – using average exchange rates. In doing so, fair values are calculated using option pricing models for currency and interest rate options or the discounted cash flow method for interest rate swaps. The fair values of some derivatives are based on external valuations by our financial partners.



**Financial assets** at WACKER encompass, in particular, cash and cash equivalents, trade receivables and loans and receivables issued, held-to-maturity financial investments, and original and derivative financial assets held for trading. WACKER makes no use of its optional right to value financial assets at fair value through profit and loss when they are reported for the first time.

**Financial liabilities** must be regularly settled in cash or another financial asset. This includes, in particular, the Group's own bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes (Schuldscheine) and derivative financial liabilities. WACKER does not use the option to categorize financial liabilities at fair value through profit or loss when they are initially recognized.

The manner in which financial assets and liabilities are subsequently valued depends on whether a financial instrument is held for trading purposes or until it matures, whether it is available for sale or whether it concerns loans and receivables granted by the company.

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

If it is both intended and economically to be expected with sufficient certainty that a **financial instrument will be held to maturity**, the instrument in question is valued 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 instruments that are not quoted in an active market. They are accounted for at amortized cost using the effective interest method. This category comprises trade receivables, the financial receivables and loans included in other financial assets, the additional financial receivables and loans recognized in other receivables, and cash and cash equivalents.

The 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 this 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 values of available-for-sale financial assets fall below the acquisition costs or there are objective signs that an asset's value has been impaired, the cumulative loss recorded 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 recorded in equity are included in the statement of income.

**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 recorded as of the trading date. Derivative financial instruments are always measured at fair value, irrespective of the purpose or intention for which they were concluded. Positive market values are recognized as a receivable and negative current values as a liability. Changes in the market values of financial instruments used to limit the risk of lower future cash inflows or higher cash outflows (cash flow hedges) are recognized under other equity items while taking account of any related tax effects when their efficiency is adequate and documented as such. The profit contribution of the hedging instrument is not released to the statement of income until the hedged item is realized. If such a derivative is sold or the hedging relationship is discontinued, the change in its value continues to be recognized in other equity until the underlying transaction occurs. Steps taken to hedge the risk of changes in the market values of recognized assets or liabilities lead to fair value hedges. Changes in fair values are recorded for both the hedged underlying transaction and the derivative financial instruments used for hedging, and these changes are presented in the statement of income under other financial result. 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 purposes are not accounted for as derivatives, but treated as pending transactions.

Changes in the values of forward exchange contracts and currency options are reflected in other operating income and expenses, while changes in the value of interest rate swaps and interest rate options are recognized in net interest income. Changes in fair values of commodity futures and commodity options are recognized in cost of goods sold. The hedging of planned transactions in foreign currencies is included in other operating income and expenses. The expenses and income are not set off.

**Inventories** are measured at cost using the average cost method. Lower net disposal values or realizable prices as of the statement of financial position date are taken into account by means of write-downs to their fair value less selling costs. The cost of goods sold includes directly attributable costs, appropriate parts of the indirect materials and indirect labor costs, and straight-line depreciation. Due to the relatively short-term production processes, financing costs are not included as part of acquisition or production costs. The overhead cost markups are determined on the basis of average capacity utilization. Write-downs are recognized for inventory risks resulting from extended periods of storage and reduced usability and to reflect other reductions in the recoverable amount. In the statement of income, the cost of unused production capacity is also included in the cost of goods sold. For production-related reasons, unfinished and finished goods are combined and reported under products.

**Trade receivables and other assets including tax receivables**, with the exception of financial derivatives, are basically stated at amortized cost. Risks are taken into account through appropriate depreciation posted as valuation allowances. Allowances for uninsured receivables – or for the deductible in the case of insured receivables – are made whenever legal action is taken. If an incoming receivable is no longer expected, even though an appeal has been lodged, the gross receivable is derecognized and any valuation allowances made are reversed. Noncurrent receivables which are non-interest-bearing or low-interest-bearing are discounted. WACKER is not a contractor for long-term production orders.

**Receivables from finance lease agreements** where WACKER acts as the lessor are reported under other assets. In the process, the gross value of the outstanding lease payments, less the still unrealized borrowed amounts, is capitalized as a receivable. The lease installments received are apportioned into the respective interest amount and the repayment of the outstanding receivable in such a way that the interest amount reflects the constant interest-bearing of the still outstanding receivable. The interest amount is reported in the statement of income under other financial result.

**Cash and cash equivalents** encompass cash in hand, demand deposits, and financial assets that can be converted into cash at any time and are only subject to a slight fluctuation in value. They have a residual period of up to three months upon their addition and are measured at amortized cost, which is equivalent to their nominal amount.

**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. The deferred taxes are determined on the basis of the tax rates which, under current law, are applicable or anticipated as of the time of realization in the individual countries. 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.

**Pension provisions** are set up 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 statement of financial position date, but also of estimated increases in salaries and pensions. The calculation is based on actuarial valuations, taking account of biometric calculation principles. Except for the effects from adjusted likely mortality rates, actuarial gains and losses are recognized as income or expenses only once they move outside a margin of 10 percent of the higher amount from the present value and the defined benefit obligation. If this happens, the excess amounts are distributed over the average future residual working lives of the employees. Actuarial gains and losses arising from the changed or adjusted mortality tables are posted immediately to the statement of income as a reduction or increase in the provision for pensions. The expense incurred in funding the pension provisions (service costs) is allocated to the costs of the functional areas concerned. The interest costs are reported under other financial result. If assets are invested externally (plan assets) to finance pension obligations, the fair values of these assets are set off against the present value of the obligations. The expected income from plan assets is likewise reported under other financial result.

In the statement of financial position, **provisions** are established for current legal or factual obligations if an outflow of resources to cover these obligations is probable and its amount can be estimated reliably. The assigned value of the provisions is based on the amounts that will be required to cover future payment obligations, identifiable risks and Group contingencies. As a rule, all those cost components which are also capitalized under inventories are included in the measurement of other provisions. Noncurrent provisions are measured at the discounted present value as of the reporting date. The interest rate corresponds to risk-equivalent market interest rates. Expected refunds, provided that they are sufficiently secure or legally enforceable, are not balanced 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 a reduction of the scope of the obligation results from a changed estimate, then the provision will be proportionately dissolved and the earnings allocated to the functional area originally charged with the expense when the provision is recognized.

**Emission certificates** assigned free of charge are measured at a nominal value of zero. Provisions are formed if the available portfolio of emission certificates does not cover the anticipated obligations. Proceeds from the sale of emission certificates allotted free of charge are included under other operating income.

**Financial liabilities** are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are likewise taken into account. Liabilities from finance lease agreements are shown as financial liabilities at the present value of the future lease installments.

**Trade payables and other liabilities (including tax liabilities)** are, as a general rule, recognized at amortized cost using the effective interest method.

**Contingencies** are potential obligations based on past events of which the existence depends on uncertain future events which are beyond the Group's influence, and on existing obligations that cannot be carried as liabilities because either an outflow of resources is unlikely or the amount of the obligation cannot be estimated with sufficient reliability. The values assigned to contingencies correspond to the degree of liability that exists on the statement of financial position date.

In accordance with the "management approach," **segment reporting** at WACKER is based on an internal organizational and reporting structure. The data used to determine key internal management ratios are derived from the IFRS-compliant consolidated financial statements.

**Disposal groups and discontinued operations** are reported in accordance with criteria defined in IFRS 5. The Group reports the assets and liabilities of a disposal group separately in the statement of financial position. Unless a disposal group qualifies for discontinued operations reporting, the income and expenses of the disposal group remain within continuing operations until the date of disposal. On initial classification as held for sale, noncurrent assets are recognized at the lower of the carrying amount and fair value less costs to sell, and depreciation and amortization ceases.

#### **Changes to the Valuation Methods**

No changes were made to the previous year's valuation methods or classifications of items in the financial statements.

## 01 Sales/Functional Costs/Other Operating Income/Other Operating Expenses

€ million	2010	2009
<b>Sales</b>		
Proceeds from deliveries of products and merchandise .....	4,662.2	3,634.3
Proceeds from other services .....	86.2	85.0
.....	4,748.4	3,719.3
<b>Cost of goods sold</b> .....		
.....	-3,402.1	-2,875.8
Cost of goods sold includes the following reversals/recognitions .....	-9.9	7.1
of impairments of inventories:		
<b>Other operating income</b>		
Income from currency transactions .....	143.2	123.2
Income from reversal of provisions .....	7.6	11.3
Insurance compensation .....	0.9	6.3
Income from reversal of valuation allowances for receivables .....	10.9	3.2
Income from disposal of assets .....	3.4	0.3
Subsidies/grants .....	5.6	6.2
Income from disposal of equity-method investments .....	18.5	-
Income from receipt of advance payments .....	8.6	29.3
Other operating income .....	15.4	28.0
.....	214.1	207.8
<b>Other operating expenses</b>		
Losses from currency transactions .....	-149.4	-150.2
Losses from valuation allowances for receivables .....	-0.9	-2.4
Losses from disposal of assets .....	-8.3	-2.0
Impairment of property, plant and equipment .....	-12.7	-182.1
Restructuring measures .....	-0.1	-21.1
Losses from canceled/provisional contracts .....	-9.0	-18.3
Other operating expenses .....	-29.4	-15.2
.....	-209.8	-391.3

The cost of goods sold includes an addition of €51.8 million to provisions for expected losses from the Group's silicone business in China as a result of a long-term purchase obligation involving higher transfer prices from long-term agreements between WACKER's Chinese subsidiaries and its siloxane-production joint venture with Dow Corning.

The other operating expenses include those expenses which are not attributable to functional costs.

Due to altered procurement and selling prices for the production and sale of pyrogenic silica (HDK®) in China, an impairment test was updated for the assets tied up in Chinese HDK® production. During comparison of the present value of the estimated future cash flows from HDK® production with the carrying values of the cash-generating unit, production and sales of HDK®, there was a renewed need to recognize an impairment of €7.5 million. An interest rate of 12 percent before tax was used for discounting purposes.

In addition, impairments on property, plant and equipment amounting to €1.7 million were carried out for the USA and China due to reductions in their fair values. Impairments of €3.5 million were taken into account for planned shutdowns of plants in Germany.

The impairments of the assets from the previous year impacted the following areas:

As the sales and earnings position at Siltronic deteriorated significantly and structural measures were agreed upon, impairment tests were conducted for the fixed assets tied up in this division. In the process, the present value of the estimated future cash flows from the use of the assets was compared with the carrying amounts. The companies included within the Siltronic segment were identified as the cash-generating units. An average interest rate of 12 percent before tax was used for discounting purposes. The total impairment was €139.2 million. €74.0 million of this sum was primarily accounted for by the cash-generating unit Siltronic AG, €38.8 million by Siltronic Japan Corp., and €26.2 million by Siltronic Corp. (USA).

In connection with substantial overcapacity in the pyrogenic silica (HDK®) area and an accompanying sharp price drop in China, an impairment test was carried out for the assets tied up in Chinese HDK® production. To do this, the present value of the estimated cash flow from HDK® production was compared with the carrying amounts of the cash-generating unit, production and sale of HDK®. The cash flows were discounted at an interest rate of 11 percent before tax. The total impairment amounted to €31.4 million.

In addition, impairments amounting to €4.3 and €3.5 million, respectively, were carried out for planned shutdowns of plants in China and Germany due to reductions in their fair values. A further impairment of €1.6 million concerned the grandstand at the stadium in Burghausen that is held as investment property.

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

€ million	2010	2009
<b>Income from investments in joint ventures and associates</b> .....	<b>-38.0</b>	-127.4
Of which pro rata result attributable to joint ventures .....	-17.2	-108.2
<b>Other investment income</b>		
Income from investments .....	-	0.1
Impairment of investments .....	-	-
.....	-	0.1
<b>Net interest income</b>		
Interest income .....	7.1	6.3
Of which from available-for-sale financial instruments .....	1.0	1.4
Interest expenses .....	-9.1	-2.0
.....	-2.0	4.3
<b>Other financial results</b>		
Other financial income .....	49.2	13.4
Interest effect of interest-bearing provisions/liabilities/financial leases .....	-28.3	-29.2
Other financial expenses .....	-51.2	-12.0
.....	-30.3	-27.8
<b>Financial result</b> .....	<b>-32.3</b>	-23.5

The income from investments in joint ventures and associates relates mainly to companies in Germany, the USA, China and Singapore. This income includes not only the pro rata shares of net results for the year, but also sums from the reversal of differences between the acquisition cost of the investment and the proportion of equity at the time of acquisition, as well as effects from pro rata eliminations of intercompany profits.

Borrowing costs of €13.5 million (2009: €12.9 million) were capitalized during the reporting period, bringing about a corresponding improvement in interest expenses. To the extent that a loan is attributable to a particular investment, the actual borrowing costs are capitalized. If no direct allocation is possible, the Group's average borrowing interest rate during the current period is applied. This rate was 4.5 percent in 2010 (2009: 5.3 percent).

The interest effect of interest-bearing provisions includes interest expenses from accumulated interest on pension provisions of €22.7 million (2009: €24.0 million).

Other financial income and expenses primarily result from currency translation.



### 03 Income Taxes

The calculation is based on the current legal position in the individual countries regarding applicable or anticipated tax rates as of the realization date. These are generally based on the legal stipulations valid or adopted as of the statement of financial position date.

In Germany, a solidarity surcharge is added to corporation tax. Trade income tax must also be paid, which varies depending on the municipality in which the company is located.

Tax Rates in Germany		
%	2010	2009
Weighted average trade income tax rate .....	12.2	12.4
Corporation tax rate .....	15.0	15.0
Solidarity surcharge on corporation tax .....	5.5	5.5

The income from foreign Group companies is subject to taxation at the tax rates valid in the country where the respective company is located. No deferred taxes on undistributed profits of subsidiaries were recognized. It was decided not to determine the possible resulting tax effects as the time and expense involved was unreasonably high. €570.2 million (2009: €563.4 million) is available for distribution.

€ million	2010	2009
Current taxes .....	-220.3	-101.5
Deferred taxes .....	-15.0	23.7
<b>Income taxes</b> .....	<b>-235.3</b>	<b>-77.8</b>
<b>Derivation of the effective tax rate</b>		
Income before taxes .....	732.3	3.3
Income tax rate for Wacker Chemie AG (%) .....	28.5	28.5
<b>Expected tax expenses</b> .....	<b>-208.7</b>	<b>-0.9</b>
Tax rate divergences .....	-11.8	2.1
Tax effect of non-deductible expenses .....	-3.3	-2.5
Tax effect of tax-free income .....	7.2	7.4
Taxes relating to other periods (current earnings) .....	-19.3	1.0
Changes in the valuation allowances for deferred tax assets <sup>1</sup> .....	-9.5	-47.1
Group equity result .....	-11.0	-36.2
Income tax change recognized directly in equity; tax accounts .....	13.7	-
Other divergences .....	7.4	-1.6
<b>Total income tax</b> .....	<b>-235.3</b>	<b>-77.8</b>
<b>Effective tax rate (%)</b> .....	<b>32.1</b>	<b>&gt; 100</b>

<sup>1</sup> The changes in the valuation allowances for deferred tax assets include valuation allowances for the impairment of fixed assets totaling €4.2 million (2009: €34.6 million).

