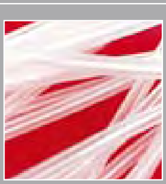
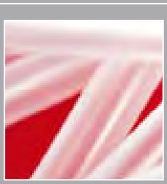
WACKER

# ANNUAL REPORT 2007
# WACKER CHEMIE AG

## OUR CUSTOMER FOCUS





## PRODUCTS FOR MEDICAL APPLICATIONS

The wide-ranging properties of silicone rubber make it virtually indispensable for many applications in the healthcare sector. Silicone elastomers from WACKER offer outstanding flexibility, transparency and biocompatibility, as well as good resistance to temperature extremes and radiation. Thanks to their excellent properties and highly reliable long-term functionality, they are used in medical tubing.

# KEY FIGURES

## WACKER AT A GLANCE

| | | 2007 | 2006 | Change in % |
|---|---|---|---|---|
| **Results / Return** | | | | |
| Sales | € million | **3,781.3** | 3,336.9 | 13.3 |
| EBITDA | € million | **1,001.5** | 786.3 | 27.4 |
| EBIT | € million | **649.6** | 456.3 | 42.4 |
| Net income | € million | **422.0** | 311.3 | 35.6 |
| Earnings per share | € | **8.49** | 6.46 | 31.4 |
| ROCE | % | **25.3** | 17.9 | |
| **Balance Sheet / Cash Flow** | | | | |
| Total assets | € million | **3,918.1** | 3,258.2 | 20.3 |
| Equity | € million | **1,865.6** | 1,585.8 | 17.6 |
| Equity ratio | % | **47.6** | 48.7 | |
| Capital expenditures (incl. financial assets) | € million | **699.3** | 525.3 | 33.1 |
| Depreciation (incl. financial assets) | € million | **351.9** | 330.0 | 6.6 |
| Net cash flow | € million | **643.7** | 184.7 | 248.5 |
| **Research and development** | | | | |
| Research and development expenses | € million | **152.5** | 152.3 | 0.1 |
| **Employees** | | | | |
| Personnel expenses | € million | **1,014.9** | 962.4 | 5.5 |
| Employees (December 31) | No. | **15,044** | 14,668 | 2.6 |

- THE MOST SUCCESSFUL YEAR IN WACKER'S HISTORY
- SALES AND EARNINGS SET NEW RECORDS
- MAJOR INVESTMENTS IN NEW PRODUCTION CAPACITY

## 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.

## 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.

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## STOCK



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## MANAGEMENT REPORT — BUSINESS DEVELOPMENT



## MANAGEMENT REPORT — SUPPLEMENTARY REPORT AND OUTLOOK



## FINANCIAL STATEMENTS

# KEY FIGURES

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Dear Shareholders,

WACKER has a long and rich tradition. For 93 years now, we've succeeded in markets by offering customers the products they need for their own success. Time and again, we accepted and mastered every challenge we've faced – without ever forsaking our traditional roots. Thus, continuity is one of WACKER's great strengths.

What makes our 93rd year so special is that it was the best in the Group's history. WACKER's 2007 sales and EBTDA set new records. Sales climbed 13.3 % to €3.8 billion and EBITDA reached the €1 billion mark for the first time ever. We reached or surpassed all of our quantitative goals in fiscal 2007.

Although our success surely benefited from the vibrant economy, other factors were involved, too. Most of WACKER's success was, in fact, due to its own efforts. Despite the positive business environment, it is often forgotten that underlying economic conditions became more difficult in 2007. After all, the strong euro and higher energy and raw-material costs didn't make life any easier for us.

Nevertheless, we believe we mastered the related challenges quite well. Today, we are a world-class performer in terms of both productivity and cost optimization. A further key success factor is our product portfolio. WACKER’s products are ideally suited for leveraging future growth trends worldwide. Over the past years, we have significantly boosted our global presence – underscored by a very impressive figure: 80 % of Group sales are now international in origin.

Production capacity expansion is a part of our growth strategy. Thus, it comes as no surprise that our investment volumes have reached a new dimension. The WACKER Group has invested a record-breaking €700 million in new production facilities and financial investments. Although we are implementing numerous construction projects at different production sites simultaneously, we were able to meet our ambitious timetables – sometimes even finishing ahead of schedule. In light of these facilities’ complexity, this is a notable accomplishment.

In addition to operations and expansion of production capacities, we successfully concluded deals involving two projects that we believe will open up new prospects for our growth strategy.

In the future, WACKER will jointly manufacture solar wafers with SCHOTT Solar in Jena, Germany. What does this step mean for WACKER? Our joint venture with SCHOTT boosts our share of value added during the solar-cell and solar-wafer production process. As a well-established semiconductor-wafer manufacturer, we have extensive experience that we can profitably apply to another sector. Our aim is to make the new company one of the world’s largest producers of solar wafers.

The second key project is expansion of our polymers business. At the end of fiscal 2007, we acquired the majority shares held by our long-term partner, Air Products, in two JVs that we had jointly operated for ten years. Thanks to this acquisition, we expect a series of strategic benefits for our global construction-polymers business. These include backward integration at U.S. and Asian dispersion plants, as well as supply-chain expansion outside the eurozone. Our acquisition will make a major contribution toward boosting annual sales at WACKER POLYMERS to around €1 billion.

Of course, we intend to have our shareholders appropriately participate in our success last year. This is why we will propose a dividend of €2.25 as well as a special bonus of €0.75 at our Annual Shareholder Meeting in May 2008. The base dividend is oriented toward our aim of distributing at least 25 %. Moreover, we allow shareholders to participate in our outstanding results via a special bonus. Combined, these dividend components equal a payout ratio of 35.3 % in relation to net income.

What does fiscal 2008 have in store for us? One key challenge will be integrating the two companies acquired from Air Products into the WACKER Group as soon as possible. We will do everything we can to quickly and efficiently complete the process as smoothly as possible.

Another major challenge will be the problem-free commissioning of numerous production facilities in 2008. These include the above-mentioned solar-wafer plant in Jena and the new wafer fab for 300 mm silicon wafers in Singapore (which we will operate jointly with Samsung) in the first half of 2008, as well as the 300 mm silicon wafer production facility at the Burghausen site. There, we intend to produce 135,000 wafers per month (an increase of 60,000) starting in Q2 2008. In China, two additional facilities are coming on stream: a spray-dryer for production of dispersible polymer powder at our Nanjing site with a nominal capacity of 30 kt and a facility to manufacture pyrogenic silica at Zhangjiagang.

We are confident that our long-term Group strategy will continue to pay off. For 2008, we have set ourselves ambitious, yet achievable goals. Despite the real-estate-market and related financial crises in the USA, which will probably put a break on the global economy, our growth prospects are still outstanding. The challenges we face include the strong euro and high energy and raw-material costs.

I would like to close on a personal note. Next year, my Executive Board colleague, Dr. Rudolf Staudigl, will be reporting on fiscal 2008 and the company's future prospects. We already announced this key personnel change in the company's management back in December 2007. I have worked closely with Rudolf Staudigl for over ten years now. He knows the company better than anyone else and played a major role in shaping Wacker Chemie AG's strategic realignment. I am convinced that he will decisively follow our charted course. With this step, we have ensured continuity in the company's management and acted in accordance with the principles I mentioned above.

I intend to use my expertise for the company in a new role and to do everything I can to keep WACKER on its successful course. At Wacker Chemie AG's Annual Shareholder Meeting on May 8, I will run for the Supervisory Board and seek its chairmanship.
I would like to thank WACKER's employees, customers, suppliers and shareholders for their trust during my term as CEO. Above all, our employees' commitment and efforts played a key role in WACKER's success, not just last year but in prior years as well. They deserve my greatest respect and recognition.

WACKER is well-positioned to continue growing and shaping the future and we intend to decisively seize and leverage this opportunity.