Income taxes include current tax expenses of €13.2 million for prior years. These expenses are offset by deferred tax income of €11.6 million from other periods.

Allocation of Deferred Taxes		2010		2009	
€ million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	
Intangible assets .....	14.5	–	12.5	–	
Property, plant and equipment .....	3.9	105.2	8.7	90.0	
Financial assets .....	–	0.2	–	4.6	
Current assets .....	10.2	11.2	5.8	4.5	
Provisions for pensions .....	17.9	1.3	18.8	1.1	
Other provisions .....	41.1	6.2	33.8	0.3	
Liabilities .....	12.8	0.1	14.1	0.1	
Loss carryforwards .....	1.3	–	2.5	–	
Setting off for companies with profit and loss transfer agreement .....	–4.3	–4.3	–15.8	–15.8	
	97.4	119.9	80.4	84.8	
Setoffs .....	–83.9	–83.9	–71.2	–71.2	
Statement of financial position item .....	13.5	36.0	9.2	13.6	

The change in deferred tax assets and liabilities has been recognized in profit or loss with €–15.0 million (2009: €23.7 million), whereas €–4.4 million (2009: €–7.8 million) was recognized directly in equity. The existing tax loss carryforwards can still be used as follows:

€ million	2010	2009
Within 1 year .....	1.9	0.8
Within 2 years .....	5.8	0.5
Within 3 years .....	15.2	0.9
Within 4 years .....	17.7	0.1
Within 5 years or later .....	58.7	46.5
	99.3	48.8
Of which loss carryforwards not expected to be realizable .....	–94.2	–38.3
Of which loss carryforwards expected to be realizable .....	5.1	10.5

## 04 Development of Fixed Assets

€ million	Intangible assets	Property, plant and equipment	Investment property	Investment in associates accounted for using the equity method	Financial assets	Total
<b>Cost</b>						
Balance as of Jan. 1, 2009	130.0	7,707.0	14.1	191.8	74.6	8,117.5
Additions	3.9	703.5	–	32.1	0.6	740.1
Disposals	–11.0	–90.6	–	–	–0.7	–102.3
Transfers	2.0	–2.0	–	–	–	–
Other changes <sup>1</sup>	–	–	–	–83.7	2.4	–81.3
Exchange rate differences	–0.9	–36.9	–	–	0.1	–37.7
<b>Balance as of Dec. 31, 2009</b>	<b>124.0</b>	<b>8,281.0</b>	<b>14.1</b>	<b>140.2</b>	<b>77.0</b>	<b>8,636.3</b>
<b>Depreciation</b>						
Balance as of Jan. 1, 2009	105.3	5,047.4	10.5	–	2.6	5,165.8
Additions	8.4	388.7	0.7	–	–	397.8
Impairment	–	180.9	1.2	–	–	182.1
Disposals	–10.9	–86.3	–	–	–0.6	–97.8
Exchange rate differences	–0.8	–28.2	–	–	–0.1	–29.1
<b>Balance as of Dec. 31, 2009</b>	<b>102.0</b>	<b>5,502.5</b>	<b>12.4</b>	<b>–</b>	<b>1.9</b>	<b>5,618.8</b>
<b>Net carrying amounts as of Dec. 31, 2009</b>	<b>22.0</b>	<b>2,778.5</b>	<b>1.7</b>	<b>140.2</b>	<b>75.1</b>	<b>3,017.5</b>
Reduction in cost due to investment grant	–	–	–	–	–	352.1

<sup>1</sup>This item includes the changes resulting from the application of the equity method, as well as noncurrent interest receivables from loans.

€ million	Intangible assets	Property, plant and equipment	Investment property	Investment in associates accounted for using the equity method	Financial assets	Total
<b>Cost</b>						
Balance as of Jan. 1, 2010	124.0	8,281.0	14.1	140.2	77.0	8,636.3
Additions	3.7	597.1	–	0.8	12.3	613.9
Disposals	–2.2	–89.3	–2.4	–6.9	–0.5	–101.3
Transfers	1.7	–1.7	–	–	–	–
Changes in scope of consolidation	14.4	38.2	–	–	–	52.6
Other changes <sup>1</sup>	–	–	–	–43.0	2.8	–40.2
Exchange rate differences	5.2	233.8	–	20.6	11.9	271.5
<b>Balance as of Dec. 31, 2010</b>	<b>146.8</b>	<b>9,059.1</b>	<b>11.7</b>	<b>111.7</b>	<b>103.5</b>	<b>9,432.8</b>
<b>Depreciation</b>						
Balance as of Jan. 1, 2010	102.0	5,502.5	12.4	–	1.9	5,618.8
Additions	10.1	407.0	0.1	–	–	417.2
Impairment	–	12.7	–	–	–	12.7
Disposals	–2.4	–79.8	–2.3	–	–0.2	–84.7
Exchange rate differences	3.9	191.0	–	–	0.4	195.3
<b>Balance as of Dec. 31, 2010</b>	<b>113.6</b>	<b>6,033.4</b>	<b>10.2</b>	<b>–</b>	<b>2.1</b>	<b>6,159.3</b>
<b>Net carrying amounts as of Dec. 31, 2010</b>	<b>33.2</b>	<b>3,025.7</b>	<b>1.5</b>	<b>111.7</b>	<b>101.4</b>	<b>3,273.5</b>
Reduction in cost due to investment grant	–	–	–	–	–	365.2

<sup>1</sup>This item includes the changes resulting from the application of the equity method, as well as noncurrent interest receivables from loans.

## 05 Intangible Assets

Intangible assets include industrial property rights and similar rights and assets acquired at a charge. Changes in the scope of consolidation in fiscal 2010 also include the goodwill from the purchase of Lucky-Silicone in South Korea as an addition of €0.4 million.

In 2009, the goodwill from the acquisition of Wacker Biotech GmbH, which was written down to zero, was shown as a disposal originally amounting to €7.7 million. This means that, as of December 31, 2009, goodwill under intangible assets was included neither under cost nor under amortization.

## 06 Property, Plant and Equipment

€ million	Land, buildings and similar rights	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
<b>Cost</b>					
Balance as of Jan. 1, 2009	1,220.4	5,480.9	541.2	464.5	7,707.0
Additions	55.8	298.2	22.6	326.9	703.5
Disposals	-14.6	-50.2	-24.8	-1.0	-90.6
Transfers	45.5	323.6	12.2	-383.3	-2.0
Exchange rate differences	-10.4	-24.4	-0.1	-2.0	-36.9
<b>Balance as of Dec. 31, 2009</b>	<b>1,296.7</b>	<b>6,028.1</b>	<b>551.1</b>	<b>405.1</b>	<b>8,281.0</b>
<b>Depreciation</b>					
Balance as of Jan. 1, 2009	696.7	3,923.0	427.6	0.1	5,047.4
Additions	38.7	314.2	35.8	-	388.7
Impairment	59.2	119.2	2.5	-	180.9
Disposals	-13.1	-49.0	-24.2	-	-86.3
Transfers	-1.3	1.3	-	-	-
Exchange rate differences	-7.6	-20.5	-0.1	-	-28.2
<b>Balance as of Dec. 31, 2009</b>	<b>772.6</b>	<b>4,288.2</b>	<b>441.6</b>	<b>0.1</b>	<b>5,502.5</b>
<b>Net carrying amounts as of Dec. 31, 2009</b>	<b>524.1</b>	<b>1,739.9</b>	<b>109.5</b>	<b>405.0</b>	<b>2,778.5</b>
<b>Of which assets from finance leases</b>					
Gross values	89.7	49.2	0.1	-	139.0
Depreciation	-81.5	-25.3	-	-	-106.8
<b>Net carrying amounts</b>	<b>8.2</b>	<b>23.9</b>	<b>0.1</b>	<b>-</b>	<b>32.2</b>

€ million	Land, buildings and similar rights	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
<b>Cost</b>					
Balance as of Jan. 1, 2010	1,296.7	6,028.1	551.1	405.1	8,281.0
Additions	26.3	178.1	27.9	364.8	597.1
Disposals	-7.1	-61.2	-20.7	-0.3	-89.3
Transfers	45.9	250.6	10.9	-309.1	-1.7
Changes in scope of consolidation	7.6	28.6	0.1	1.9	38.2
Exchange rate differences	59.0	162.2	5.5	7.1	233.8
<b>Balance as of Dec. 31, 2010</b>	<b>1,428.4</b>	<b>6,586.4</b>	<b>574.8</b>	<b>469.5</b>	<b>9,059.1</b>
<b>Depreciation</b>					
Balance as of Jan. 1, 2010	772.6	4,288.2	441.6	0.1	5,502.5
Additions	39.5	333.9	33.6	-	407.0
Impairment	-	11.3	0.1	1.3	12.7
Disposals	-5.1	-58.3	-16.4	-	-79.8
Transfers	1.1	0.8	-1.9	-	-
Exchange rate differences	39.9	146.9	4.2	-	191.0
<b>Balance as of Dec. 31, 2010</b>	<b>848.0</b>	<b>4,722.8</b>	<b>461.2</b>	<b>1.4</b>	<b>6,033.4</b>
<b>Net carrying amounts as of Dec. 31, 2010</b>	<b>580.4</b>	<b>1,863.6</b>	<b>113.6</b>	<b>468.1</b>	<b>3,025.7</b>
<b>Of which assets from finance leases</b>					
Gross values	89.7	52.6	0.1	-	142.4
Depreciation	-86.0	-29.1	-	-	-115.1
<b>Net carrying amounts</b>	<b>3.7</b>	<b>23.5</b>	<b>0.1</b>	<b>-</b>	<b>27.3</b>

In the reporting year, borrowing costs amounting to €13.5 million (2009: €12.9 million) were capitalized as part of the cost of qualified assets. The average financing cost rate is 4.5 percent (2009: 5.3 percent).

### 07 Investment Property

Wacker Chemie AG owns real estate at its production site in Cologne, Germany. This is comprised of premises and infrastructural facilities (such as for energy and waste water). The premises are rented out or leased on the basis of long-term agreements. There is no finance lease. This real estate is subject to the same principles regarding depreciation method and useful life as assets that we use for our own purposes. These premises and the infrastructure in Cologne are operated, maintained and looked after by third parties who charge any costs incurred directly to the tenants or leaseholders.

In the reporting year, those sections of the Burghausen soccer stadium which Wacker Chemie AG had held as an investment were sold to Wirtschaftsbeteiligungsgesellschaft Burghausen mbH.

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

€ million	2010	2009
Fair value	13.8	14.1
Income from rent/operating leases	0.8	1.1
Costs	-0.2	-0.1

The fair value is based on an external expert opinion and is updated regularly. It was last updated in 2010.

### 08 Investments in Joint Ventures and Associates / Financial Assets

€ million	Investment in associates accounted for using the equity method	Investments	Other financial assets	Financial assets
<b>Cost</b>				
Balance as of Jan. 1, 2009	191.8	12.4	62.2	74.6
Additions	32.1	0.6	-	0.6
Disposals	-	-0.6	-0.1	-0.7
Other changes	-	-	2.4	2.4
Changes resulting from application of equity method	-83.7	-	-	-
Exchange rate differences	-	-	0.1	0.1
<b>Balance as of Dec. 31, 2009</b>	<b>140.2</b>	<b>12.4</b>	<b>64.6</b>	<b>77.0</b>
<b>Depreciation</b>				
Balance as of Jan. 1, 2009	-	2.6	-	2.6
Disposals	-	-0.6	-	-0.6
Exchange rate differences	-	-0.1	-	-0.1
<b>Balance as of Dec. 31, 2009</b>	<b>-</b>	<b>1.9</b>	<b>-</b>	<b>1.9</b>
<b>Net carrying amounts as of Dec. 31, 2009</b>	<b>140.2</b>	<b>10.5</b>	<b>64.6</b>	<b>75.1</b>
<b>Cost</b>				
Balance as of Jan. 1, 2010	140.2	12.4	64.6	77.0
Additions	0.8	0.6	11.7	12.3
Disposals	-6.9	-0.2	-0.3	-0.5
Other changes	-	-	2.8	2.8
Changes resulting from application of equity method	-43.0	-	-	-
Exchange rate differences	20.6	0.4	11.5	11.9
<b>Balance as of Dec. 31, 2010</b>	<b>111.7</b>	<b>13.2</b>	<b>90.3</b>	<b>103.5</b>
<b>Depreciation</b>				
Balance as of Jan. 1, 2010	-	1.9	-	1.9
Disposals	-	-0.2	-	-0.2
Exchange rate differences	-	0.4	-	0.4
<b>Balance as of Dec. 31, 2010</b>	<b>-</b>	<b>2.1</b>	<b>-</b>	<b>2.1</b>
<b>Net carrying amounts as of Dec. 31, 2010</b>	<b>111.7</b>	<b>11.1</b>	<b>90.3</b>	<b>101.4</b>

The disposal at the investments in associates accounted for using the equity method in 2010 concerns the sale of Planar Solutions LLC, Adrian (Michigan), USA.

In December 2010, a shareholder loan was granted to Siltronic Samsung Wafer Pte. Ltd., Singapore, in the amount of €11.7 million on normal market terms. The addition was shown under other financial assets. Over and above the interest and repayment agreements, the loan agreement grants WACKER the right to convert the loan into equity (call option). The exercise period for this option starts on January 1, 2016 and ends on March 31, 2016. In January 2011, the other joint-venture shareholder (Samsung) issued a loan of the same amount and at the same conditions, to which a call option is attached, as well.

The addition to the investments in associates accounted for using the equity method in 2009 mainly related to a capital payment into the joint venture Dow Corning (ZJG) Holding Co. Private Ltd., Singapore.