Dr. Peter-Alexander Wacker

President & CEO of Wacker Chemie AG
Munich, Germany – March 2008

## DR. JOACHIM RAUHUT

Corporate Accounting
Corporate Controlling
Corporate Finance
Information Technology
Tax
Procurement & Logistics
Region: Europe

## AUGUSTE WILLEMS

WACKER POLYMERS
WACKER FINE CHEMICALS
Corporate Engineering
Sales & Distribution
Region: The Americas

## DR. PETER-ALEXANDER WACKER

PRESIDENT & CEO

SILTRONIC
WACKER POLYSILICON
Executive Personnel
Corporate Development
Corporate Communications
Corporate Auditing
Legal Affairs
Investor Relations

## DR. RUDOLF STAUDIGL

WACKER SILICONES
Human Resources
(Personnel Director)
Site Management
Environment, Chemicals, Safety
Corporate R&D
Intellectual Property
Region: Asia

DR. JOACHIM RAUHUT

AUGUSTE WILLEMS

DR. PETER-ALEXANDER WACKER

DR. RUDOLF STAUDIGL

OUR CUSTOMER FOCUS: WE SERVE A WIDE DIVERSITY OF CUSTOMERS – RANGING FROM THE AUTOMOTIVE, ELECTRONICS, CONSTRUCTION, CONSUMER GOODS AND MEDICAL TECHNOLOGY INDUSTRIES. REGARDLESS OF THEIR SECTOR AND NATIONAL OR INTERNATIONAL SCOPE, THEY ARE ALL OF EQUAL IMPORTANCE TO US: NAMELY VITAL. AFTER ALL, CUSTOMERS PLAY A MAJOR PART IN MAKING WACKER SO SUCCESSFUL.

THIS ANNUAL REPORT EXAMINES OUR CUSTOMER FOCUS AND – VIA FOUR THEMES – ILLUSTRATES OUR UNDERSTANDING OF CUSTOMER ACCESSIBILITY, SERVICE, ORIENTATION AND SATISFACTION. ALSO PROVIDED ARE INSIGHTS INTO OUR COLLABORATIVE APPROACH.

WACKER FOCUSES ON DIRECT, PERSONAL CONTACTS AND STRIVES TO RELIABLY PROVIDE PRODUCTS AND SERVICES, AS WELL AS TO CREATE ADDED VALUE AND ENGENDER TRUST VIA INNOVATIONS AND CUSTOMIZED SOLUTIONS.

THE MORE WE SUCCEED AT THIS, THE BETTER WE CAN GROW ALONG WITH OUR CUSTOMERS AND UNDERSTAND THEM – REGARDLESS OF THEIR LOCATION ON THE GLOBE. THIS SHOULD BE NO SURPRISE IN LIGHT OF OUR OVER 5,000 CUSTOMER RELATIONSHIPS WORLDWIDE.

Key Account Management

# SUBJECT: KEY ACCOUNT MANAGEMENT FOR BUILDING STRONG CUSTOMER LOYALTY

01 PERSON: DR. PETER NEUMANN, PRESIDENT AND KEY ACCOUNT MANAGER OF WACKER'S SWISS SUBSIDIARY

02 LOCATION: BASEL, SWITZERLAND

03 PHILOSOPHY: A WELL-FUNCTIONING KEY ACCOUNT PROCESS OPENS UP NEW AND SIGNIFICANTLY GREATER BUSINESS OPPORTUNITIES FOR CUSTOMERS AND SUPPLIERS ALIKE

Trust is important to both sides of the customer relationship: Dr. Peter Neumann (left, key account manager at WACKER) and Bruno Fritsche (head of Sika's Industry business unit).


Report

About a dozen of WACKER's customers are distinguished by their global orientation, sales volumes and market strength, and they are all serviced from one source. Key account management has existed at WACKER since the year 2000. Its goal is to guide customer strategies and processes so that together they develop new products and open new markets. How WACKER interprets this (and its resulting advantages for both sides) is evidenced by the example of Sika, the Swiss construction chemical manufacturer.

Peter Neumann leans back and relaxes. Sika and WACKER? "Without exaggerating, that is a success story." Neumann knows what he's talking about. As key account manager, he has been supporting Sika for the last seven years. At first, the business relationship with the Swiss construction chemical manufacturer was comparable to a "small path." "Together, our teams have built this small path into a six-lane highway," he says. The figures document this. Within five years, WACKER was able to increase sales to Sika sevenfold.

But there's a lot more hidden behind this number. First of all, an inherent readiness for openness and honesty with another was prevalent on both sides. Key account management can only be implemented successfully when each knows as much as possible about the other, understands the expectations, and thinks long-term. This is a continual process, in which the individual steps must be constantly monitored. "Sika's expectations of WACKER were very high," Peter Neumann recalls. They ranged from coordinated global-delivery processes to collaborative development of new products. "We accepted these challenges from the beginning."

WACKER has implemented key account management consistently and applied all knowledge, experience, and organizational structures that could possibly be useful for deepening the customer relationship: starting with market analyses, through to an integrated project management, and including professional project controlling that keeps the customer up to date at all times. In addition, the constant exchange of information eventually led to harnessing of chemical-development expertise into new applications. Joint workshops made clear that Sika could bolster its reputation by introducing new specialty products to the market. WACKER researched in its labs and eventually presented product solutions that corre-


Pyrogenic silica from WACKER is processed by Sika into polyurethane adhesives.

sponded to Sika's requirements in its fields of sealing, bonding, coatings and mortars. This convinced Sika and many of its worldwide customers, too. Initially, WACKER supplied Sika branch offices in eight countries; today, there are more than 30. And the number is rising. "We've succeeded not only in the raw materials business, but also in collaboratively developing new products and opening new markets. It was a real win-win situation for both sides."

In addition to professional support, in Neumann's opinion, other factors were also critical for the success. These are often the underestimated "soft factors" such as trust, understanding and reliability – as well as "good chemistry," which is also responsible for emotional and personal interactions between customers and suppliers. His credo is: "Without trust and reliability, nothing works."

Our key account managers thus play an important role in WACKER's relationships with customers by being not only their most important contact partners, but also dedicated spokespersons for customers' interests in the WACKER organization. Behind the scenes, they direct a multifunctional team that cares for customers worldwide, and coordinates the relationships between WACKER's business units and business teams. Finally, they see to it that every customer problem, no matter where in the world, is solved rapidly, without friction losses.

At Sika, it has functioned well so far. Whereas most "relationships" experience more crises the longer the partnership lasts, it is just the opposite in the customer relationship between Sika and WACKER. "The longer we're together, the better it works." And Peter Neumann must know what he's talking about – he was there from the beginning.

Headquartered in Switzerland –
at home throughout the world:
Sika's production building in Zurich.

## 04 BENEFIT FOR THE CUSTOMER:

- A central contact partner for all business processes
- Building up worldwide business through on-site professional development
- Creating new sales opportunities through collaborative development of new products
- Strong integration of customers and suppliers simplifies business processes and saves time and costs
- Trustful business relationships that are designed for the long term

## 05 PROSPECTS: SIKA WILL EXPAND ITS WORLDWIDE BUSINESS IN COMING YEARS TO ADDITIONAL COUNTRIES, WITH WACKER AS A CLOSE PARTNER.

Prospects

Partnerships

# SUBJECT: CREATING CUSTOMER BENEFITS THROUGH PARTNERSHIPS

01 PERSON: AXEL SCHMIDT, MANAGING DIRECTOR WACKER SCHOTT SOLAR GMBH

02 LOCATION: JENA, GERMANY

03 PHILOSOPHY: AN INNOVATIVE PRODUCT, LONGEVITY AND TRUSTFUL PARTNERSHIPS WITH CUSTOMERS ARE THE BEST LEVERS IN THE MARKET


Now a construction site, but by May 2008, solar wafers will be produced here on 7,560 m².

Report

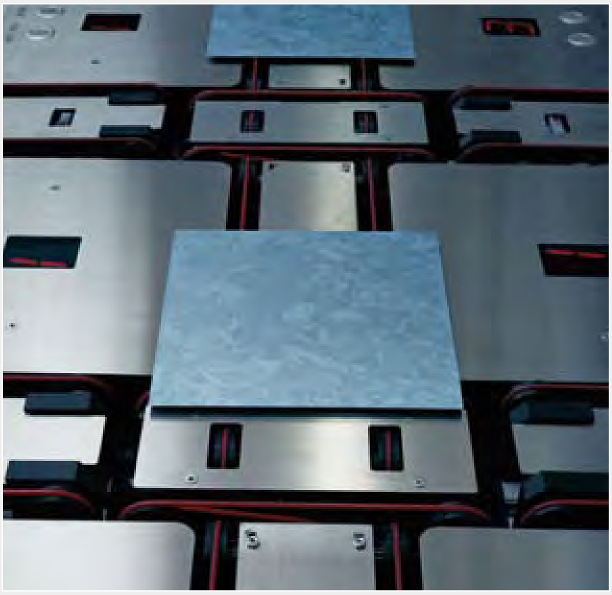
The electricity market is changing. Renewable and clean energy sources such as photovoltaics are becoming ever more important.

Clever minds are something of a tradition in Jena, Germany. More than 120 years ago, the university campus in Saaletal grew to become the optical industry's center and emerged as one of Germany's key industrial locations. Three brilliant scientists and entrepreneurs deserve thanks for this: with a sense of excitement about the future, Otto Schott, Ernst Abbe and Carl Zeiss jointly founded the SCHOTT & Genossen glass factory in Jena. That excitement has carried forward into the present as gravel trucks roll one after another over the streets of the site. 3,500 cubic meters of reinforced concrete have already been constructed. In three shifts, 120 construction workers are building a new factory from the ground up.

Axel Schmidt's office simply breathes history: the brick building in which the managing director of WACKER SCHOTT Solar GmbH works is 111 years old and even the office furniture looks somewhat antiquated. This outward image doesn't really fit the task he took on seven months ago in Jena. He is working on the future. 400 meters from his office, concrete walls are rising up and siding is being installed. Here, WACKER SCHOTT Solar GmbH's new production building is taking shape, where solar wafers are to be produced for customers in the photovoltaics industry.

History repeats: just like 120 years ago when the entrepreneurs Zeiss and Schott joined forces, the two companies WACKER and SCHOTT merged in July 2007 to deliver high-quality solar wafers to customers at firm, agreed-upon prices. For Axel Schmidt, it is very important that future customers benefit from this partnership. Where are the advantages for customers? "WACKER and SCHOTT are combining their joint expertise and closing the value-creation chain. One delivers the basic material, the other refines it," he says. Customers are thus assured of obtaining top quality solar wafers at all times. This commitment, when hyperpure polysilicon is in short supply, is worth its weight in gold. The solar industry's production bottleneck will last some time.

Schmidt is already thinking one step ahead. "Our strategy is set for the long term," he says. The world is standing on the threshold of a new energy age. Traditional resources such as oil and gas are becoming increasingly more expensive. Coal pollutes the environment. The cleanest form of electricity production is photovoltaics. "We want to help this energy source reach maturity by building up a large, functioning market with stable, permanent growth, and characterized



Closed value-creation chains: from basic raw material to solar wafers.

by long-lasting customer relationships." The hurdle to achieving this is the cost of generating solar power. Photovoltaics are even subsidized by many governments, yet conventional energy sources still have a cost advantage, at least where the sun doesn't shine long and intensively. In California, the cost per kilowatt hour of solar power is nearly competitive with other energy sources.

In this quest, WACKER SCHOTT Solar can contribute substantially, and is focused on customer needs. Thinner wafers and improved surface structures are, two goals that are being worked on intensively. "Our aim is to reduce production costs through product innovations and process optimization, and to increase the efficiency of solar installations." Axel Schmidt is convinced that the so-called end users, i.e. homeowners, will also benefit from this. "Through higher performance, solar installations will become cheaper to acquire."

The conditions for WACKER SCHOTT Solar to be able to meet these customer expectations are good. WACKER has enormous expertise in the production of wafers. The company has been producing silicon wafers for the semiconductor industry for more than 40 years. Whether it involves production processes, logistics, or product specifications, all this knowledge can be called upon and directed toward the production of solar wafers. Customers thus receive a qualitatively high-value product.

With an initial capacity of 100 megawatts, production only begins in May 2008. Yet WACKER SCHOTT Solar has already signed and sealed two customer contracts. "Interest in working with us is great. We are talking to possible customers around the world, and another contract will be concluded in a few weeks." By 2012, annual capacity should reach 1 gigawatt. This means the outlook is sunny for WACKER SCHOTT Solar and its customers.

Axel Schmidt (who has served WACKER for 14 years and WACKER SCHOTT Solar in Jena for seven months now) and his colleague, Dr. Patrick Markschläger of SCHOTT, are responsible for business development.

## 04 BENEFIT FOR THE CUSTOMER:

- Product innovations and process optimization reduce production costs and increase the efficiency of solar installations
- Delivery of top-quality solar wafers
- Dependable supply of solar wafers
- Lower cost of solar power creates new layers of customers

## 05 PROSPECTS: WACKER SCHOTT SOLAR WILL CONTRIBUTE SIGNIFICANTLY TO LOWERING THE COST OF SOLAR-GENERATED POWER THROUGH ITS EXPERTISE AND PRODUCT INNOVATIONS, AND THEREBY MAKE SOLAR POWER COMPETITIVE WITH CONVENTIONAL ENERGY SOURCES.

Prospects

Perfection

# SUBJECT: CUSTOMER RELATIONSHIPS DRIVEN BY PERFECTION

01 PERSON: DR. VOLKER BRAETSCH, HEAD OF STRATEGIC MARKETING AND PRODUCT MANAGEMENT AT SILTRONIC

02 LOCATION: BURGHAUSEN, FREIBERG, GERMANY; HIKARI, JAPAN; PORTLAND, USA; SINGAPORE

03 PHILOSOPHY: KEEP ON IMPROVING AND NEVER STAND STILL

No time to rest. Dr. Volker Braetsch, Siltronic's head of Strategic Marketing and Product Management, knows that his customers only want the best. "Adequate" is definitely not enough.

Interview

WACKER Siltronic is one of the leading monocrystalline silicon wafer producers. What special qualities help you form customer relationships so successfully?

If there's anyone who understands the semiconductor market and customers, then it's Dr. Volker Braetsch. He's been on the road in this business for over 20 years; an old hand at the game, so to speak. The fact that the semiconductor industry works differently from other industries was summed up beautifully in the book "Only the Paranoid Survive" by Andy Grove, former head of the leading chip manufacturer Intel: "there's no such thing as good enough." Without this extreme, all-consuming obsession for continuous improvement, no one could be capable of the unimaginable perfection that is essential to success in this business. Dr. Volker Braetsch must have plenty of that, since he's not only Head of Strategic Marketing and Product Management at Siltronic, but, as President of the Silicon Manufacturing Group, also a spokesman for the worldwide wafer industry.

Dr. Braetsch, how do you win over your customers?
Dr. Braetsch: Through perfection. To give you an idea of the degree of purity we work with: Throw two sugar cubes into Lake Constance – that's about 48 km$^3$ of water. You can be certain that we would taste them. And, I guarantee that our customers would, too. We are all driven by perfection. Fortunately, we are so good and reliable that we have become established despite the consolidation in the industry. There is only a handful of other companies worldwide who produce these demanding 300 mm wafers.

But a production-driven mentality cannot be your only argument for winning customers. How about speed? The semiconductor industry talks about calculating in dog years. This means that, to stay competitive, developments that would normally take seven years must be pushed through in only one year.
Dr. Braetsch: Obviously, we must keep up in terms of speed. And, naturally, in terms of price pressure, too. Our goal is therefore to organize ourselves efficiently and continually scrutinize all our processes so that we are still cost effective even when working below capacity. That is essential for a favorable price negotiating position with our customers. After all there aren't very many players in the semiconductor industry.

Is it true that "The customer is not king, but emperor"?
Dr. Braetsch: Yes, that sums it up. Customers are extremely demanding. We can convince them of our products because we involve customers closely in our product development process. Here, researchers who know where they want to go meet with researchers who know precisely how that can be realized.

An extremely satisfactory situation.
Dr. Braetsch: Oh, yes, especially in terms of customer loyalty. Our customers are closely involved when we adapt our

Highly modern production facilities, like here in Freiberg, offer outstanding process efficiency and quality.

wafers to their individual specifications. There are almost 300 parameters that we can influence. Changing just one, however slightly, affects many others. We have to think in four dimensions.