For more financial information on associated companies and joint ventures, [see Note 23](#)

### 09 Inventories

€ million	2010	2009
Raw materials and supplies .....	166.9	126.1
Products .....	319.0	279.6
Merchandise .....	40.5	32.3
Services not charged .....	0.5	0.5
Advance payments .....	3.8	2.7
.....	530.7	441.2
Of which recorded at fair value less selling expenses .....	84.5	89.1

## 10 Accounts Receivable / Other Assets / Tax Receivables

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
<b>Trade receivables</b> .....	<b>596.0</b>	-	<b>596.0</b>	<b>466.8</b>	-	<b>466.8</b>
Of which noncurrent, falling due >5 years .....	-	-	-	-	-	-
Other receivables from associated companies .....	<b>1.2</b>	-	<b>1.2</b>	<b>8.8</b>	<b>0.1</b>	<b>8.7</b>
Loan and interest receivables .....	<b>6.8</b>	-	<b>6.8</b>	<b>1.0</b>	-	<b>1.0</b>
Derivative financial instruments .....	<b>39.5</b>	<b>16.9</b>	<b>22.6</b>	<b>17.8</b>	<b>4.2</b>	<b>13.6</b>
Prepaid expenses and deferred charges .....	<b>5.9</b>	-	<b>5.9</b>	<b>40.3</b>	<b>31.0</b>	<b>9.3</b>
Investment fund shares <sup>1</sup> .....	<b>10.2</b>	<b>10.2</b>	-	<b>38.2</b>	<b>38.2</b>	-
Claims arising from investment grants ..	<b>68.9</b>	-	<b>68.9</b>	<b>28.7</b>	-	<b>28.7</b>
Claims against suppliers .....	<b>9.6</b>	<b>0.1</b>	<b>9.5</b>	<b>8.4</b>	-	<b>8.4</b>
Assets from excess pension-plan coverage .....	<b>10.3</b>	<b>9.7</b>	<b>0.6</b>	<b>7.3</b>	-	<b>7.3</b>
Sundry assets .....	<b>37.9</b>	<b>0.2</b>	<b>37.7</b>	<b>28.6</b>	<b>7.7</b>	<b>20.9</b>
<b>Other assets</b> .....	<b>190.3</b>	<b>37.1</b>	<b>153.2</b>	<b>179.1</b>	<b>81.2</b>	<b>97.9</b>
Of which noncurrent, falling due >5 years .....	-	<b>9.7</b>	-	-	<b>16.8</b>	-
<b>Tax receivables</b> .....	<b>99.8</b>	<b>12.7</b>	<b>87.1</b>	<b>64.5</b>	<b>12.3</b>	<b>52.2</b>
Of which noncurrent, falling due >5 years .....	-	<b>4.7</b>	-	-	<b>5.8</b>	-

<sup>1</sup> The investment fund shares serve to secure obligations for the phased-early-retirement program and are classified as available for sale. These fund shares are traded on active markets and pledged individually to employees participating in the phased-early-retirement program. Their market value amounts to €10.2 million (2009: €38.2 million).

Accounts receivable are shown at amortized cost, which corresponds to their market values. If not covered by insurance, default risks are taken into account with adequate valuation allowances.

Other receivables from associated companies contain the following receivables from finance leases:

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Other receivables from associated companies contain receivables from finance leases .....	<b>0.5</b>	-	-	<b>0.5</b>	-	-
Associated gross investment .....	<b>1.0</b>	<b>0.9</b>	<b>0.1</b>	<b>1.0</b>	<b>0.9</b>	<b>0.1</b>
Present value of outstanding minimum payments due .....	<b>0.4</b>	<b>0.4</b>	-	<b>0.5</b>	<b>0.4</b>	<b>0.1</b>
As yet unrealized financial income .....	<b>0.6</b>	<b>0.6</b>	-	<b>0.5</b>	<b>0.5</b>	-



The development of valuation allowances is as follows:

<b>Development of Valuation Allowances</b>						
€ million	2010			2009		
	Trade receivables	Other assets	Total	Trade receivables	Other assets	Total
As of Jan. 1	20.6	0.9	21.5	31.7	0.9	32.6
Utilization	-1.4	-	-1.4	-1.4	-	-1.4
Additions / reversals	-8.1	-	-8.1	-9.5	-	-9.5
Exchange rate differences	1.2	-	1.2	-0.2	-	-0.2
<b>As of Dec. 31</b>	<b>12.3</b>	<b>0.9</b>	<b>13.2</b>	<b>20.6</b>	<b>0.9</b>	<b>21.5</b>
<b>Overdue debts</b>						
<= 30 days	80.1	11.0	91.1	81.3	2.7	84.0
>31 <= 45 days	3.7	-	3.7	3.3	0.2	3.5
>45 days	11.7	5.1	16.8	25.9	13.1	39.0
<b>Total</b>	<b>95.5</b>	<b>16.1</b>	<b>111.6</b>	<b>110.5</b>	<b>16.0</b>	<b>126.5</b>

Valuation allowances are set up in the event of identifiable credit risks and exchange rate fluctuations. 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 impairment. 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 / reversals in the valuation allowances for receivables in the reporting year mainly relate to companies in the Siltronic group and Wacker Chemie AG.

## 11 Cash and Cash Equivalents / Securities

€ million	2010	2009
<b>Securities</b>	<b>252.2</b>	-
Of which current	41.4	-
Of which noncurrent	210.8	-
The securities mainly consist of bonds from various issuers which are classified as "held to maturity."		
<b>Cash and cash equivalents (liquid assets)</b>		
Cash equivalents	60.4	119.9
Demand deposits, cash on hand (cash)	484.8	243.7
	<b>545.2</b>	<b>363.6</b>

Demand deposits and cash on hand are shown at their nominal amounts. Cash and cash equivalents mainly consist of commercial papers (from issuers with first-class credit standing) which are classified as "held to maturity." They fall due after a maximum of three months.

## 12 Equity / Non-Controlling Interests

The subscribed capital (capital stock) of Wacker Chemie AG amounts to €260,763,000. It consists of 52,152,600 no-par-value shares (total). This corresponds to an accounting par value of €5 per share. There are no different classes of shares. All of the shares are common shares.

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 previous year:

Units	2010	2009
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 [Note 24](#)

Capital reserves include the amounts generated with share issues over and above their nominal values in previous years, as well as other contributions to equity made by shareholders.

Retained earnings include the amounts formed in previous fiscal years at Wacker Chemie AG, transfers from the Group's earnings for the year, the earnings of the consolidated companies less amounts due to minority shareholders, changes to consolidated items affecting income, and changes in the scope of consolidation.

The other equity items show both the differences arising from the translation of foreign subsidiaries' financial statements having reporting currencies other than the euro, and the effects of the valuation of financial instruments with no impact on income.

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

€ million	2010	2009
Profits	6.3	2.4
Losses	-	-6.1
Net result attributable to non-controlling interests	6.3	-3.7

As part of its capital management, Wacker Chemie AG complies with the legal stipulations on capital maintenance. The company is not subject to any capital requirements set down by its Articles of Association. No special capital terminology is used.

The Group's policy on dividends is generally oriented toward distributing at least 25 percent of net income to shareholders, assuming the business situation allows this and the committees responsible agree.

### 13 Provisions for Pensions

WACKER Group employees can avail themselves of 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 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. Group companies have both defined contribution and defined benefit plans. They are financed, on the one hand, by funds and Pensionskasse der Wacker Chemie VVaG, and, on the other, by provisions in the form of direct commitments. 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.

Employees at Wacker Chemie AG and other WACKER Germany subsidiaries are granted a basic pension plan via Wacker Chemie VVaG's legally independent pension fund. This is financed by member and company contributions. Employees who joined the pension fund by the end of 2004 are on a defined benefit model. The pension amount is the same regardless of the employee's age at which he/she starts paying contributions and of the interest generated from assets. Employees who joined the pension fund after January 1, 2005 are on a new basic-pension model. The guaranteed payments there are based on a fixed interest rate and the amount depends on the employee's age when he/she starts paying contributions. In this model, annual profit distributions can increase the future payment.

Additionally, employees in Germany have the option of converting part of their remuneration into direct benefit commitments. Benefit plans taken out by December 31, 2000 are measured (in accordance with the projected unit credit method) at the value of years' service to date/years served to retirement (pro rata temporis), whereas any benefit plans taken out on or after January 1, 2001 are measured at the present value of the defined benefit obligation.

In view of their pension-like character, obligations relating to the medical care of retired employees (USA) and severance payments are likewise included under pension provisions.

The obligations from direct benefit plans are calculated using the projected unit credit method, taking account of anticipated future payout and pension adjustments. The current service cost of pension benefit claimants results from the planned development of provisions for anticipated future pension payments. Any differences between those pension obligations calculated as planned and the defined benefit obligation at the end of the year are treated as actuarial gains or losses and, with the exception of effects of changed assumptions regarding probable mortality rates in the follow-up periods, are spread over the average remaining service years of the plan participants, insofar as these differences exceed 10 percent of the greater of the market value of the defined benefit obligation and the present value of the plan assets. WACKER takes the view that, as far as probable mortality rates are concerned, it will be necessary to assume continuous increases in life expectancy. For this reason, it does not make sense to smooth out the expenses for the period on the basis of changed or adjusted mortality tables. Deviations in the other valuation parameters will be included as actuarial losses or gains using the corridor method. An adjustment to the mortality tables in 2009 led, as a result of the change in the method used, to additional expenses of €47.9 million.

In compliance with their respective national legislation, some relatively small foreign subsidiaries take on pension-related obligations arising from severance payments after the scheduled termination of employment. These obligations are likewise reported as pension provisions.

The obligations are financed only in part by means of provisions. Group pension obligations are financed to a considerable degree by externally invested plan assets. In the case of both Wacker Chemie AG and the German Group companies, these assets are handled by Pensionskasse der Wacker Chemie VVaG.

The funding of Pensionskasse der Wacker Chemie VVaG by the German Group companies is included in expenses for pensions. The pension obligations resulting from the application of the projected unit credit method are reduced by the fair value of the plan assets and by still unrecognized actuarial losses, or increased by still unrecognized actuarial gains, provided that these do not concern effects from changes in likely mortality rates. Actuarial gains or losses from changed or adjusted mortality tables reduce or increase, respectively, the pension obligation reported.

If the fund assets exceed the obligation from the pension commitment, an asset is generally recorded. It can, however, be capitalized only on the condition that the reporting entity can draw commercial benefits from these assets, e.g. in the form of refunds from the plan or reductions in future contributions to the plan ("asset ceiling" pursuant to IAS 19.58 et seq.).

As Pensionskasse der Wacker Chemie VVaG sets its contributions in the manner stipulated by supervisory bodies, there is no access to the surplus fund assets in Germany. Surplus amounts are, therefore, not capitalized. Unless the fund assets cover the obligation, the net obligation is shown as a liability under pension provisions.

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

Parameters	%					
	Germany		USA		Japan	
	2010	2009	2010	2009	2010	2009
Actuarial interest rate .....	4.50	5.00	5.5	6.00	2.00	2.00
Payment trend .....	3.00	3.00	3.0/3.5	3.0/3.5	-	-
Expected return on assets .....	4.75	5.25	7.50	7.50	-	-

The expected return on plan assets was estimated based on past trends and anticipated values for the following year. Interest income may vary in the funds' individual asset classes. The percentage rate chosen corresponds to the average rate of all asset types.

To arrive at the amount recognized as a defined benefit liability, the plan assets transferred into funds are balanced against the defined benefit obligation at the end of the year (financial status). Provisions for pensions and assets from excess pension-plan coverage are obtained after the actuarial profits and losses not yet recognized are deducted or added as appropriate.

€ million	Germany 2010	Foreign 2010	Total 2010	Total 2009
<b>Change in defined benefit obligation (DBO)</b>				
DBO as of Jan. 1	1,733.2	130.4	1,863.6	1,568.9
Current service cost	38.9	4.1	43.0	35.0
Past service cost	–	1.1	1.1	–
Interest cost	85.2	7.8	93.0	88.2
Contributions by beneficiaries	9.4	0.3	9.7	9.6
Actuarial profits (–) and losses (+)	155.5	12.2	167.7	227.3
Pension payments	–60.1	–4.6	–64.7	–62.4
Change in scope of consolidation	–	1.8	1.8	–
Exchange rate differences	–	12.3	12.3	–3.0
<b>DBO as of Dec. 31</b>	<b>1,962.1</b>	<b>165.4</b>	<b>2,127.5</b>	<b>1,863.6</b>
<b>Change in fund assets</b>				
Fund assets at present value as of Jan. 1	1,198.9	93.2	1,292.1	1,201.5
Return on fund assets	68.7	13.9	82.6	99.9
Employer contributions	23.6	7.6	31.2	29.0
Contributions by beneficiaries	9.4	0.3	9.7	9.6
Pension payments	–43.0	–4.2	–47.2	–46.2
Change in scope of consolidation	–	1.4	1.4	–
Exchange rate differences	–	7.5	7.5	–1.7
<b>Fund assets at present value as of Dec. 31</b>	<b>1,257.6</b>	<b>119.7</b>	<b>1,377.3</b>	<b>1,292.1</b>
<b>Financial status</b>	<b>704.5</b>	<b>45.7</b>	<b>750.2</b>	<b>571.5</b>
Actuarial profits/losses not yet included	–260.2	–29.6	–289.8	–137.5
“Asset ceiling” in accordance with IAS 19.58 et seq.	–	–	–	–
Other	–	–	–	–
Similar obligations	2.5	2.2	4.7	3.8
<b>Provisions for pensions</b>	<b>446.8</b>	<b>18.3</b>	<b>465.1</b>	<b>437.8</b>
Of which assets from pension plans with surplus coverage	1.4	8.9	10.3	7.3
Of which pension provisions	448.2	27.2	475.4	445.1
Extent to which provisions financed the DBO	704.5	45.7	750.2	571.5
Of which German-based companies in 2009	–	–	–	534.3
Of which foreign subsidiaries in 2009	–	–	–	37.2

The pension expenses incurred as a result of defined benefit plans and the sum total of all pension expenses consist of the following:

€ million	2010	2009
Service cost .....	-43.0	-35.0
Interest cost .....	-93.0	-88.2
Expected return on fund assets .....	70.2	65.5
Amortization of actuarial profits and losses .....	-4.7	-128.3
“Asset ceiling” effect .....	-	75.7
Repayment amount for retroactive pension-plan changes .....	-1.1	-
Other .....	0.1	-1.0
<b>Pension expenses from defined benefit plans</b> .....	<b>-71.5</b>	<b>-111.3</b>
Pension expenses from defined benefit plans .....	-2.1	-3.1
Other pension expenses .....	-4.6	-4.9
<b>Pension expenses</b> .....	<b>-78.2</b>	<b>-119.3</b>
Contributions to state pensions .....	-58.8	-54.5
<b>Expenses for post-employment benefits</b> .....	<b>-137.0</b>	<b>-173.8</b>
Of which included in payroll expenses (functional costs) .....	-114.3	-151.1
Of which included in other financial result .....	-22.7	-22.7

Deviations between the obligations and the plan assets due to the assumptions and the actual developments:

€ million	2010	2009	2008	2007
Defined benefit obligation .....	2,127.5	1,863.6	1,568.9	1,488.2
Of which experience-based adjustments .....	6.2	-1.9	-206.7	12.6
Fund assets .....	1,377.3	1,292.1	1,201.5	1,292.1
Of which experience-based adjustments .....	-1.8	-22.4	186.8	34.3
<b>Financial status</b> .....	<b>750.2</b>	<b>571.5</b>	<b>367.4</b>	<b>196.1</b>

In 2011, we expect contributions to plan assets to amount to around €30 million.