Another advantage is that we always insist on dealing proactively. We try to understand the customer's process chain. This way, for example, we are able to produce a wafer so thin that customers no longer need to grind it to their desired dimensions after applying their design. That way, we save them a production step, but also material. This close cooperation allows us to build not only technical confidence in our company, but also personal trust. This is the home stretch, and it is also the decisive step.

You have to run this home stretch everywhere in the world. That means your employees encounter the most diverse mentalities, customs and mind sets. Does this present a problem for customer relationships?
Dr. Braetsch: No, far from it. We see this as another way of differentiating ourselves from the competition. The keyword is cultural sensitivity. This is by no means a minor issue for our company. We want to know how other cultures think and feel in order to be able to understand our customers better. We also expect our employees to show this sensitivity. And we encourage it. At Siltronic, we measure foreign experience not in weeks, but half-years at least. This strategy helps us a lot in our customer relationships.

… and surely also in partnerships? A Siltronic joint venture is currently starting to produce a new 300 mm wafer in Singapore. Your partner, Samsung, is Korean …
Dr. Braetsch: … and our customers who will be supplied from there are customers all over the world. And we have a local presence everywhere.

So, to sum up: the most important feature for establishing and maintaining customer relationships is perfection. That means providing a flawless product, where the customer has participated in the fine tuning. In addition, reliability, speed, price, customer proximity, and a marked cultural sensitivity. Are there any other secrets?
Dr. Braetsch: No, there are no secrets at all. There is only the knowledge that, in spite of the high quality and many other features that we must provide, we cannot rest on our laurels. In the semiconductor industry, you really have to earn your accolades. That's the reality and that is what we confront – successfully, as our financial figures show.

Do you always have to swim upstream?
Dr. Braetsch: Let me give you a better metaphor: We must keep on improving, and never stand still.

As one of five production sites, Freiberg is part of the value-creation network that Siltronic maintains in the world's main semiconductor markets.

## 04 BENEFIT FOR THE CUSTOMER:

- Customers are closely involved in the development process and receive customized wafer solutions for new, innovative microelectronic products
- Constant process improvements increase the wafer's quality and performance
- Optimum customer care through sales employees, application technicians, and quality engineers in all important semiconductor markets in the world
- A deep understanding of customers' process chains leads to cost and material savings
- The most modern production sites, with highest efficiency and quality in the manufacturing process

## 05 PROSPECTS: THE WAFER MARKET IS GOING THROUGH UPHEAVALS. TECHNICAL DEMANDS CONTINUE TO INCREASE. THE TREND IS TOWARDS LARGER DIAMETERS – 300 MM WAFERS – AND EVER SMALLER LINE WIDTHS. THESE CHALLENGES MUST BE MASTERED PERFECTLY. SILTRONIC IS IDEALLY EQUIPPED TO SUCCEED IN THE SEMICONDUCTOR MARKET IN THE YEARS AHEAD.

Technical Centers

# SUBJECT: TECHNICAL CENTERS – WORLDWIDE CUSTOMER PROXIMITY

01 PERSON: JÜRGEN HEREIN,
MANAGING DIRECTOR,
WACKER CHEMICALS SOUTHEAST ASIA

02 LOCATION: SINGAPORE

03 PHILOSOPHY: THE CLOSER WE ARE TO CUSTOMERS, THE BETTER WE UNDERSTAND THEM AND THE MORE PRECISELY WE KNOW WHAT THEY WANT

On-site application: in central Singapore, the modern ICON apartment building's new facade coating contains a silicone raw material from WACKER with low environmental impact. It excels in permanently protecting the building from moisture.

Report

No matter how good a product may be – it only becomes perfect when tailored precisely to the needs of customers. For this to happen, we must know our customers as well as their requirements, performance profiles and wishes. What better way to do that than locally, directly with the customer? That's why WACKER maintains technical centers to engage in a direct and candid dialog with customers. The centers offer each customer exactly what they need: individual advice and the ability to solve problems – worldwide.

To WACKER's customers, the technical centers are a consolidated hub of expertise that conveys the company's many capabilities and its expertise. They can gain familiarity with product lines, discuss their specific requirements with specialists and test different solutions. Customers can also receive three or four days' usage of the modern labs for their own development projects. For WACKER, its technical centers represent much more: "With them, we are intimately aware of customers and their markets, and can pick up signals that would otherwise be overlooked," says Jürgen Herein, managing director of WACKER Chemicals Southeast Asia.

In January 2007, WACKER opened its 15th technical center in Singapore. Its focus in the city-state at the Malayan Peninsula's southern tip is primarily on construction polymers, silicone emulsions, silicone resins and foam control agents. The customers hail from the construction, paper, textile and chemical-process industries. Singapore's nearness to the Equator makes it quite clear why customer proximity is so important. The moist, warm climate (with temperatures seldom below 30 °C) and the short (or even long-lasting) powerful rain showers simply represent challenges not faced by products in Germany. "Only if we optimize for these local conditions can positive product features be unfolded here." Various tests help determine the ideal product formulation for customers.

That, however, is only one side of the coin. Jürgen Herein is very proud of WACKER's collaboration with a strategic customer to develop a new product on site that bears the name "White Skimcoat." This is a fine white powder containing local raw materials and an additive from WACKER. Its smooth surface precisely meets Asia's esthetic preferences. Just as importantly, this fine powder is unbeatable in quality. "Innovations like this," Jürgen Herein is convinced, "are only possible when we are on site."

His assessment is confirmed by another example: working closely with customers, WACKER has also succeeded in introducing an effective foam-control agent to supply Asia's growing cellulose industry. The product is especially suited for processing the plantation woods preferred in Southeast Asia. However, fast-growing wood produces relatively large amounts of foam during cellulose production. To block this foam formation, various recipes have been tested in countless steps – with success. "We envision great market potential."

Creating a new product with customers doesn't happen every day. But WACKER's Singapore technical center interfaces

Modern lab facilities are the heart of WACKER's technical center in Singapore.


closely with its customers daily, sending and receiving signals. In addition to all Jürgen Herein's other tasks, this information exchange is especially important to him. As he sees it, great art consists of asking customers the right question, listening, understanding and then negotiating. "The many daily discussions we have with customers are priceless."

The information, suggestions and ideas that WACKER receives here are forwarded to its R&D teams in Burghausen or Munich and flow– when they show promise – into new product developments. This, in turn, benefits customers in the form of products that offer enhanced properties, open new application fields, deliver higher qualitative value, and meet customer and market demands. This constant information exchange with customers has other useful effects, too. It promotes innovative spirit and ensures that WACKER doesn't develop products that miss the customers and the market.

FROM THE ADRIATIC TO SINGAPORE – WACKER'S 16 TECHNICAL CENTERS AT A GLANCE

EUROPE
- Germany
  - Burghausen
  - Nünchritz
- Russia
  - Moscow

AMERICAS
- USA
  - Adrian, Michigan
  - Allentown, Pennsylvania
  - Portland, Oregon
- Brazil
  - Jandira (São Paulo)

ASIA
- China
  - Beijing
  - HsinChu
  - Shanghai
- India
  - Kolkata
- Japan
  - Akeno
  - Hikari
- Singapore
  - Singapore
- United Arab Emirates
  - Dubai

AUSTRALIA
- Melbourne

Jürgen Herein, head of WACKER's Singapore technical center, is especially proud that new products are developed on site with customers.

## 04 BENEFIT FOR THE CUSTOMER:

- Products are tailored to their requirements
- Collaborative development of new products and application fields
- Customer information flows into new product development
- Therefore, new products offer enhanced properties, deliver higher qualitative value, and are tailored for the customer and the market
- Customers can develop and test their own products and applications in the technical centers’ modern labs
- Practical customer training for optimal product usage

## 05 PROSPECTS: “CLOSER TO THE CUSTOMER” – WACKER CONSISTENTLY EXPANDS UPON THIS STRATEGY. IN 2008, ANOTHER TECHNICAL CENTER WILL OPEN IN INDIA.