The following table shows the composition of pension-fund assets:

%	2010			2009		
	Total	Of which third parties	Of which Group <sup>1</sup>	Total	Of which third parties	Of which Group <sup>1</sup>
Real estate .....	14.2	9.7	4.5	15.3	10.5	4.8
Loans/fixed-interest securities .....	55.5	55.5	-	58.8	58.8	-
Shares/funds <sup>2</sup> .....	26.8	26.8	-	22.8	22.8	-
Cash and cash equivalents .....	3.5	3.5	-	3.1	3.1	-
<b>Total</b> .....	<b>100.0</b>	<b>95.5</b>	<b>4.5</b>	<b>100.0</b>	<b>95.2</b>	<b>4.8</b>

<sup>1</sup> Those items used by Group companies are posted here.

<sup>2</sup> Pensionskasse der Wacker Chemie VVaG has agreed with an investment company on an arrangement approved by the German Federal Financial Supervisory Authority (BaFin) which provides for compensation for any share price fluctuations affecting Pensionskasse's share portfolio.

## 14 Other Provisions / Tax Provisions

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Personnel .....	138.5	116.0	22.5	186.4	178.4	8.0
Sales/purchasing .....	68.0	53.1	14.9	18.7	–	18.7
Environmental protection .....	52.6	49.3	3.3	49.6	46.1	3.5
Restructuring .....	6.0	0.2	5.8	10.8	–	10.8
Sundry .....	47.7	9.0	38.7	20.8	10.0	10.8
<b>Other provisions</b> .....	<b>312.8</b>	<b>227.6</b>	<b>85.2</b>	<b>286.3</b>	<b>234.5</b>	<b>51.8</b>
<b>Tax provisions</b> .....	<b>105.0</b>	<b>42.8</b>	<b>62.2</b>	<b>136.4</b>	<b>47.4</b>	<b>89.0</b>

### Provisions for Personnel

These provisions contain obligations for anniversary payments, working-life accounts, other deferrals, and provisions relating to early retirement and to phased-early-retirement plans. There is a continuous outflow of noncurrent provisions for anniversary payments. The provision for phased-early-retirement plans will be exhausted by 2016 at the latest. The outflow will be continuous until that date.

### Sales/Purchasing Provisions

These provisions cover obligations arising from warranty and product liability as well as discounts, cash bonuses, and other price reductions still to be granted, commissions payable to sales agents, and impending losses from contractual agreements.

### Provisions for Environmental Protection

Provisions for environmental protection are formed 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 the government. Most noncurrent provisions for environmental protection will be utilized over a period of 10 to 20 years.

### Restructuring Provisions

The provisions for restructuring are comprised of severance payments for departing employees, anticipated site closure expenses, demolition obligations, and similar charges.

### Sundry Provisions

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

### Tax Provisions

Tax provisions contain amounts for current income tax obligations, risks from tax audits, and legal action. The existing noncurrent tax provisions will largely be used over the next three to five years.

Other Provisions							
€ million	Jan. 1, 2010	Utilization	Reversal	Addition/ interest effect	Exchange rate differences	Scope of consolida- tion/Other	Dec. 31, 2010
Personnel	186.4	-47.1	-11.7	8.2	0.2	2.5	138.5
Sales/purchasing	18.7	-16.8	-1.4	65.8	1.7	-	68.0
Environmental protection	49.6	-5.6	-3.0	11.3	0.3	-	52.6
Restructuring	10.8	-2.3	-0.1	-	0.1	-2.5	6.0
Sundry	20.8	-6.3	-2.8	35.8	0.2	-	47.7
	286.3	-78.1	-19.0	121.1	2.5	-	312.8
Of which interest effect	-	-	-	3.3	-	-	-

The interest effect is mainly accounted for by provisions for environmental protection.

Tax Provisions							
€ million	Jan. 1, 2010	Utilization	Reversal	Addition/ interest effect	Exchange rate differences		Dec. 31, 2010
Taxes	136.4	-76.4	-3.6	47.3	1.3		105.0
Of which interest effect	-	-	-	-	-		-

## 15 Financial Liabilities

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Liabilities to banks	494.8	385.6	109.2	391.6	331.8	59.8
Of which > 5 years	-	304.7	-	-	42.9	-
Liabilities from lease obligations <sup>1</sup>	34.4	21.5	12.9	44.5	32.0	12.5
Of which > 5 years	-	5.1	-	-	7.8	-
Other financial liabilities	4.2	-	4.2	3.6	-	3.6
Of which > 5 years	-	-	-	-	-	-
<b>Financial liabilities</b>	<b>533.4</b>	<b>407.1</b>	<b>126.3</b>	<b>439.7</b>	<b>363.8</b>	<b>75.9</b>
Of which > 5 years	-	309.8	-	-	50.7	-

<sup>1</sup> Liabilities from leasing arrangements mainly include liabilities relating to leasing the headquarters building in Munich and the Burghausen plant's CCGT power station.

In 2010, Wacker Chemie AG paid back promissory notes (Schuldscheine) totaling €151.0 million and, in December of that year, it accessed the first installment of an investment loan from the European Investment Bank of €200.0 million.

No collateral exists for financial liabilities. Some of the liabilities to banks are fixed-interest and others have variable interest rates. Some of the liabilities to banks were granted on condition that particular covenants be complied with.



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

€ million	2010		2009	
	Nominal value	Present value	Nominal value	Present value
Minimum lease payment within a year .....	14.4	12.9	14.7	12.5
Minimum lease payment within one and five years .....	19.4	16.4	28.0	24.2
Minimum lease payment over five years .....	5.5	5.1	8.2	7.8
	39.3	34.4	50.9	44.5
Total expected minimum lease payments from subtenancies .....	2.5	–	2.9	–

There are no conditional lease payments from finance leases.

There is a finance lease for the headquarters building in Munich used by the Group. The contract with the lessor expires in 2012. After that, WACKER's pension fund or some company specified by it shall have the right to purchase the building at a price that has already been fixed. Wacker Chemie AG has also 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.

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.

## 16 Liabilities

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
<b>Tax liabilities</b> .....	16.6	–	16.6	15.7	–	15.7
<b>Trade payables</b> .....	335.2	–	335.2	217.9	–	217.9
Of which > 5 years .....	–	–	–	–	–	–
Payables relating to social security .....	3.8	–	3.8	6.4	–	6.4
Payroll liabilities .....	3.2	–	3.2	2.6	–	2.6
Profit-sharing and other bonuses .....	119.3	–	119.3	66.4	–	66.4
Other personnel liabilities .....	27.5	–	27.5	28.4	–	28.4
Derivative financial instruments .....	16.1	1.8	14.3	13.5	0.3	13.2
Deferred income .....	3.7	1.2	2.5	4.1	0.9	3.2
Advance payments received (third parties) .....	1,032.2	869.9	162.3	900.3	761.8	138.5
Sundry liabilities .....	34.2	0.1	34.1	23.1	–	23.1
<b>Other liabilities</b> .....	1,240.0	873.0	367.0	1,044.8	763.0	281.8
Of which > 5 years .....	–	218.7	–	–	280.6	–

In addition to those amounts for which Group companies are liable to pay tax, 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 are primarily connected with future polysilicon deliveries resulting from the capacity expansions at our polysilicon plants.

## 17 Contingencies, Other Financial Obligations and Other Risks

### Contingencies

Contingencies are potential obligations based on past events of which the existence will not be confirmed until the occurrence of one or more uncertain future events that are beyond the Group's influence. Present obligations, moreover, can likewise be contingencies if the likelihood of an outflow of resources is not strong enough to justify the formation of a provision and/or the amount of the obligations cannot be estimated with sufficient reliability. The values assigned to contingencies correspond to the degree of liability that exists on the statement of financial position date.

The contingencies and other obligations shown below are nominal values.

€ million	2010	2009
Guarantees	119.6	143.1

The guarantees essentially concern the external financing of joint ventures. In addition, there are guarantees for customers' advance payments to former subsidiaries or joint ventures from which WACKER was released by the purchaser but for which no transfer to the purchaser has occurred.

In view of the present financial situation of the companies for which WACKER has taken on guarantees, utilization of these guarantees is unlikely.

### Other Financial Obligations and Other Risks

Under rental agreements and operating leases, the Group leases property, plant and equipment, motor vehicles and IT equipment. 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. The following table provides a breakdown of these leases and agreements:

€ million	2010	2009
<b>Obligations from rent and operating leases</b>		
Due within one year .....	16.3	16.8
Due between one and five years .....	30.6	33.6
Due after five years or more .....	18.6	24.3
	65.5	74.7
Lease payments occasioned by operating leases .....	15.2	15.9
Obligations from orders for planned investment projects (commitments) .....	301.4	206.9

Obligations from orders for planned investments (commitments) amount to €301.4 million (2009: €206.9 million) and mainly concern investments in the polysilicon segment. WACKER has earmarked a total of around €345 million for further investment in the construction of new production facilities in Germany and Asia.

In addition, the Group has undertaken to provide guarantees for borrowed funds at a joint venture amounting to around US\$250 million. Of this total, guarantees for approximately €51 million have already been given. These are already included in the disclosure of guarantees. WACKER has also signed an agreement with its joint-venture partners Dow Corning and Samsung to make investments in future years and to provide the necessary equity funds and/or loans. Through long-term purchasing commitments of some €154 million annually, the Group ensures that capacity at its joint ventures is utilized.

Within the framework of its raw-material supply, WACKER has entered into long-term agreements to purchase strategic raw materials, electricity and gas. As a result, the company has, on balance, other financial obligations in connection with minimum purchasing obligations in the amount of €1.14 billion (2009: €1.43 billion). These agreements have terms of between one and five years.

The Group receives government subsidies for investment activities. These subsidies 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.

## 18 Sundry

€ million	2010	2009
<b>Cost of materials</b> .....	<b>-1,787.7</b>	-1,439.1
<b>Personnel expenses</b>		
Wages and salaries .....	-921.5	-854.0
Social benefits and financial aid funds .....	-158.7	-139.7
State pension contributions .....	58.8	54.5
Social security contributions .....	-99.9	-85.2
Pension expenses .....	-55.5	-96.6
Contributions to state pensions .....	-58.8	-54.5
Expenses for post-employment benefits .....	-114.3	-151.1
	<b>-1,135.7</b>	-1,090.3

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 pension payments 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	2010	2009
<b>Expenses for Auditors' Fees</b>		
Audit .....	0.8	0.8
Other certification services .....	0.3	0.3
	<b>1.1</b>	1.1

The other certification services are largely comprised of the cost of interim reviews.

## 19 Earnings per Share / Dividend

	2010	2009
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 (€) .....	3.20	1.20
Net result for the year after non-controlling interests (€ million) .....	490.7	-70.8
Earnings due to common shares (€ million) .....	490.7	-70.8
Earnings per common share (average, €) .....	9.88	-1.43
Earnings per common share (as of reporting day, €) .....	9.88	-1.43

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

An earnings per share item relating to results from continued or discontinued business activity as well as an effect from changes in the accounting and valuation methods is not reported due to a lack of relevant data.

The dividend payout for 2009 amounted to €59.6 million, or €1.20 per dividend-bearing share.

For 2010, the Executive Board of Wacker Chemie AG has proposed a dividend of €3.20. 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. Pending agreement, an amount of €158,969,545.60 will be distributed for the 49,677,983 no-par-value shares that are not held by the company.

## 20 Financial Instruments

### Primary Financial Instruments

#### Carrying Amounts of Financial Assets and Liabilities

(Classified by category as per IAS 39)

€ million	2010	2009
<b>Financial assets</b>		
Held-to-maturity securities	311.2	119.9
Loans and receivables	686.3	531.4
Available-for-sale financial assets		
Cash and cash equivalents excluding held-to-maturity securities	486.2	243.7
Other available-for-sale financial assets	156.0	128.5
Derivative financial instruments	39.5	17.8
	1,679.2	1,041.3
<b>Financial liabilities</b>		
Financial liabilities recognized at amortized cost	533.4	439.7
Trade payables	335.2	217.9
Other liabilities <sup>1</sup>	188.0	142.6
Derivative financial instruments	16.1	13.5
	1,072.7	813.7

<sup>1</sup> Includes sundry liabilities shown in the statement of financial position, with the exception of derivative financial instruments, advance payments received and deferred income.

#### Carrying Amounts and Market Values of Financial Assets and Liabilities<sup>1</sup>

€ million	2010		2009	
	Carrying amount	Market value	Carrying amount	Market value
<b>Financial assets</b>				
Investments <sup>2</sup>	11.1	–	10.5	–
Held-to-maturity securities	252.2	249.6	–	–
Noncurrent loans	90.3	90.3	64.6	64.6
Trade receivables	596.0	596.0	466.8	466.8
Other receivables <sup>3</sup>	144.9	144.9	118.0	118.0
Cash and cash equivalents (liquid assets)	545.2	545.2	363.6	363.6
	1,639.7	1,626.0	1,023.5	1,013.0
<b>Financial liabilities</b>				
Financial liabilities	533.4	533.4	439.7	439.7
Trade payables	335.2	335.2	217.9	217.9
Other liabilities	188.0	188.0	142.6	142.6
	1,056.6	1,056.6	800.2	800.2

<sup>1</sup> Measured at acquisition cost or amortized cost.

<sup>2</sup> This item contains available-for-sale financial assets of which the market values cannot be calculated reliably and which have been recognized at cost. This item, along with noncurrent loans, is shown in the statement of financial position under noncurrent financial assets.

<sup>3</sup> Other receivables are shown in the statement of financial position under noncurrent and current other assets.

The carrying amounts of the held-to-maturity securities correspond to their fair values. If no prices from an active market are currently available and if the fair value cannot be determined reliably, the securities are valued at cost. This category includes current and noncurrent fixed-interest securities which are measured at amortized cost in accordance with the effective interest method.

The loans and receivables reported include trade receivables and other loans. Their carrying amounts correspond to their fair values. The present value of the loans corresponds to their cash value and constitutes the cash values of the cash flows expected in the future. Discounting is carried out on the basis of the interest rates valid on the reporting date. Available-for-sale financial assets include cash and cash equivalents, fund shares aimed at securing phased-early-retirement commitments, receivables from investment grants, and other financial receivables. The fair values of the fund shares correspond to their stock market prices on the reporting date. Cash and cash equivalents in foreign currency are valued at the conversion rate prevailing on the reporting date. Other financial assets are valued at cost, as no observable prices on active markets are available. The carrying amounts of the financial liabilities, trade payables, and other liabilities correspond to their fair values. The fair values of financial liabilities constitute the cash value of the cash flows expected in the future. Discounting is carried out on the basis of the interest rates valid on the reporting date. All other liabilities are valued at cost as no observable prices for them are available.

The interest expenses contain €14.5 million (2009: €12.8 million) from financial liabilities recognized at amortized cost. No profit was generated by the reversal of those financial instruments. Loans and receivables or financial liabilities at amortized cost in a foreign currency produced a net profit of €114.7 million (2009: €80.3 million) and a net loss of €-97.6 million (2009: €-79.3 million). These are posted under other operating income and expenses. Net profits from financial instruments that are held to maturity resulted in the amount of €1.1 million. This mainly involved interest income from noncurrent and current corporate bonds that are posted under securities. Exchange-rate effects did not arise. Net profits from available-for-sale financial instruments also originate from investment income. In addition, other operating income and expenses include €10.9 million (2009: €2.6 million) from the currency translation of cash and cash equivalents. 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.