Prospects

Future

SUCCESSFUL CUSTOMER RELATIONSHIPS ARE MULTIFACETED. EACH AND EVERY DAY, WACKER COMMITS ITSELF TO GIVING CUSTOMERS MAXIMUM VALUE: BY OFFERING TOP-QUALITY PRODUCTS, SERVICES, INNOVATIONS AND EXPERT LOCAL TECHNICAL SUPPORT. THIS IS SUPPLEMENTED BY OUR APPROACH TO COLLABORATIONS – AS A FAIR AND HIGHLY PROFESSIONAL PARTNER.

WACKER AIMS FOR GROWTH AND SUSTAINABLE CORPORATE-VALUE ENHANCEMENT. IN 2007, WE ACCOMPLISHED BOTH EXTREMELY WELL, WHICH IS REFLECTED IN WACKER'S SHARE PRICE.

## SILTRONIC

Without silicon wafers, wireless dialog via BlackBerry® would be impossible and the virtual world of the internet would grind to a halt. As a global market leader for hyperpure silicon wafers and an international partner to nearly all top chip manufacturers, Siltronic helps to ensure the smooth flow of information and communications around the world via its innovative products for state-of-the art micro and nanoelectronics.

# WACKER STOCK

With a share-price increase of 100 %, WACKER's stock was one of 2007's top performers on German stock markets. Over that year, it significantly outperformed the MSCI Chemicals Index of chemical-industry companies, as well as the MDAX. WACKER's stock beat the MSCI Chemicals Index by 75 % and the MDAX by 95 %.

## WACKER SHARE'S POSITIVE PERFORMANCE

The solid economy, strategic enhancement of our portfolio via the solar-wafer joint venture with SCHOTT Solar and the acquisition of Air Products' shares in our two JVs had a positive impact on the share price. WACKER's stock started the year at €98.58. Strong business demand, the vibrant global economy and upbeat financial markets fueled the stock's rise to €184 – its peak up to then – on July 23, 2007. Following the Q2 report, a slight sell off ensued amid uncertainties surrounding the semiconductor-market trend (particularly regarding 200 mm business), continued dollar weakness and concerns about further energy and raw-material price increases. The stock briefly fell to €135. A strong third quarter propelled the share price to an interim peak of €200 on the day of the Q3 report's publication (November 8). By year-end, the price trend was relatively stable, resulting in a final quote of €197.70 per share on December 30, 2007.

FACTS & FIGURES ON WACKER STOCK

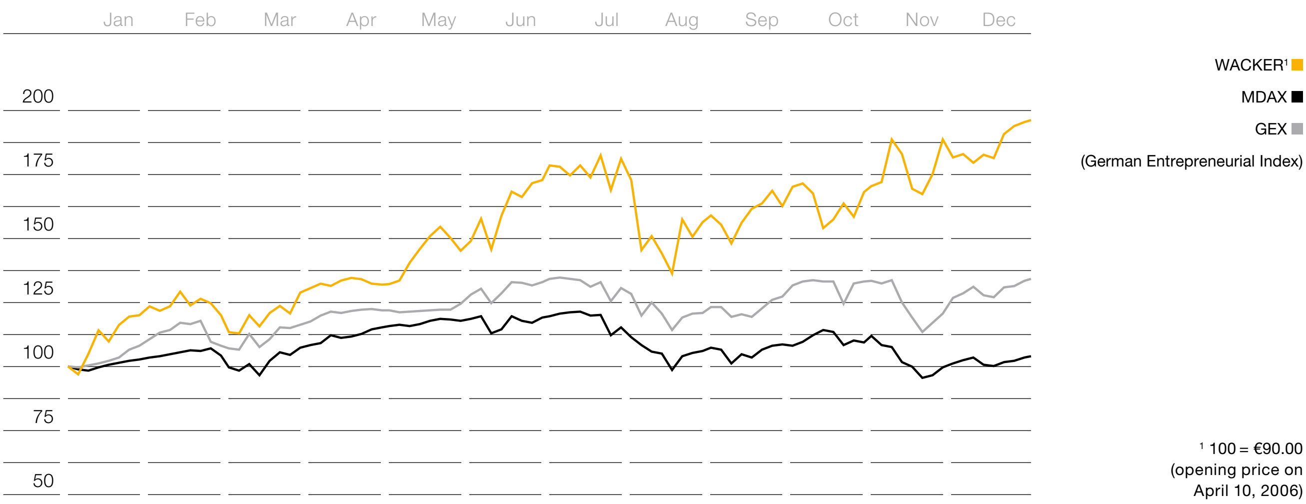
| | | |
|---|---|---|
| High for the year (on Dec. 28, 2007) | € | 197.70 |
| Low for the year (on Jan. 4, 2007) | € | 98.05 |
| Starting price | € | 98.58 |
| Year-end closing price | € | 197.70 |
| Performance for the year (w/o dividends) | % | 100.5 |
| Year-end market capitalization (shares outstanding) (2006: 4.9) | € billion | 9.8 |
| Average daily trading volume (2006: 19.2) | € million | 29.6 |
| Earnings per share | € | 8.49 |
| Dividends per share (proposal) | € | 2.25 |
| Dividend yield | % | 1.5 |
| Special bonus per share (proposal) | € | 0.75 |

All share-related data based on XETRA trading.

## EARNINGS PER SHARE OF €8.49

The earnings per share (EPS) figure is calculated by dividing net income allocatable to Wacker Chemie AG shareholders by the weighted average of all shares in circulation during the fiscal year. Last year, the average number of shares in circulation was 49,677,983 million. On this basis, the EPS was €8.49.

WACKER'S SHARE PERFORMANCE (INDEXED TO 100)[1]




[1] 100 = €90.00 (opening price on April 10, 2006)

FACTS & FIGURES ON WACKER STOCK

| | |
|---|---|
| ISIN | DE000WCH8881 |
| Ticker, security identification number (WKN) | WCH888 |
| Frankfurt stock exchange | WCH |
| Bloomberg | CHM/WCK.GR |
| Reuters | CHE/WCHG.DE |
| Capital stock | € 260,763,000 |
| Numbers of shares (as of Dec. 31, 2007) | 52,152,600 |

## DIVIDEND PAYMENT OF €2.50 PER SHARE

At the Annual Shareholder Meeting on May 29, 2007, it was decided that a dividend of €2.00 per share and a one-time special bonus of €0.50 be paid to shareholders from 2006 profits. The dividends and special bonuses were distributed to shareholders on May 30, 2007. WACKER paid a total dividend sum of €124,194,957.50. At a volume-weighted average share price of €94.71 in 2006, this produced a dividend yield of 2.1 %. In terms of the Share Group net income allocatable to the Wacker Chemie AG shareholders, the dividend yield was 39.9 %.

## TRADING VOLUMES ROSE, MORE ANALYSTS MONITOR AND ASSESS THE WACKER SHARE

Last year, the average daily trading volume for WACKER stock was some 200,000 shares (XETRA) – a marked increase against the 2006 figure of around 160,000 shares (XETRA). The number of financial analysts regularly monitoring and assessing the company grew significantly, too. At the beginning of 2007, 13 analysts covered WACKER. By the end of the year, this number had grown to 23. During the fiscal year, the analysts' consensus price target rose. Whereas the average Q1 estimate was for a WACKER share price of €119 (eight estimates), the fair-value price target increased to €196 (twelve estimates) by year-end.