### Financial Risks

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

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 its implemented risk management system, which is monitored by the Supervisory Board. The principles follow the aim of identifying, analyzing, coordinating, monitoring and communicating 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 net interest income.

**Credit Risk (Default Risk)**

In terms of financial instruments, the Group is exposed to a default risk should a contractual party fail to fulfill their commitments. This risk is, therefore, at a maximum in the amount of the respective financial instrument's positive fair value. To limit the risk of default, transactions are conducted only within defined limits and with partners of very high credit standing. To make efficient risk management possible, the market risks within the Group are controlled centrally. The conclusion and handling of transactions comply with internal guidelines and undergo monitoring procedures that take account of the separation of duties. As for operations, outstanding receivables and default risks are continually monitored and hedged against via trade credit insurance. Receivables for major customers are not so high as to pose an extraordinary concentration of risks. Default risks are covered by impairments.

**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 credit lines and liquid funds based on multiyear financial planning and continuous monthly liquidity planning.

To limit this risk, WACKER keeps liquid reserves in the form of current investments and credit lines. Furthermore, WACKER has concluded agreements with a number of banks for long-term syndicated loans and bilateral loans. The aggregate volume of these loans is significantly higher than the planned financial liabilities.

**Market Risk**

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

**Foreign Exchange Risk**

The evaluation of the currency-exposure risk potential to hedging via derivative financial instruments is based on the major foreign-currency income and expenditure. The greatest risk is posed by the us dollar, whose income is taken to mean all sales invoiced in us dollars, while all us-dollar purchasing as well as site costs incurred in us dollars are reported under us-dollar expenditure. The evaluation of potential risks includes not only the direct us-dollar income and expenditure, but also the indirect us-dollar impact of WACKER's main raw materials (methanol and natural gas). At the same time, indirect €-denominated sales are deducted from currency exposure. The us dollar is the exclusive 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. Increases in the euro exchange rate against the Singapore dollar, Chinese renminbi and Japanese yen, in contrast, have a minor impact. In determining sensitivity, we simulate a 10-percent us-dollar devaluation against the euro, which would have had an EBITDA effect of €-62 million as per December 31, 2010 and €-37 million as per December 31, 2009. The effect from cash-flow-hedge designated items would have increased equity before income taxes by €81.2 million. The Group's USD currency exposure amounted to €677 million as per December 31, 2010 (2009: €409 million).

**Interest Rate Risk**

The interest rate risk results mainly from financial debt and interest-bearing assets. Each year, the Executive Board determines the mixture of fixed and variable-interest net financial liabilities. Depending on the structure involved, interest rate derivatives are concluded as required. Depending on whether the instrument in question (financial liabilities, investments or interest rate derivatives) 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. Financial liabilities and fixed-interest investments are measured at amortized cost and are therefore, in accordance with IFRS 7, not subject to any interest-rate risk. 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, therefore, included in the calculation of earnings-related sensitivity. Changes in the market interest rates of interest rate derivatives affect the financial result, and are, therefore, included in any earnings-related sensitivity analysis. If current interest rates had been 100 base points higher (lower) on average, net interest income would have been €0.9 million (2009: €0.9 million) higher (lower).

#### **Raw-Material-Price Risk**

Potential combinations of factors in the natural gas or ethylene segments make it impossible to exclude the risk that the company's supply of raw materials might be insufficient. Ethylene-related risks, however, will be reduced in the future by the EPS pipeline currently under construction in Germany. In general, potential increases in raw-material prices pose a risk to results. An increase of 1 percent would have a negative effect of €8.4 million (2009: €7.2 million) on EBITDA.

#### **Derivative Financial Instruments**

Financial risks are also hedged using derivative financial instruments. The raw-material-price risks that WACKER hedges against result principally from the precious metals (platinum, gold and palladium) that are used as catalysts or for other purposes in the production process, as well as ongoing energy procurement. In 2010, precious-metal-related risks were not hedged using derivative financial instruments. Electricity-supply price hedging takes place via contractual stipulations, for which IAS 39's "own-use exemption" can essentially be used. These agreements, which are concluded for purposes 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 these currency risks, it uses derivative financial instruments, in particular currency option and forward exchange contracts, and foreign exchange swaps. Derivatives are used only if they are backed by positions, cash deposits and funding, or scheduled transactions arising from operations (underlying transactions). The scheduled transactions also include anticipated, but not yet invoiced sales in foreign currencies.

Foreign exchange hedging is carried out mainly for the US dollar, Japanese yen and Singapore dollar. In the case of foreign exchange hedging in the financing area, the maturities of the receivables and/or liabilities are taken into account. Interest rate hedging is carried out primarily for the euro, with the maturities of the underlying transactions being the most important factor.

Operational hedging in the foreign exchange area relates to the receivables and liabilities already recognized, and generally encompasses time horizons of between three and four months. The time horizon of strategic hedging is between four and a maximum of 33 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 market values refer to the maturity repurchase values (redemption values) of the financial derivatives as of the statement of financial position date. They are calculated on the basis of quoted prices or with the help of standard calculation methods. In the valuation of forward contracts and/or swaps, WACKER primarily applies the zero-coupon method and thus follows a consistent valuation methodology as in prior years. Due to potential interest-rate-market and currency-market distortions, values determined via the zero-coupon method may nevertheless differ from commercial values.



The derivatives are measured at their market values, irrespective of their stated purpose. They are reported in the statement of financial position under other assets and/or other liabilities. Where permissible, cash flow hedge accounting is applied for the strategic hedging of currency exchange risks from future foreign exchange positions. In such cases, the changes in the market values of foreign exchange contracts and the changes in the intrinsic values of currency options are recognized under equity with no effect on net income until the underlying transaction takes place, insofar as the hedge is effective. When future transactions are realized, the effects accumulated under equity are reversed through profit and loss. The changes in the current values of the currency options are posted to the statement of income.

In the fiscal year, the accumulated income and expenses recorded directly under equity included unrealized earnings amounting to €11.5 million (before tax) (2009: €31.7 million).

Derivative financial instruments of which the changes in market value are recognized in profit or loss led to a net result of €-23.3 million (2009: €-28.3 million). Of this amount, €7.1 million (2009: €15.0 million) is attributable to derivatives from hedge accounting. In the result for the period, no gains or losses from hedge accounting ineffectivities were recorded, as the hedging relationships were almost entirely effective. These are presented under other operating income and expenses.

In a small number of cases, there are embedded derivatives. These are generally measured at market values. If not derivable, they are measured at amortized cost. These, too, are reported under other assets or other liabilities, respectively. The variant of these that prevails at WACKER is such that normal supply and service relationships with suppliers and customers abroad were not concluded in the functional currency of one of the two contractual partners.

Depending on the nature of the underlying transaction, they are posted in the statement of income either under other operating result or, if financial liabilities are being hedged, under net interest income.

€ million	Dec. 31, 2010		Dec. 31, 2009	
	Nominal values	Market values	Nominal values	Market values
Foreign exchange derivatives .....	1,502.4	21.2	834.1	3.9
Other derivatives .....	115.6	2.2	-	-
Market values for derivative financial instruments within the framework of hedge accounting .....	-	25.2	-	14.1

The increase in the nominal values of the foreign exchange derivatives is basically caused by two factors: higher exposure in foreign currency and an extension in hedging. There were no longer any foreign currency options in 2010 (2009: US\$38 million (puts)). There are forward exchange contracts amounting to US\$1.53 billion, ¥12.93 billion and SG\$236.8 million.

Other derivatives involve interest-rate swaps with a notional sum of €100.0 million and electricity futures traded on the Norwegian market with a notional amount of €15.6 million. 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 80 percent of the Holla, Norway site's future silicon-production power needs. The futures fall due after a maximum of one year.

## 21 Notes to the Statement of Cash Flows

The cash flow from operating activity is calculated using the indirect method. The indirect calculation adjusts the relevant changes in statement of financial position items to remove any exchange rate effects and/or 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.

The cash flow from investment activity shows the actual outflow of funds, so these figures also cannot be reconciled with the additions in fixed assets in the consolidated statement of financial position. If subsidiaries or business activities are acquired or sold, the influences ensuing from these transactions are shown as separate items in the statement of cash flows. Financial investment in securities falling due in more than three months is reported separately under cash flow from investment activity, as these transactions must instead be attributed to the cash and cash equivalents in economic terms.

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 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, a reconciliation of the entire inflows and outflows for changing the financial liabilities in the statement of financial position is not possible.

For more details on the composition of funds made up of cash and cash equivalents, see [Note 11](#)

Other Non-Cash Expenses and Income		
€ million	2010	2009
Silicones	-7.3	-3.7
Polymers	-1.2	-0.9
Biosolutions	-1.1	-2.7
Polysilicon	-2.1	-0.1
Siltronic	-18.4	-3.1
Other	-28.6	-7.2
	-58.7	-17.7

## 22 Explanatory Notes on Segment Reporting

The Group's segment reporting is geared toward an 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. Any activities not assigned to an operating segment are shown under "Other." Currency translation results which cannot be assigned to a segment are likewise shown in this item. Although the Biosolutions segment does not exceed the threshold values stipulated by IFRS 8, WACKER decided to report it as a segment subject to reporting requirements due to its specific product and customer structure.

Statement of financial position and statement of income items are assigned to the operating segments in accordance with commercial discretion. 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 headquarters and the respective Group company's site.

WACKER measures the segments' success by the segmental success variables EBIT and EBITDA. EBIT consists of the gross result from sales, selling and general administrative expenses, research and development expenses, and other operating income and expenses less investments in joint ventures and associates and other income from investments. EBITDA is produced by adding depreciation and amortization, impairments, and write-ups to EBIT.

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 direct costs. Segment information is, as a rule, based on the same presentation and accounting methods as 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, as well as tax liabilities, deferred or otherwise. The Group's financial liabilities are allocated to individual segments in proportion to the segment assets. The Siltronic segment prepares its own partial consolidated financial statements.

Business with polyvinyl acetate solid resins for gumbase has been reported in the Biosolutions division since the beginning of the second half of 2009. The gumbase business was removed from the Polymers segment as part of changes to internal management and reporting. Sales from gumbase business operations, which were reported in the Biosolutions segment for the first time in 2009, amounted to €19.7 million and resulted in a small positive contribution to earnings.

Of the valuation changes included with no effect on results, €-4.3 million (2009: €12.8 million) is accounted for by the Siltronic segment and €6.0 million (2009: €-1.8 million) by "Other." The impairments are essentially related to the changes in the market values of derivative financial instruments from cash flow hedging.

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 in the USA, sales amounted to €735.6 million (2009: €567.0 million). Measured by the respective customer headquarters in the USA and China, the sales generated were €682.7 million (2009: €531.0 million) and €616.0 million (2009: €509.5 million) respectively. There are no customers with whom significant sales are generated.

The reconciliation of the segments' aggregate results with the net result for the year is derived from the following list:

<b>Reconciliation of Segment Results</b>		
€ million	2010	2009
Operating result of reporting segments (EBIT) .....	766.5	25.5
Consolidation .....	-1.9	1.3
<b>Group EBIT</b> .....	<b>764.6</b>	26.8
Financial result .....	-32.3	-23.5
<b>Income before tax</b> .....	<b>732.3</b>	3.3
Income taxes .....	-235.3	-77.8
<b>Net income for the year</b> .....	<b>497.0</b>	-74.5

## 23 Breakdown of Shareholdings/Key Indicators of Joint Ventures and Associated Companies

Unless otherwise stated, the following figures are IFRS results:

Affiliated Companies					
Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number <sup>1</sup>
<b>Germany</b>					
1	Alzwerke GmbH, Munich	8,379	-4,530	100	0
2	DRAWIN Vertriebs-GmbH, Ottobrunn	5,257	105	100	0
3	W. E. L. T. Reisebüro GmbH, Munich <sup>2</sup>	170	-1	51	0
4	Wacker-Chemie Versicherungsvermittlung GmbH, Munich	67	33	100	0
5	Wacker-Chemie Beteiligungsfinanzierungs GmbH, Munich	30	-	100	22
6	Wacker Polysilicon Geschäftsführungs GmbH, Nünchritz	27	1	100	0
7	Wacker-Chemie Erste Venture GmbH, Munich	80	-	100	22
8	Wacker-Chemie Zweite Venture GmbH, Munich	36	-	100	0
9	Wacker-Chemie Dritte Venture GmbH, Munich	387,727	-	100	0
10	Wacker-Chemie Sechste Venture GmbH, Munich	27	-	100	0
11	Wacker Biotech GmbH, Jena	-88	-237	100	0
12	Wacker-Chemie Siebte Venture GmbH, Munich	25	-	100	0
13	Wacker-Chemie Achte Venture GmbH, Munich	15,717	-	100	0
14	Siltronic AG, Munich	794,642	17,301	90	9
				10	0
<b>Rest of Europe</b>					
15	Wacker Chemicals Finance B. V., Krommenie, Amsterdam, Netherlands	174,844	46,394	100	0
16	Wacker-Chemicals Ltd., Egham, Surrey, Great Britain	1,107	1,004	100	0
17	Wacker-Chemie Italia S. r. L., Peschiera Borromeo, Milan, Italy	2,490	854	100	0
18	Wacker-Chemie Benelux B. V., Krommenie, Amsterdam, Netherlands	283	265	100	15
19	Wacker Chimie S. A. S., Lyon, France	374	194	100	0
20	Wacker-Kemi AB, Solna, Sweden	492	395	100	0
21	Wacker Química Ibérica, S. A., Barcelona, Spain	302	164	100	0
22	Siltronic Holding International B. V., Krommenie, Amsterdam, Netherlands	466,944	14,957	100	14
23	Wacker-Chemie S. r. o., Prague, Czech Republic	3,372	94	100	0
24	Wacker-Chemie Polska Sp. z o. o., Warsaw, Poland	331	182	100	0
25	Wacker-Chemie Hungária Kft., Budapest, Hungary	331	122	100	0
26	OOO Wacker Chemie RUS, Moscow, Russia	634	305	100	0
27	Wacker Chemicals Norway AS, Holla, Norway	10,740	-3,609	100	15
<b>The Americas</b>					
28	Wacker Química do Brasil Ltda., São Paulo, Brazil	10,266	41	100	0
29	Wacker Mexicana S. A. de C. V., Mexico, D. F., Mexico	1,334	874	100	0
30	Wacker Chemical Corp., Adrian, Michigan, USA	190,502	30,771	100	15
31	Wacker Polysilicon North America L. L. C., Cleveland, Tennessee, USA	13,747	-1,122	100	13
32	Siltronic Corp., Portland, Oregon, USA	64,428	27,148	100	22

### Affiliated Companies

Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number <sup>1</sup>
<b>Asia</b>					
33	Wacker Chemicals (South Asia) Pte. Ltd., Singapore	2,450	696	100	0
34	Wacker Chemicals Hong Kong Ltd., Hong Kong, China	4,251	-1,588	100	0
35	Wacker Metroark Chemicals Pvt. Ltd., Parganas, India	24,373	7,163	51	0
36	Wacker Chemicals Korea Inc., Seoul, South Korea	15,910	2,770	100	15
37	Wacker Chemicals East Asia Ltd., Tokyo, Japan	574	254	100	0
38	Wacker Chemicals Trading (Shanghai) Co. Ltd., Shanghai, China	5,950	863	100	33
39	Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore	47,898	-12	51	0
40	Wacker Chemicals Fumed Silica (ZJG) Co. Ltd., Zhangjiagang, China	26,036	5,880	51	38
41	Wacker Chemicals (Zhangjiagang) Co. Ltd., Zhangjiagang, China	12,311	-18,300	100	43
42	Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi, China	1,799	2,808	100	43
43	Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, China	-38,973	-134,301	100	0
44	Wacker Polymer Systems (Nanjing) Co. Ltd., Nanjing, China	28,556	6,793	100	43
45	Wacker Chemicals India Ltd., Mumbai, India	3,460	104	100	15
46	Siltronic Singapore Pte. Ltd., Singapore	101,951	30,959	100	22
47	Siltronic Asia Pte. Ltd., Singapore	2,987	2,839	100	22
48	Siltronic Japan Corp., Hikari, Japan	19,478	12,470	100	22
<b>Other regions</b>					
49	Wacker Chemicals Australia Pty. Ltd., Melbourne, Australia	313	-37	100	0
50	Wacker Chemicals Middle East Ltd., Dubai, UAE	1,767	11	100	0

### Joint ventures<sup>3</sup>

Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number <sup>1</sup>
51	Thin Materials AG, Eichenau, Germany	6	-279	34.74	0
52	Wacker Asahi Kasei Silicone Co. Ltd., Tokyo, Japan	14,239	2,476	50	0
53	Dow Corning (ZJG) Holding Co. Private Ltd., Singapore	183,154	-16,758	25	0
54	Wacker Dymatic (Shunde) Co. Ltd., Guangdong, China	13,154	3,009	50	43
55	Siltronic Samsung Wafer Pte. Ltd., Singapore	138,937	-47,591	50	22

\* Identifier:

a) Wacker Chemie AG has concluded, directly or indirectly, profit and loss transfer agreements with these entities.

b) The Executive Board of Wacker Chemie AG has agreed not to disclose the financial statements of these entities (Section 264, Subsection 3 of the German Commercial Code).

<sup>1</sup> Serial number 0: Wacker Chemie AG

<sup>2</sup> Prior-year figures

<sup>3</sup> Only direct holdings in the relevant parent company are listed

## Key Figures for Joint Ventures

€ million	2010		2009	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Sales	304.3	152.2	292.7	146.5
Operating result	-15.9	-7.9	-254.8	-127.4
Result after taxes	-32.9	-16.4	-270.0	-135.0
Noncurrent assets	520.1	260.1	519.9	260.0
Current assets	132.3	66.3	112.1	56.1
	652.4	326.4	632.0	316.1
Equity	166.3	83.2	192.3	96.2
Noncurrent liabilities	385.5	192.8	357.3	178.6
Current liabilities	100.6	50.4	82.4	41.3
	652.4	326.4	632.0	316.1

In 2010, an amount for the Planar Solutions LLC joint venture for the period from January 1, 2010 until its disposal on December 4, 2010 is included in sales (€48.8 million), operating result (€9.2 million) and result after taxes (€9.2 million).

An amount for the WACKER SCHOTT Solar GmbH joint venture for the period from January 1, 2009 until its disposal in October 2009 is included in sales (€72.2 million), operating result (€-198.4 million) and result after taxes (€-199.1 million).

## Key Figures for Associated Companies

€ million	2010		2009	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Sales	157.2	39.3	4.3	1.1
Operating result	-39.0	-9.8	-50.0	-12.5
Result after taxes	-79.7	-20.0	-76.8	-19.2
Noncurrent assets	938.1	234.5	732.2	183.0
Current assets	109.7	27.4	58.7	14.7
	1,047.8	261.9	790.9	197.7
Equity	120.5	30.1	144.6	36.1
Noncurrent liabilities	637.0	159.3	473.6	118.4
Current liabilities	290.3	72.5	172.7	43.2
	1,047.8	261.9	790.9	197.7

## 24 Related Party Disclosures

IAS 24 stipulates that parties which control, or are controlled by, Wacker Chemie AG must be disclosed unless they are already included in Wacker Chemie AG's consolidated financial statements as a consolidated company. Control in this sense is held to apply when a 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 is affected by the disclosure obligations under IAS 24 only in respect of the business relations with Wacker Chemie AG's major shareholders and its Executive and Supervisory Board members. The provisions 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.

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 is of subordinate importance. Furthermore, WACKER Group companies did not conduct any significant transactions whatsoever with members of Wacker Chemie AG's Executive or Supervisory Board 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.

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 ten percent of the voting shares in Wacker Chemie AG.

In fiscal 2010, no cases of voting-share reporting thresholds being exceeded were reported. Further detailed information has been published in the German register of companies.

[www.unternehmensregister.de](http://www.unternehmensregister.de)

Business with non-consolidated subsidiaries, joint ventures and associated companies is, as a rule, carried out on conditions that are customary between outside third parties. For joint-venture and associated-company product shipments, contractually agreed transfer-price formulas were defined that contain, e.g., start-up costs and financing elements. The following table shows the volume of trade receivables with related parties, which are reported in the WACKER consolidated financial statements using the equity method or recognized in the statement of financial position at amortized cost:

€ million		2010				2009			
		Income	Ex- penses	Trade receiv- ables	Liabilities	Income	Ex- penses	Trade receiv- ables	Liabilities
Associated companies / joint ventures	.....	89.2	-76.2	18.2	-2.4	116.2	-10.5	24.0	-1.8
Non-consolidated subsidiaries	.....	-	-0.2	0.2	-	0.1	-0.4	0.4	-0.1

The transactions in question concern supplies and services during the normal course of business in connection with sales revenue, license revenue and administrative expense allocations. Related parties submitted invoices for material purchases and commissions. Any guarantees or other securities are reported under other financial obligations.

See Note 17



## Information Regarding Compensation of the Supervisory and Executive Boards:

<b>Compensation for the Executive and Supervisory Boards</b>				
€	Fixed com- pensation	Variable com- pensation	Pensions <sup>1</sup>	Total
Executive Board compensation 2010 .....	2,597,871	4,176,000	1,511,168	<b>8,285,039</b>
Executive Board compensation 2009 .....	2,588,600	1,540,582	1,318,182	<b>5,447,364</b>
Pension commitments for active members of the Executive Board 2010 .....				<b>17,433,247</b>
Pension commitments for active members of the Executive Board 2009 .....				<b>14,707,726</b>
Expenses for former members of the Executive Board and their surviving dependents 2010 .....				<b>791,559</b>
Expenses for former members of the Executive Board and their surviving dependents 2009 .....				<b>791,510</b>
Pension commitments for former members of the Executive Board and their surviving dependents 2010 .....				<b>19,179,121</b>
Pension commitments for former members of the Executive Board and their surviving dependents 2009 .....				<b>18,702,075</b>
Supervisory Board compensation 2010 .....	-- 717,000	-- 656,250		<b>1,373,250</b>
Supervisory Board compensation 2009 .....	-- 717,000	--		<b>717,000</b>

<sup>1</sup> Pensions include the interest cost as well as the service cost.

Detailed information about Executive Board compensation is contained in the compensation report. The compensation report is 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 the usual market terms and conditions. These transactions were published both in the German register of companies and on the Wacker Chemie AG website at:

[www.wacker.com/annual-document](http://www.wacker.com/annual-document)

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

Munich, Germany, February 21, 2011  
Wacker Chemie AG

**Rudolf Staudigl**                      **Wilhelm Sittenthaler**

**Joachim Rauhut**                      **Auguste Willems**

# Supervisory Board

As of December 31, 2010

## Dr. Peter-Alexander Wacker<sup>1,2,3</sup>

Chairman  
Starnberg  
Business studies graduate  
(Diplom-Kaufmann)

**Chairman of the Supervisory Board  
and Advisory Council**  
Giesecke & Devrient GmbH

**Managing Director**  
Dr. Alexander Wacker  
Familiengesellschaft mbH

## Anton Eisenacker\*<sup>1,2,3</sup>

Deputy Chairman  
Perach  
Certified Chemicals Technologist

## Peter Áldozó\*

Burghausen  
HR Specialist

## Dr. Konrad Bachhuber\*

Shanghai, China  
Chemistry Graduate (Diplom-Chemiker)  
Plant Manager, Zhangjiagang, China

**Chairman of the Board of Directors**  
Wacker Chemicals Fumed Silica  
(Zhangjiagang) Co. Ltd.\*\*  
Wacker Polymer Systems (Zhangjiagang) Co. Ltd.\*\*  
(until September 30, 2010)  
Wacker Polymer Systems (Wuxi) Co. Ltd.\*\*  
Wacker Chemicals Fumed Silica  
(Zhangjiagang) Holding Co. Private Ltd.\*\*

**Member of the Board of Directors**  
Wacker Chemicals (Zhangjiagang) Co. Ltd.\*\*  
Wacker Polymer Materials (Shanghai) Co. Ltd.\*\*  
(until September 30, 2010)  
Wacker Polymer Systems (Nanjing) Co. Ltd.\*\*

## Matthias Biebl

Munich  
Attorney and bank in-house lawyer  
UniCredit Bank AG

## Dr. Werner Biebl

Munich  
Chief Public Prosecutor (retired)

**Managing Director**  
Dr. Alexander Wacker  
Familiengesellschaft mbH

## Marko Fartelj\*

Kirchdorf  
Machine Operator

## Uwe Fritz\*<sup>1</sup>

Julbach  
Altötting District Chairman of  
the IG BCE labor union

**Member of the Supervisory Board**  
Siltronic AG\*\*

## Eduard-Harald Klein\*

Neuötting  
Operator

**Manfred Köppl\***

Kirchdorf  
Industrial Mechanic

**Franz-Josef Kortüm<sup>1,2</sup>**

Munich

**Chairman of the Executive Board**  
Webasto AG

**Member of the Advisory Council**  
Brose Fahrzeugteile GmbH & Co. KG

**Member of the Advisory Council**  
ERGO Versicherungsgruppe AG

**Member of the Supervisory Board**  
Schaeffler GmbH (since September 17, 2010)

**Seppel Kraus\***

Olching  
Regional head of the IG BCE labor union,  
Bavaria

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

**Dr. Thomas Strüngmann**

Tegernsee  
Business studies graduate  
(Diplom-Kaufmann)  
Co-Managing Director, Athos Service GmbH

**Dr. Bernd W. Voss<sup>3</sup>**

Kronberg i. T.

**Member of the Board of Directors**  
ABB Ltd.

**Member of the Supervisory Board**  
Continental AG

**Dr. Susanne Weiss**

Munich  
Attorney

**Chairwoman of the Supervisory Board**  
ROFA AG

**Member of the Supervisory Board**  
UniCredit Bank AG

**Member of the Supervisory Board  
and Advisory Council**  
Giesecke & Devrient GmbH

**Member of the Supervisory Board**  
Strenesse AG (since Dezember 1, 2010)

**Prof. Dr. Ernst-Ludwig Winnacker**

Munich  
Professor Emeritus of Biochemistry at LMU,  
Munich  
Secretary General of HFSP Human Frontier  
Science Program, Strasbourg

**Chairman of the Supervisory Board**  
MediGene AG

**Member of the Supervisory Board**  
Bayer AG

\* Employee representative

\*\* Affiliated company

<sup>1</sup> Mediation Committee: Chairman Dr. Peter-Alexander Wacker

<sup>2</sup> Executive Committee: Chairman Dr. Peter-Alexander Wacker

<sup>3</sup> Audit Committee: Chairman Dr. Bernd W. Voss

# Executive Board

As of December 31, 2010

## Dr. Rudolf Staudigl

**President & CEO**

### SILTRONIC

Executive Personnel  
Corporate Development  
Corporate Communications  
Investor Relations  
Corporate Auditing  
Legal & Insurance  
Compliance

**Chairman of the Supervisory Board**

Siltronic AG\*\*  
Pensionskasse der Wacker Chemie VVaG

**Member of the Supervisory Board**

Groz-Beckert KG

**Member of the Advisory Council**

Deutsche Bank AG

**Chairman of Bayerische Chemieverbände**

## Dr. Joachim Rauhut

### WACKER POLYSILICON

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

**Member of the Supervisory Board**

Siltronic AG\*\*  
Pensionskasse der Wacker Chemie VVaG  
MTU Aero Engines Holding AG  
MTU Aero Engines GmbH

**Member of the Advisory Council**

J. Heinrich Kramer Holding GmbH

## Dr. Wilhelm Sittenthaler

### WACKER SILICONES

Human Resources (Personnel Director)  
Corporate Research & Development  
Intellectual Property  
Regions: India, Asia/Pacific

**President & CEO**

Siltronic AG\*\* (until September 30, 2010)

**Member of the Supervisory Board**

Siltronic AG\*\* (since October 1, 2010)

**Member of the Supervisory Board**

Pensionskasse der Wacker Chemie VVaG

**Chairman of the Board of Directors**

Siltronic Samsung Wafer Pte. Ltd.\*\*\*  
(until October 8, 2010)

## Auguste Willems

### WACKER POLYMERS

### WACKER BIOSOLUTIONS

Corporate Engineering  
Sales & Distribution  
Corporate Security  
Site Management  
Environment, Health, Safety  
Product Stewardship  
Regions: Europe, Middle East

**Member of the Bavarian State Branch Advisory**

**Committee**

TÜV Süd AG (since February 11, 2010)

\*\* Subsidiary

\*\*\* Joint venture

# Corporate Governance Report and Declaration on Corporate Management

Corporate governance is an important part of a company's success, 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 for the Supervisory Board – on corporate management in accordance with Item 3.10 of the German Corporate Governance Code (Code) and Section 289a (1) of the German Commercial Code (HGB).

## Declaration of Conformity and Corporate Governance Reporting

The Executive and Supervisory Boards dealt intensively with the company's corporate governance and the alterations to the Code in the 2010 fiscal year. The Executive Board and the Supervisory Board have resolved to issue the following annual Declaration of Conformity as per Section 161 of the German Stock Corporation Act (AktG). The Declaration of Conformity was made permanently available to the general public on the company's website.