THE FOLLOWING BANKS AND INVESTMENT FIRMS MONITOR AND ASSESS WACKER:

| | |
|---|---|
| Bayrische Landesbank | Kepler Equities |
| Bankhaus Lampe | Landesbank Baden-Württemberg |
| CA Cheuvreux | M.M. Warburg Bank |
| Citigroup | Merril Lynch |
| Commerzbank Corporates & Markets | Metzler |
| Deutsche Bank | Morgan Stanley |
| Dresdner Kleinwort | Norddeutsche Landesbank Girozentrale |
| DZ Bank | Princeton Tech Research |
| equinet | Sal. Oppenheim |
| Exane BNP Paribas | UBS |
| HSBC Trinkhaus | WestLB Equity Markets |
| HVB Corporates & Markets | |

At our www.wacker.com/investor-relations website, we regularly report on the consensus of analyst expectations for the current year. Moreover, our internet pages offer extensive WACKER stock-related information. In addition to financial reports, presentations and publications – viewable online or downloadable – you'll find all key financial-market-related dates, as well as contacts for your questions. Events such as the annual press conference and next year's analyst conference can be played there as a video or audio stream.

www.wacker.com/investor-relations

## GROWING MARKET CAPITALIZATION AND HIGHER MDAX AND GEX WEIGHTINGS

The positive performance of WACKER's stock boosted its market capitalization to €9.8 billion by year-end. However, exclusively calculated according to the freefloat including treasury shares, the Group's MDAX market capitalization was €3.5 billion. Thus, WACKER's MDAX weighting was 3.66 % and it ranked eighth among the 50 companies listed there. WACKER's GEX weighting was 10.16 %. Deutsche Börse AG's GEX midcap index (introduced in January 2005) is comprised of owner-dominated companies listed on the Frankfurt stock exchange (Prime Standard) for no more than ten years. WACKER is the largest company in that index.

On March 19, 2007, WACKER was also added to the Dow Jones STOXX Index. At year-end, Wacker Chemie AG was represented in numerous STOXX family indices.

## INVESTOR RELATIONS WORK ENHANCED

Our corporate strategy's focus on growth and sustainably high margins is reinforced by continual and open communications with institutional and private investors, as well as analysts. In 2007, we increasingly approached national and international investors and analysts to present our business strategy, key financial indicators and future outlook. On many occasions, Executive Board members attended in person to answer financial market participants' questions. The global event calendar included twelve roadshows in Germany, numerous other European countries and the USA. Plus, we held some 200 individual talks and participated in various international conferences. WACKER held presentations at, among others, Kepler Equities, the Alternative Energies Conference (Paris), UniCredit German Investment Conference (Munich), Technology, Media and Telecoms Conference, Morgan Stanley (Barcelona) and Deutsche Börse's German Equity Forum (Frankfurt).

Our 2007 calendar included the first-ever WACKER Capital Markets Days. For two days at WACKER's main site in Burghausen (Germany), analysts and investors received extensive information about the company, its technologies and innovations, and much more. Nearly 40 analysts and investors took advantage of this opportunity to learn more about WACKER. We plan on making this dialog a regular event. At its first-ever participation in Hamburg's "Börsentag" event, WACKER specifically introduced itself to private investors.

## OVER 60 % OF WACKER SHAREHOLDERS BASED IN THE USA

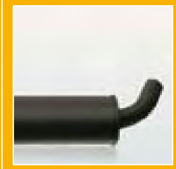
An analysis of our shareholder structure in Q3 showed that the number of U.S.-based shareholders continued to climb. Whereas some 50 % of shares were owned by Americans in September 2006, the figure exceeded 60 % barely one year later. This development reflects strong U.S. interest in WACKER, particularly from solar and tech sector investors. In Europe, the number of shareholders from Great Britain and Switzerland rose slightly. A further finding of this analysis is that the share of long-term oriented institutional investors has grown from around 40 % to over 70 % within a year.

Wacker Chemie AG's largest shareholder is Munich-based Dr. Alexander Wacker Familiengesellschaft mbH. It holds over 50 % of the voting shares in Wacker Chemie AG.

Blue Elephant Holding GmbH of Pöcking (Germany) informed Wacker Chemie AG on April 12, 2006 that it held over 10 % of the voting shares in Wacker Chemie AG.

Artisan Partners Limited Partnership of Milwaukee (Wisconsin, USA) informed Wacker Chemie AG on September 24, 2007 that it owned over 5 % of the voting shares (2006: 3.84 %).

WACKER CAN LOOK BACK ON ITS MOST SUCCESSFUL YEAR EVER. WE SET NEW RECORDS IN TERMS OF BOTH SALES AND EARNINGS. YOU'LL FIND DETAILS, AS WELL AS OUR OUTLOOK FOR THE FUTURE IN THIS MANAGEMENT REPORT.



## WACKER SILICONES

ranks among the world's largest manufacturers of silane and silicone products. Silicones from WACKER ensure consistent high-quality and reliable product performance – whether with HDK® pyrogenic silica for strong joints in wind turbines, SILRES® silicone resins as heat-resistant binders in exhaust systems or ELASTOSIL® silicone rubber grades for leak-proof shower-head nozzles.

# GROUP MANAGEMENT
## THE WACKER GROUP

### WACKER PRODUCTS – CONTRIBUTING TO THE QUALITY OF LIFE
WACKER products and solutions are part of countless everyday items ranging from towels to solar cells. Some of our products are starting materials for active ingredients not found in nature, yet needed by the healthcare and pharmaceutical industries to produce life-saving medicines. Others enable new manufacturing processes or render existing ones more efficient and environmentally compatible. Many of them are additives that, even in trace amounts, impart novel or improved properties to well-known materials.

### THE MOST IMPORTANT STARTING MATERIALS FOR OUR PRODUCTS – SILICON AND ETHYLENE
WACKER is a globally active company with over 3,500 highly-developed specialty chemical products serving more than 3,500 customers in over 100 countries. A major share of our products is based on inorganic starting materials. We generate 80 % of our sales with silicon-based products and the other 20 % with ethylene-related ones. WACKER serves a series of key industries including consumer goods, food, pharmaceuticals, textiles, the solar and electrical/electronic sectors, as well as basic chemical materials, medical technology, biotech and mechanical engineering. As a producer of silicones and polymers, we are particularly well represented in the automotive and construction sectors. Moreover, we are a key supplier of silicon wafers to the semiconductor industry.

### WACKER'S FIVE BUSINESS DIVISIONS – MAXIMIZING BENEFITS FOR OUR CUSTOMERS
WACKER has five divisions offering a broad range of innovative and highly-developed products and services.

Siltronic, WACKER's largest division, produces silicon wafers for leading semiconductor manufacturers. They form the fundamental basis for virtually all semiconductors. Silicon wafers are used to make discrete semiconductor components (e.g. transistors and rectifiers) and microchips (e.g. microprocessors and memory chips).

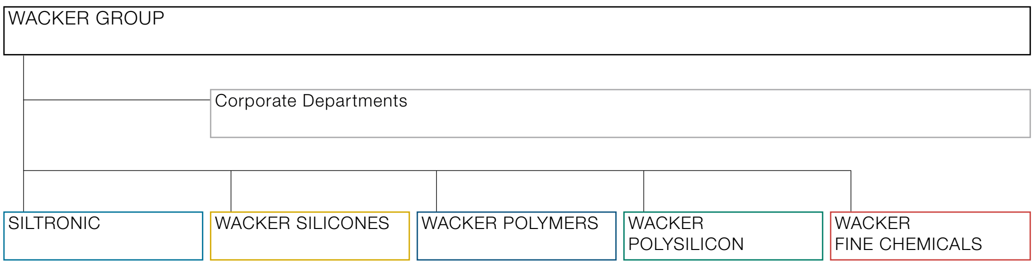
The WACKER SILICONES division offers our customers the broadest product range with over 3,000 products. These span from silicone-based fluids, emulsions, resins, elastomers, sealants and silanes through to pyrogenic silica. We manufacture specialty products individually tailored to meet customers' needs, as well as standard products primarily used as feedstocks in the production of silicones. The extremely diverse properties of silicones – such as heat resistance and hydrophobicity – open up a myriad of application fields for our customers.

The WACKER POLYMERS division focuses on manufacturing state-of-the-art binders and polymer additives such as dispersible polymer powders and dispersions. These are used in diverse industrial applications or as base chemicals in the automotive, construction-chemical, paper and adhesive sectors, as well as in the production of coatings and printing inks. The construction industry is the main customer for polymer binders – used as an additive in tile adhesives, microporous insulation materials, dry-mix mortars and self-leveling flooring compounds. Moreover, polymers also serve as binders for paints and other industrial coatings, as auxiliaries for plastic components in automotive production and as a feedstock in the manufacture of chewing gum.

For over 50 years, the WACKER POLYSILICON division has been producing hyperpure polysilicon for the semiconductor and electronics industries at its site in Burghausen, Germany. In recent years, it has increasingly supplied the solar industry, too. The largest share of polysilicon is used by our Siltronic division to produce semiconductor wafers. Aside from polysilicon, we also manufacture pyrogenic silicas, chlorosilanes and salt.

WACKER FINE CHEMICALS supplies customized biotech and catalog products. These include pharma proteins, cyclodextrins and cysteine, as well as organic intermediates such as acetylacetone. This division focuses on customer-specific solutions for growth areas including pharma actives, cosmetics and food additives.

WACKER CHEMIE AG ORGANIZATIONAL STRUCTURE




## THE WACKER GROUP – AT HOME WORLDWIDE AND CLOSE TO CUSTOMERS

For WACKER, a global approach is perfectly normal. If we want to successfully utilize our technological and product-specific strengths, we have to be near our customers. After all, many of them operate globally as well. WACKER operates on five continents and is continuing to expand, particularly in growth regions. Our extensive network of over 100 subsidiaries and sales offices is tailored to our customers' needs and logistics. Plus, we have set up 16 technical centers around the world to ensure that customers receive not only high-quality products, but also comprehensive service and professional technical support via local specialists.

As with our sales and service network, our production structure also has a global orientation. With a total of 22 production sites in Europe (6), the Americas (8) and Asia (8), we have a presence in all key regions. The Group's main plant is in Burghausen, Germany. All of WACKER's sites are subject to our stringent criteria on quality, plant and workplace safety, as well as health and environmental protection. All sites operate in accordance with an integrated management system and comply with ISO standards, as well as Good Manufacturing Practice (GMP) and sustainable development principles.

## EFFICIENT AND CLEAN – OUR HIGHLY INTEGRATED PRODUCTION SYSTEM

One of WACKER's greatest strengths is its integrated production system, which is primarily based on silicon and ethylene as starting materials. Our production is highly integrated throughout the entire supply chain. Our internal system functions as a loop. In our processes, we optimize the number of materials used – combining, processing and recycling them. By-products are usually further processed immediately or used in another production area. Based on this principle and as an example, our Integrated silicon production system of just four starting materials – silicon, methanol, hydrogen and salt (sodium chloride) – enables us to manufacture over 3,000 silicone products, as well as pyrogenic silica and polysilicon. In our integrated ethylene production system, we produce acetaldehyde, acetic acid, ketene derivative products, vinyl acetate, polymers and dispersible polymer powders. This unique production strategy conserves resources and energy, and ensures seamless monitoring and control for our customers throughout the entire material loop – from the raw material to the finished product.

## WACKER'S COMPETITIVE STATUS – LEADING MARKET POSITIONS IN ATTRACTIVE MARKETS

All our five divisions generate the majority of their sales in markets where we rank among the top three global suppliers. We are the market leader in some products and in several areas of key strategic importance. WACKER's key sales regions are currently Europe, the Americas and Asia. Over the past years, we have massively expanded our presence in Asia – particularly in China. Aside from extending our sales network and establishing technical centers, we have built state-of-the-art production facilities in Shanghai (silicone emulsions), Wuxi (PVAc production) and Zhangjiagang (silicones and dispersible polymer powders). We will continue to expand production capacities in Zhangjiagang and ramp up a new production site in Nanjing by 2008.

What market positions do WACKER's individual divisions command? Siltronic is the third-largest global producer of silicon wafers and other products for the semiconductor industry. Its customers include the twenty biggest semiconductor companies worldwide, who account for over 70 % of this division's sales. The silicon wafer market is characterized by four trends. The first trend is strong Asian demand growth associated with the relocation of production to that region. Many semiconductor companies have already moved major sections of their production to Asia and will continue preferring to build future production sites there, too. Siltronic is currently building a new 300 mm fab in Singapore together with its customer Samsung Electronics. The second trend is rising demand for 300 mm silicon wafers. As is the case at our expanded 300 mm wafer production sites in Burghausen and Freiberg, Germany, the new Singapore fab will also exclusively produce silicon wafers with this diameter. The third trend is increasing market consolidation. The five leading wafer producers now account for 85 % of the silicon wafer market. Finally, the fourth trend is chip demand for an ever-growing number of applications.

In the silicones market, WACKER SILICONES is No. 3 – plus it is the global market leader in masonry protection. In Europe, which accounts for some 50 % of our sales, WACKER is the market leader in silicones. This market is characterized by great product diversity and steadily rising demand over the past years. Silicone products are used in a large number of industries. As is the case with WACKER's other divisions, WACKER SILICONES' fastest-growing market is Asia. Today, Asia is already the most important market for silicone products. To match our success in other markets, we are investing heavily in Asian market expansion – with a particular focus on China.

## EXPANSION OF OUR GLOBAL SUPPLY CHAIN FOR POLYMER PRODUCTS

With a market share of some 50 %, WACKER POLYMERS is the worldwide leading manufacturer of dispersions and dispersible polymer powders. Our acquisition of all of American-based Air Products' shares in our two joint ventures further expands our global supply chain for dispersions and polymer powders. Thanks to our products for energy-efficient construction and effective building insulation, we are very well prepared for the growing issue of climate change and its related energy-saving ramifications. We expect the polymer-product market to remain attractive. Here as well, the largest growth potential lies in Asia – especially China.

WACKER POLYSILICON is the world's second largest producer of hyperpure polycrystalline silicon for electronic and solar applications. Polysilicon demand has been growing strongly over the past few years – primarily due to a pronounced solar-industry upturn. This industrial sector will be the largest growth engine in the years to come. Nevertheless, the semiconductor sector will certainly remain an important customer. Currently, some 55 % of polysilicon is supplied to the semiconductor industry, whereas around 45 % goes to the solar sector. Steadily rising solar-industry demand has turned polysilicon into a highly coveted raw material. We have responded to this positive market situation and are rapidly expanding polysilicon production at our Burghausen site. By the end of 2010, we intend to increase our annual capacity to over 22,000 metric tons.

WACKER FINE CHEMICALS' markets are highly fragmented. We are the global leader in certain fine chemicals such as cyclodextrins and bio-engineered cysteine. WACKER is also among the leading producers of pharmaceutical proteins. Due to the myriad applications in these markets, we have developed a diversified customer portfolio encompassing over 200 companies.

## INTEGRATED PRODUCTION SYSTEM, INNOVATIVE STRENGTH AND HIGH MARKET-ENTRY BARRIERS – WACKER'S FURTHER COMPETITIVE EDGES

WACKER not only profits from its product-related competitive edges. Thanks to our integrated production system, we preside over key manufacturing cost advantages via the recycling of process-related by-products and co-products in other manufacturing stages.

WACKER's R&D focus and innovative strength have resulted in cutting-edge products in numerous areas. Many of these offer customers significant advantages over mass-produced goods. This is why they are often used as substitute materials. One example is dispersible polymer powder, which – in dry-mix mortar systems – ensures significantly better properties compared to conventionally mixed mortar at building sites, as well as consistently high quality and faster processing.

WACKER is characterized by its high degree of technological expertise, close collaboration with customers when they develop new products, high manufacturing productivity and major investments in high-volume production facilities. All these factors pose significant market-entry barriers for new competitors. As a result, WACKER usually faces very little competition in its fields of activity.

Not to be underestimated is the fact that most of our products are free of petrochemical raw materials such as oil, which means that we are relatively unaffected by oil prices. Petrochemical raw materials make up some 25 % of our total raw-material costs.

### LEGAL AND ECONOMIC FACTORS

As with most companies, WACKER generally cannot rule out the possibility that the general economic trend might impact the company's development. Due to our product portfolio, we are usually able to compensate for the cyclical movements of individual sectors. Our customer structure is so diverse that we are not dependent on any one major customer. Our main focus is on the future movements of the euro, as well as raw-material and energy prices. Despite a positive business climate, a further rise in the euro could impact our competitiveness in dollar-based markets. For example, Siltronic generates most of its sales in dollars. We attempt to reduce negative exchange-rate effects via hedging and expansion of our supply chain outside the eurozone. If raw-material and energy costs should continue to rise even further, our procurement costs would increase, too. In fiscal 2007, we countered this development by raising many of our products' prices.