## The 2010 Declaration of Conformity Issued by Wacker Chemie AG's Executive and Supervisory Boards

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

In December 2009, the Executive Board and the Supervisory Board of Wacker Chemie AG issued their last declaration of conformity pursuant to Section 161 of the German Stock Corporation Act. Since that time, Wacker Chemie AG has complied with the recommendations of the German Corporate Governance Code in the version dated June 18, 2009, with the following exceptions, and will comply with the recommendations of the Code in the version dated May 26, 2010, except as follows:

### Exceptions

#### a) D&O Insurance Deductible for Supervisory Board Members

German law and a company's articles of association set clear limits as regards a 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, an Executive Board is responsible for independently managing the corporation. A 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 operative business. The same applies to measures taken to avert damage or loss to the company. Since the Supervisory Board members receive a relatively low representation allowance when compared to the Executive Board members' compensation, we do not deem the agreement of a deductible reasonable for members of the Supervisory Board.

#### b) Severance Pay Cap

We will comply with this recommendation of the Code on new appointments to the Executive Board, as well as the re-appointment of Executive Board members.

## c) Appropriate Representation of Women on the Executive Board

The considerable importance that Wacker Chemie AG attaches to diversity extends to Executive Board membership. Nonetheless, expertise – including experience gained abroad – and qualifications are the key criteria here. For this reason, we do not consider it expedient to prioritize “the aim of appropriate representation of women” over expertise and qualifications.

## d) Formation of a Nomination Committee within the Supervisory Board

The Supervisory Board is 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 suitable candidates 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.

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

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.

## 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 – whether shareholders, shareholder representatives, analysts, the media or the interested general public – promptly and with equality of access. We regularly publicize important dates for the company in a financial calendar published in our Annual Report, in the interim reports and on our website. The 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. We organize a “Capital Markets Day” once a year. Important presentations can be viewed freely on the internet. All of the 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 can also be found there. Further information is provided by our online customer magazine, media library and Podcast Center. [www.wacker.com](http://www.wacker.com)

### Annual Shareholders' Meeting

The Annual Shareholders' Meeting provides an efficient and extensive venue for informing shareholders about the company's situation. Even before the Annual Shareholders' Meeting begins, shareholders receive important information about the last 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. All of the documents are posted on our 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 to exercise their rights 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 in the German Stock Corporation Act. It consists of the Executive Board, which manages the company, and the Supervisory Board, which supervises the company. These two bodies are kept strictly separate from one another with regard to both their membership and their areas of expertise. The Executive and Supervisory Boards collaborate closely to ensure WACKER's long-term and enduring success.

#### Executive Board

The Executive Board currently consists of four members. [For further details, see page 224](#)

The Executive Board bears complete 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 establishes an appropriate risk management system.

The members of the Executive Board bear joint responsibility for managing the company. In addition to this, the individual members of the Executive Board are fully responsible for managing their respective units. All Executive Board decisions generally require a simple majority. In the case of a tie of votes, the president & CEO has the deciding vote. However, he does not have the right to veto Executive Board resolutions.

#### Close Cooperation Between the Executive and Supervisory Boards

The Executive and Supervisory Boards cooperate closely with one another in the interests of the company. Their common goal is the sustainable development of the company and its value. The Executive Board reports to the Supervisory Board regularly, promptly and comprehensively about all issues of planning, business development, the risk situation and risk management that are relevant to the company. It explains to the Supervisory Board any deviations from the approved plans and objectives shown by the course of business, and specifies the reasons for them.

Certain transactions defined in Wacker Chemie AG's constitution require the Supervisory Board's approval prior to their conclusion. These include, among others, 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 sizeable long-term loans. The Executive Board also provides the Supervisory Board with regular reports on compliance.

#### 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. [For further details, see page 222](#)

The Supervisory Board comprises 16 members. In compliance with the German Co-Determination Act (MitbestG), it has an equal number of shareholder and employee represent-

atives. The Supervisory Board appoints the members of the Executive Board and oversees and advises it on the management of the company.

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.

#### 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 the 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 develops the system for Executive Board compensation, on the basis of which the meeting of the full Supervisory Board determines the compensation payable to Executive Board members. The Executive Committee consists of the Chairman of the Supervisory Board, Dr. Peter-Alexander Wacker, and Supervisory Board members Anton Eisenacker and Franz-Josef Kortüm.

The Audit Committee does the groundwork for the Supervisory Board's decisions on the adoption of the annual financial statements and the approval of the consolidated financial statements. Its work also includes an audit of the consolidated interim financial statements for the first half-year, discussion of the quarterly reports, and issues involving risk management. In connection with this, the committee is obliged to pre-audit the annual financial statements, the consolidated financial statements, the Wacker Chemie AG management report, the Group management report and the proposal for the distribution of profits. In particular, the committee monitors the accounting processes and the effectiveness of the internal control, risk management and auditing systems. It performs these tasks in close cooperation with the external auditors. The Audit Committee also prepares the agreement with the external auditors and takes suitable steps to establish and monitor the auditing company's independence. On this basis, it gives the Supervisory Board a recommendation as to whom it should propose as auditor to the Annual Shareholders' Meeting. The members of this committee are Dr. Bernd W. Voss, Dr. Peter-Alexander Wacker and Anton Eisenacker. The committee is chaired by Dr. Bernd W. Voss, who has special knowledge and experience in the fields of accounting and auditing.

The Group also has a statutory Mediation Committee, the tasks of which are stipulated by German law. Chaired by Dr. Peter-Alexander Wacker, this committee also consists of Anton Eisenacker, Franz-Josef Kortüm and Uwe Fritz.

### 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. The Group's compliance policy is regularly reviewed and adapted.

WACKER's compliance organization is responsible in this regard. Compliance officers hold regular training courses to inform employees of key legal provisions and internal regulations. These officers serve as contacts whenever employees have questions or need advice about compliance. In 2010, we introduced an electronic compliance test (in the form of an e-learning program) for all employees who come into contact with other companies' representatives.



### **Responsible Care® and Code of Conduct – Integral Parts of Corporate Management**

Having been actively involved in the chemical industry's global Responsible Care® initiative from the outset, WACKER is committed to the worldwide implementation of this initiative. To anchor sustainability even more firmly within the Group, WACKER appointed a Group Coordinator for Responsible Care® in 2008. This coordinator supports and advises the various corporate sectors on sustainability management. Additionally, the coordinator ensures that our supply-chain partners are likewise committed to complying with recognized health and safety standards and adopt a responsible attitude toward the environment.

WACKER is equally committed to the UN's Global Compact initiative. We observe the Global Compact's ten principles, which deal with social and environmental standards, anticorruption and the protection of human rights. In 2008, we asked our suppliers to support this voluntary commitment, too, and it is now an integral part of our supplier management system.

### **Social Commitments**

WACKER sees itself as a good corporate citizen. In regions where the company is active, 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 Section 15 of the German Securities Trading Act (WpHG)**

We comply with the statutory provisions of Section 15 of the German Securities Trading Act. 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 whose functions necessitate access to insider information are listed in an insider directory.

#### **Share Dealings by the Executive and Supervisory Boards**

Section 15a of the German Securities Trading Act stipulates that members of the Executive and Supervisory Boards and certain dependents are obliged to notify the German Federal Financial Supervisory Authority (BaFin) and the company of any purchase or sale of WACKER shares or any further rights related to such shares if an amount of €5,000 is exceeded within one calendar year.

In 2010, members of the Executive and Supervisory Boards and their dependents subject to reporting requirements gave notification of eleven purchasing transactions involving between 35 to 391 WACKER shares. The volumes of the individual transactions ranged from €3,411 to €55,092.

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 voting shares in Wacker Chemie AG.

#### **Dealing Responsibly with Opportunities and Risks**

Dealing responsibly with risks is an important part of good corporate governance. WACKER uses systematic opportunity and risk management to regularly identify and monitor material risks and opportunities. Its objective is to recognize risks at an early stage and minimize them with consistent risk management. The Executive Board informs the Supervisory Board regularly about existing risks and their development. The Audit Committee concerns itself regularly with the accounting process and the effectiveness of the internal control, risk management and auditing systems. It is also involved in auditing the financial state-

ments. The opportunity and risk management system is continuously being enhanced and adapted to meet changing conditions.

### Accounting and Auditing

As stipulated by the German 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, during the course of their audit activities, the auditors establish facts which reveal errors in the Declaration of Conformity in accordance with 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 that also covers the activities of the Executive and Supervisory Board members (i.e. D&O insurance). As of July 1, 2010, this insurance has included the statutory deductible for the members of the Executive Board.

### New Targets for Supervisory Board Composition

WACKER has always placed importance on having highly qualified individuals sit on its Supervisory Board. Pursuant to a new item of the German Corporate Governance Code (Item 5.4.1), WACKER's Supervisory Board aims to have its composition meet the following targets in the future. Not only are Supervisory Board members to be highly qualified, but they should also be internationally experienced. A further aim is to achieve an appropriate number of female Supervisory Board members.

At its meeting of December 9, 2010, the Supervisory Board approved the following targets:

1. An appropriate number of Supervisory Board members – at least one – should have international experience.
2. The Supervisory Board's Rules of Procedure already deal extensively with members' conflicts of interest. In general, the Supervisory Board strives to prevent such conflicts of interest and will also take this goal into account when making recommendations to the Annual Shareholders' Meeting.
3. To achieve ever greater diversity, the Supervisory Board wishes to increase the number of female Supervisory Board members to at least two over the next two terms. In its bid to meet this goal, the Supervisory Board hopes that there will be at least one female employee representative and at least one female shareholder representative.

The Supervisory Board's Rules of Procedure already define an age limit.

### Report on Executive Board Compensation

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

The full Supervisory Board, following preparation by the Executive Committee, is responsible for determining the individual compensation paid to members of Wacker Chemie AG's Executive Board.

In light of the German Act on the Appropriateness of Management Board Compensation (VorstAG) as per August 2009, the compensation system in effect until the end of fiscal 2009 was subjected to a review by an external compensation expert to ensure that it meets the new legal requirements. As a result of this review, the Supervisory Board decided to modify the Executive Board compensation system at its meeting on March 17, 2010. In this respect, the existing, well-proven structure and key performance indicators were, in principle, retained, though combined with a stronger incentive toward sustainable corporate development. Essentially, the following changes were enacted:

- i) Variable compensation was converted to a multiyear evaluation basis.
- ii) The Executive Board members are obligated to invest part of their variable compensation in Wacker Chemie AG shares with a mandatory two-year holding period.
- iii) The Supervisory Board was granted greater leeway in setting compensation to reflect the overall circumstances within a specified framework.
- iv) The previously agreed minimum bonus was abolished.

The Supervisory Board agreed to pass these changes, which are applicable to all members of Wacker Chemie AG's Executive Board, with retroactive effect as of January 1, 2010.

Moreover, effective July 1, 2010, WACKER implemented the regulations introduced under the "VorstAG" for a deductible in D&O insurance for all members of the Executive Board.

In the 2010 fiscal year, the Executive Board's compensation consisted of the following significant components:

#### **(I) A fixed annual salary:**

The fixed annual salary is paid monthly in identical installments.

#### **(II) A variable, performance-related bonus:**

The amount of the variable bonus, which is paid annually and retrospectively, depends on the attainment of agreed annual Group targets set by the Supervisory Board for all Executive Board members with regard to the following key indicators: business value contribution, cash flow and target return. The bonus is calculated based on goal achievement in 2010, as well as on average overall target attainment for 2009 and 2008. The calculated goal bonus in the event of 100-percent target attainment during the evaluation period amounts to 180 percent of the average annual base salary in the last year of the evaluation period, whereas the maximum bonus totals 220 percent of the average annual base salary in the last year of the evaluation period. Thus, the Supervisory Board has the discretion to increase or reduce the calculated bonus based on overall recognition of all circumstances, including individual performance within a specified framework. The Executive Board members are obligated to purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus. A holding period of two years is in effect for these shares. In the first year of compensation-system conversion, shares already held can be included in this mandatory share investment.

**(III) A contribution to retirement benefits:**

The members of the Executive Board become entitled to the payment of an annual retirement pension should the event insured against occur, i.e. when the member in question reaches retirement age or becomes afflicted by permanent occupational disability. Before the event insured against occurs, Dr. Rudolf Staudigl, Dr. Joachim Rauhut and Dr. Wilhelm Sittenthaler have a basic entitlement to the premature payment of an annual pension if they leave the Executive Board against their will without good cause or if they, of their own accord, cease their activity for good cause, the company being responsible for said cause. The amount of the retirement pension, which, like the fixed annual salary, is not performance related, is determined by the amount of the last annual salary to be drawn and the duration of Executive Board membership. A percentage of the base salary is defined as a basic amount and adjusted by means of an annual percentage rate of increase for each year of service.

The company grants the members of the Executive Board appropriate insurance coverage, in particular D&O insurance, with a deductible in accordance with "VorstAG" stipulations.

The table below lists the current level of each Executive Board member's compensation:

Executive Board Compensation					
€	Fixed compensation <sup>1</sup>	Variable compensation	2008 reversal of a provision for variable compensation	Expenses for post-employment benefits <sup>2</sup>	Total
<b>Dr. Rudolf Staudigl</b>					
2010	800,709	1,305,000	–	602,117	2,707,826
2009	799,951	847,500	–366,544	592,506	1,873,413
<b>Dr. Joachim Rauhut</b>					
2010	603,951	957,000	–	249,020 <sup>3</sup>	1,809,971
2009	599,463	621,500	–297,000	196,900	1,120,863
<b>Dr. Wilhelm Sittenthaler</b>					
2010	594,760	957,000	–	318,082	1,869,842
2009	596,853	621,500	–197,999	294,604	1,314,958
<b>Auguste Willems</b>					
2010	598,451	957,000	–	341,949	1,897,400
2009	592,333	621,500	–151,250	234,172	1,296,755
<b>Dr. Peter-Alexander Wacker</b>					
2010	–	–	–	–	–
2009	–	–	–158,625	–	–158,625
<b>Total</b>					
2010	2,597,871	4,176,000	–	1,511,168	8,285,039
2009	2,588,600	2,712,000	–1,171,418	1,318,182	5,447,364

<sup>1</sup> The fixed compensation additionally includes the use of a company car.

<sup>2</sup> The pension includes the interest cost, as well as the service cost. The interest cost amounts to €591,016 (2009: €608,592).

<sup>3</sup> The start of pension entitlement was synchronized with the employment contract expiration date.

**Expenses for Former Executive Board Members and Their Surviving Dependents**

€	Total
2010	791,559
2009	791,510

**Pension Provisions for Executive Board Members**

€	Total
<b>Pension Provisions for Active Members of the Executive Board</b>	
2010	17,433,247
2009	14,707,726
<b>Pension Provisions for Former Executive Board Members and Their Surviving Dependents</b>	
2010	19,179,121
2009	18,702,075

**Report on Supervisory Board Compensation**

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

In return for their work, the members of the Supervisory Board receive fixed annual compensation in the amount of €25,000 payable when the fiscal year expires. Supervisory Board members who join or depart from the Supervisory Board during the ongoing fiscal year receive the appropriate pro rata compensation.

In addition to their fixed compensation, the members of the Supervisory Board receive – after the annual financial statements have been adopted – performance-related compensation for the previous fiscal year based on the percentage return on assets\*. The performance-related compensation can be between 0 percent and 125 percent of the fixed annual compensation.

The fixed and performance-related 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 committee chairmen, and by a factor of 1.5 for members of committees. This arrangement does not take account of double and multiple functions.

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 €12,000. They are additionally refunded any VAT payable on their compensation.

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's members.

**Supervisory Board Compensation**

€	Fixed compensation <sup>1</sup>	Variable compensation	Total
2010	717,000	656,250	1,373,250
2009	717,000	–	717,000

<sup>1</sup> Fixed compensation includes the aforementioned annual lump sum.

\* Definition of the return on assets for this purpose: the percentage ratio of earnings before interest and taxes to the capital employed in accordance with IFRS consolidated financial statements, with the capital employed corresponding to the total of current and noncurrent assets less liquidity.

## Declaration by the Executive Board on the 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 published 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 reliability and workability of the monitoring and steering systems are examined continuously by the internal auditing division. 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 will be discussed in detail by the Supervisory Board's audit committee at its meeting on February 25, 2011. For information about the Supervisory Board's audit, please refer to its report.

### Assurance by the Legal Representatives in Accordance with Sections 297 (2), 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 assets, liabilities and financial position, and profit or loss of the Group, 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, Germany, February 21, 2011  
Wacker Chemie AG

Rudolf Staudigl      Wilhelm Sittenthaler

Joachim Rauhut      Auguste Willems

# Auditors' Report

We have audited the consolidated financial statements prepared by Wacker Chemie AG – 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, 2010. 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, 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 and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, Germany, February 21, 2011  
KPMG AG Wirtschaftsprüfungsgesellschaft

**Kozikowski**  
Auditor

**Dr. Grottel**  
Auditor

# Multiyear Overview

Multiyear Overview						
€ million	2010	Change in %	2009	2008	2007	2006
Sales	4,748.4	27.7	3,719.3	4,298.1	3,781.3	3,336.9
Income before tax	732.3	> 100	3.3	641.8	632.1	415.6
Net income for the year	497.0	> 100	-74.5	438.3	422.2	311.8
EBITDA	1,194.5	96.9	606.7	1,055.2	1,001.5	786.3
EBIT	764.6	> 100	26.8	647.9	649.6	456.3
Fixed assets	3,273.5	8.5	3,017.5	2,951.7	2,401.9	2,098.9
Intangible assets	33.2	50.9	22.0	24.7	10.1	16.3
Property, plant and equipment	3,027.2	9.0	2,778.5	2,659.6	2,123.4	1,917.6
Financial assets	213.1	-1.8	217.0	267.4	268.4	165.0
Current assets, incl. deferred taxes + prepaid expenses and deferred charges	2,227.7	46.2	1,524.4	1,673.4	1,516.2	1,159.3
Liquid funds	545.2	49.9	363.6	204.2	366.5	42.9
Equity	2,446.8	26.0	1,942.4	2,082.8	1,865.6	1,585.8
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/ other equity items	2,049.0	32.0	1,552.4	1,695.3	1,477.2	1,196.8
Non-controlling interests	24.7	46.2	16.9	14.4	15.3	15.9
Borrowed capital	3,054.4	17.5	2,599.5	2,542.3	2,052.5	1,672.4
Provisions	893.2	2.9	867.8	719.5	651.6	587.2
Liabilities, incl. deferred taxes + prepaid expenses and deferred charges	2,161.2	24.8	1,731.7	1,822.8	1,400.9	1,085.2
<b>Total assets</b>	<b>5,501.2</b>	<b>22.1</b>	<b>4,541.9</b>	<b>4,625.1</b>	<b>3,918.1</b>	<b>3,258.2</b>
Employees (average for the year)	16,033	2.0	15,719	15,798	14,926	14,599
Employees (Dec. 31)	16,314	4.5	15,618	15,922	15,044	14,668
<b>Employees (total)</b>	<b>16,314</b>	<b>4.5</b>	<b>15,618</b>	<b>15,922</b>	<b>15,044</b>	<b>14,668</b>



€ million	2010	Change in %	2009	2008	2007	2006
<b>Key profitability figures</b>						
Return on sales (EBIT) = EBIT/sales (%)	16.1	> 100	0.7	15.1	17.2	13.7
Return on sales (EBITDA) = EBITDA/sales (%)	25.2	54.6	16.3	24.6	26.5	23.6
Return on equity = net income for the year/equity (as of Jan. 1) (%)	20.3	> 100	-3.8	21.0	22.6	19.7
ROCE – return on capital employed = EBIT/capital employed (%)	24.8	> 100	0.9	25.7	25.3	17.9
<b>Key statement of financial position figures</b>						
Investment intensity of the fixed assets = fixed assets/total assets (%)	59.5	- 10.4	66.4	63.8	61.3	64.4
Equity ratio = equity/total assets (%)	44.5	4.0	42.8	45.0	47.6	48.7
Capital structure = equity/borrowed capital (%)	80.1	7.2	74.7	81.9	90.9	94.8
<b>Cash flow and investments</b>						
Cash flow from operating activities	1,103.1	43.7	767.5	1,005.4	1,322.5	761.1
Cash flow from long-term investment activities	-681.5	- 14.9	-800.4	-983.7	-678.8	-576.4
Cash flow from financing activities	3.7	-96.0	92.5	-87.7	-318.9	-174.9
Net cash flow = operating cash flow + investment cash flow	421.6	> 100	-32.9	21.7	643.7	184.7
Investments (incl. financial assets)	695.1	- 6.1	740.1	916.3	699.3	525.3
<b>Share and valuation</b>						
Consolidated net income	490.7	> 100	-70.8	439.4	422.0	311.3
Earnings per share (€) = consolidated net income/number of shares	9.9	> 100	-1.4	8.8	8.5	6.5
Market capitalization (total number of shares without treasury shares)	6,487.9	6.9	6,066.7	3,711.4	9,821.3	4,752.3
Number of shares	49,677,983	-	49,677,983	49,677,983	49,677,983	48,207,178
Price as of reporting date Dec. 31	130.6	6.9	122.1	74.7	197.7	98.6
Dividend per share (€)	3.20	> 100	1.20	1.80	3.00	2.50
Dividend yield (%)	2.8	> 100	1.4	1.5	2.0	2.1
Capital employed	3,078.9	6.9	2,878.4	2,520.6	2,566.9	2,555.1

# Chemical Glossary

## B

### Biologics

Therapeutically effective proteins (pharmaceutical proteins) that, unlike traditional pharmaceutical actives, are bioengineered and can help in the diagnosis, cure or prevention of diseases.

### Biopolymers

Polymers that are derived from renewable raw materials, or biodegradable bio-based and petroleum-based polymers. Biopolymers offer alternatives to conventional petrochemical products.

### Biotechnology

Biotech processes use living cells or enzymes to transform and produce substances. Depending on the application, a distinction is made between red, green and white biotechnology. Red biotechnology: medical and pharmaceutical applications. Green biotechnology: agricultural applications. White biotechnology: biotech-based products and industrial processes, e.g. in the chemical, textile and food industries.

## C

### Chlorosilanes

Compounds of silicon, chlorine and hydrogen. The semiconductor industry mainly uses trichlorosilane to make polysilicon and for the epitaxial deposition of silicon.

### Cyclodextrins

Cyclodextrins belong to the family of cyclic oligosaccharides (i.e. ring-shaped sugar molecules). They are able to encapsulate foreign substances, such as fragrances, and to release active ingredients at a controlled rate. WACKER BIOSOLUTIONS produces and markets cyclodextrins.

### Cysteine

Cysteine is a sulfur-containing amino acid. It belongs to the non-essential amino acids, as it can be formed in the body. It is used, for example, as an additive in food and cough mixtures. Cysteine and its derivatives are a business field at WACKER BIOSOLUTIONS.

## D

### Dispersible Polymer Powders

Created by drying dispersions in spray or disc dryers. VINNAPAS® polymer powders from WACKER are recommended as binders in the construction industry, e.g. for tile adhesives, self-leveling compounds and repair mortars. The powders improve adhesion, cohesion, flexibility and flexural strength, as well as water-retention and processing properties.

### Dispersion

Binary system in which one component is finely dispersed in another. VINNAPAS® dispersions from WACKER are vinyl-acetate-based binary copolymers and terpolymers in liquid form. They are mainly used as binders in the construction industry, e.g. for grouts, plasters and primers.

## E

### Elastomers

Polymers that exhibit almost perfectly elastic behavior, i.e. they deform when acted upon by an external force and return to their exact original shape when the force is removed. While the duration of the force has no effect on perfectly elastic behavior, the temperature does.

### Ethylene

Ethylene is a colorless, highly reactive gas and a key raw material in the chemical industry.

## G

### Good Manufacturing Practice (GMP)

GMP is a general term used to describe a collection of rules and stipulations that must be complied with when specific products are manufactured and handled in order to safeguard their quality. GMP guidelines are issued by bodies such as the US Food and Drug Administration (FDA) and the EU.

**H****Hybrid Compounds**

Materials created by chemically linking silicones and organic polymers. They combine the typical properties of both substance classes.

**I****Ingredients**

Constituents or additives (in foodstuffs, pharmaceutical products, etc.).

**P****Polymer**

A polymer is a large molecule made up of smaller molecular units (monomers). It contains between 10,000 and 100,000 monomers. Polymers can be long or ball-shaped.

**Polymer Blends**

Mixtures of synthetic and natural products in which the renewable raw material forms the main component comprising at least 65 percent. The VINNEX® binder system allows polymer blends to be produced from renewable raw materials such as starch, polylactic acid (PLA) or polyhydroxyalkanoates (PHA).

**Polysilicon**

Hyperpure polycrystalline silicon from WACKER POLYSILICON is used for manufacturing wafers for the electronics and solar industries. To produce it, metallurgical-grade silicon is converted into liquid trichlorosilane, highly distilled and deposited in hyperpure form at 1,000 °C.

**Pyrogenic Silica**

White, synthetic, amorphous silicon dioxide (SiO<sub>2</sub>) in powder form, made by flame hydrolysis of silicon compounds. It is versatile in applications as an additive for silicone rubber grades, sealants, surface coatings, pharmaceuticals and cosmetics.

**S****Semiconductor**

A substance of which the electrical conductivity is much lower than that of metals, but increases dramatically as the temperature rises. Semiconductors can be modified for a particular purpose by doping with foreign atoms.

**Silanes**

Silanes are used as monomers for the synthesis of siloxanes or sold directly as reagents or raw materials. Typical applications include surface treatment, reagents in pharmaceutical synthesis or coupling agents for coatings.

**Silicon**

After oxygen, silicon is the most common element on the planet. In nature, it occurs without exception in the form of compounds, chiefly silicon dioxide and silicates. Silicon is obtained through energy-intensive reaction of quartz sand with carbon and is the most important raw material in the electronics industry.

**Silicon Wafer**

A silicon wafer is a disc with a thickness of between approximately 200 and 800 µm and is used by the semiconductor industry for the manufacture of semiconductor devices, i.e. integrated circuits and discrete components.

**Silicones**

General term used to describe compounds of organic molecules and silicon. According to their areas of application, silicones can be classified as fluids, resins or rubber grades. Silicones are characterized by a myriad of outstanding properties. Typical areas of application include construction, the electrical and electronics industries, shipping and transportation, textiles and paper coatings.

**Siloxanes**

Systematic name given to compounds comprising silicon atoms linked together via oxygen atoms and with the remaining valences occupied by hydrogen or organic groups. Siloxanes are the building blocks for the polymers (polysiloxane and polyorganosiloxane) that form silicones.

**V****VINNAPAS®**

VINNAPAS® is the name of WACKER's product line of dispersions, polymer powders, solid resins and their associated product solutions. VINNAPAS® dispersions and polymer powders are primarily used in the construction industry as polymeric binders, e.g. in tile adhesives, exterior insulation and finish systems, self-leveling compounds, and plasters.

# Financial Glossary

## B

### Business Value Contribution (BVC)

BVC is a financial performance measurement that determines the value created by the WACKER Group and its units once all capital costs have been deducted. BVC is the difference between profit (EBIT) and the cost of capital ( $WACC \times CE$ ). BVC is a profit variable that is adjusted to allow for extraordinary effects (e.g. sale of parts of the company). This makes it an ideal tool for measuring business performance.

## C

### Capital Employed (CE)

Made up of average fixed assets, assets under construction, inventories and receivables. It is a variable used in calculating the cost of capital ( $WACC \times CE$ ).

### Cash Flow

Cash flow represents the internal financing potential of the company, i.e. the company's solvency. It reflects the net payments received within a specific period, with gross cash flow being the amount earned from operations and net cash flow being the amount remaining after deducting investment expenses.

## E

### EBIT

Earnings before interest and taxes: EBIT is a good indicator for comparing companies' profitability, since it is widely used across the corporate world.

### EBITDA

Earnings before interest, taxes, depreciation and amortization =  $EBIT + \text{actual depreciation}$ .

### Equity Ratio

The equity ratio is calculated from the ratio of equity to a company's total assets. It indicates the level of economic and financial stability at a company.

## I

### IFRS

The International Financial Reporting Standards (until 2001 International Accounting Standards, IAS) are compiled and published by the London-based International Accounting Standards Board (IASB). Since 2005, publicly-listed EU-based companies have been required to use IFRS in accordance with IAS regulations.

## R

### ROCE

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

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Our Annual Report was published on March 16, 2011. It is available in German and English and you can access both versions online.  
[www.wacker.com/annual-report](http://www.wacker.com/annual-report)

This Annual Report contains forward-looking statements based on assumptions and estimates of WACKER's Executive Board. Although we assume the expectations in these forward-looking statements are realistic, we cannot guarantee they will prove to be correct. The assumptions may harbor risks and uncertainties that may cause the actual figures to differ considerably from the forward-looking statements. Factors that may cause such discrepancies include, among other things, changes in the economic and business environment, variations in exchange and interest rates, the introduction of competing products, lack of acceptance for new products or services and changes in corporate strategy. WACKER does not plan to update the forward-looking statements, nor does it assume the obligation to do so.

The English-language Annual Report is a translation of the German version. Only the original German version is binding.

## Financial Calendar

### May 4, 2011

Interim Report  
on the 1st Quarter

### May 18, 2011

Annual Shareholders' Meeting, Munich

### May 31, 2011

Capital Markets Day, London

### August 2, 2011

Interim Report  
on the 2nd Quarter

### October 28, 2011

Interim Report  
on the 3rd Quarter

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www.hwdesign.de

The background of the page is a solid orange color. Overlaid on this are two large, stylized triangular shapes that meet at a point at the top center. These shapes are filled with a repeating pattern of smaller triangles, creating a mesh or lattice effect. The triangles in the pattern are slightly offset, giving it a three-dimensional appearance.

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