### NEW EU CHEMICAL POLICY "REACH" – WACKER IS WELL PREPARED

The new EU chemical policy (REACH) took effect on June 1, 2007. It governs the registration, evaluation and approval of chemicals in the European Union (EU). REACH thereby creates uniform Europe-wide regulations, superseding prior stipulations on the evaluation of existing substances and registration of new ones. REACH poses new requirements for us on top of our already high plant, workplace and health & safety standards. In the years to come, all substances that exist on the European market must be registered and their properties evaluated. The extent of evaluations is primarily tied to the quantity of material in use and the expected risks. Substances with particularly high risks are subject to regulatory approval.

We have been preparing for REACH's requirements for several years and will implement related provisions. We expect the additional costs stemming from the introduction of REACH to amount to some €30 million.

### WACKER'S STRATEGY – AIMING FOR PROFITABLE GROWTH

WACKER's strategy is clearly aimed at generating profitable growth. This is why we focus on and continually expand our presence in segments and regions with above-average growth (see page 69 for further information). This strategy is based on the Group's existing technological and entrepreneurial strengths. The use of our advanced products directly contributes to added value for our customers. We will continue to build on this technological edge in the future. Our R&D focuses on introducing technologically advantageous products with high substitution potential. We consider it important that the majority of our business fields command a leading competitive position. Our aim is to ensure that WACKER products and services are the preferred choice of customers in many fields of application.

We generate production-related cost advantages via our integrated, highly productive manufacturing processes. At the same time, we are doing everything we can to continually boost productivity and lower our costs, such as via targeted projects and cost analyses throughout all supply chains.

A key component of WACKER's strategy is to expand the Group's supply chains. Thanks to the foundation of a new joint venture with German-based SCHOTT Solar in 2007, we have achieved forward integration in the solar industry and are no longer just a polysilicon supplier, but also a producer of ingots and solar wafers. With the takeover of all shares in both our joint ventures with American-based

Air Products, WACKER has achieved backward integration in the field of dispersions – making us the only company with a global presence in that business.

Individual divisional strategies are coordinated with the overarching Group strategy. Via targeted investment projects, we are reinforcing segments in which we already have a leading market position and substantial technological expertise. In doing so, we place investments in markets we view as offering the greatest growth potential. The expansion of our production sites is proof that we are actively implementing this strategy.

## BUSINESS SUCCESS – NOT POSSIBLE WITHOUT SUSTAINABILITY

For us, the issue of sustainability is vital to achieving long-term corporate success. Our understanding of sustainability not only includes the conservation of resources and the environment, but also cultural and social responsibility and, of course, successful business operations. As an international company with over 15,000 employees, WACKER is a good corporate citizen and, at the same time, considers itself a good global citizen. We solve problems on a global level. Regardless of where they originate, employee improvement suggestions are implemented worldwide whenever they contribute toward productivity increases, environmental protection, higher quality and greater product and production-facility safety.

The chemical industry's Responsible Care® initiative is considered exemplary. We have been committed to this initiative and have supported its international implementation from the very beginning. WACKER's integrated management system (IMS) serves as a foundation for Group sustainability. IMS governs processes, assignments and responsibilities. In doing so, it takes productivity, quality, and the environment, as well as health and safety into account. The IMS is based on legal regulations, the Group's voluntary commitment to Responsible Care®, the UN's Global Compact initiative and nationally and internationally applicable standards. Our actions should be measurable. This is why we set ourselves specific goals, which we review in terms of all sustainability-related aspects. For our products, sustainability means we conserve resources and energy, prevent waste, develop environmentally compatible solutions for our customers and thereby contribute toward climate protection.

Social responsibility for employees enjoys a long tradition at WACKER. We create the conditions that allow each employee to fully utilize their potential. This is shown by comprehensive programs on personnel development, equal opportunities and bonus systems, as well as our pension benefits.

Throughout the Group, WACKER supports a variety of charitable projects. These range from local and temporary activities to the Group's own "WACKER HILFSFONDS" (WACKER Relief Fund). We are particularly committed to education, science and research. Major projects include organization of the Bavarian state competition "Young Scientists," distribution of an experiment kit for schools, membership in "Bildungspakt Bayern" (a Bavarian education foundation), bestowal of the WACKER Silicone Award, and our international contacts with universities and scientific institutes. In fiscal 2006, we founded the WACKER Chair in Silicon Chemistry at the Technical University of Munich (TUM) and endowed it with €6 million.

You'll find further data and facts on sustainability and our commitment to science-related, charitable, cultural and societal issues in our Sustainability Report or at www.wacker.com.

## ORGANIZATION – OPERATIONS DRIVEN

The WACKER Group has a matrix organization with clearly assigned business responsibilities. The five divisions have global responsibility for their own designated products, markets, customers and business results. Regional organizations are responsible for all business in their region or country. Aside from its divisions, the Group has corporate departments that primarily provide services, though some are also involved in production-related functions.

Wacker Chemie AG's Executive Board consists of four members. It governs strategies and resources, as well as the Group's infrastructure and organization. The Executive Board chairman and Group CEO is Dr. Peter-Alexander Wacker. Other Executive Board members are Dr. Joachim Rauhut, Dr. Rudolf Staudigl and Auguste Willems. Executive Board members are involved in operations so that the company can react quickly to market changes.

Wacker Chemie AG's Supervisory Board is made up of 16 members, of whom eight are employee representatives. The Supervisory Board chairman is Dr. Karl Heinz Weiss. You'll find detailed information on this topic in the Supervisory Board Report on page 154.

### EXECUTIVE BOARD RESPONSIBILITIES

| DR. PETER-ALEXANDER WACKER<br>PRESIDENT & CEO | DR. JOACHIM RAUHUT | DR. RUDOLF STAUDIGL | AUGUSTE WILLEMS |
|---|---|---|---|
| SILTRONIC<br>WACKER POLYSILICON<br>Executive Personnel<br>Corporate Development<br>Corporate Communications<br>Corporate Auditing<br>Legal Affairs<br>Investor Relations | Corporate Accounting<br>Corporate Controlling<br>Corporate Finance<br>Information Technology<br>Tax<br>Procurement and Logistics<br>Region: Europe | WACKER SILICONES<br>Human Resources<br>(Personnel Director)<br>Site Management<br>Environment, Chemicals, Safety<br>Corporate R&D<br>Intellectual Property<br>Region: Asia | WACKER POLYMERS<br>WACKER FINE CHEMICALS<br>Corporate Engineering<br>Sales & Distribution<br>Region: The Americas |

## VALUE-BASED MANAGEMENT – AIMING FOR LONG-TERM CORPORATE VALUE GROWTH

Long-term and sustainable corporate value growth forms the core of WACKER corporate policies. Under the “EAGLE” acronym (Eye At Growing a Longterm Enterprise), we consolidated value-based management Group-wide in 2002. WACKER views value-based management as an integral part of strategic planning. For this reason, the strategic positioning of a business entity and its contribution to boosting the company’s value must be coordinated. This is done as part of annual planning and comprises fundamental decisions on investments, innovation plans, new market development and other projects.

Key performance indicators in assessing the corporate value trend at WACKER are BVC (Business Value Contribution), EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and cash flow. These three key indicators help us plan and run our business. They describe operational business from different viewpoints. Together, they provide a complete picture of the Group. All three performance indicators are afforded equal weighting.

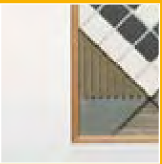
The cost of capital for capital employed is calculated as a weighted average of equity and debt capital costs. The various business segments are evaluated differently based on their specific individual risks. Success is measured via ROCE (Return On Capital Employed). CE (Capital Employed) is set in relation to EBIT. If CE generates a higher interest return than the cost of capital employed, that means WACKER has a positive BVC (Business Value Contribution).

## GROUP PLANNING AND MANAGEMENT – CLOSELY LINKED TO VALUE-BASED MANAGEMENT

The WACKER Group’s strategic planning is closely linked to value-based management. It shows how value-related and corporate goals can be met. Strategic planning is divided into two steps. First, divisions identify their market and competitive positions, as well as their value-related attractiveness. The results are integrated into a proposal for each division’s strategic positioning and planned measures. This information is then consolidated on a Group level including planned innovation and investment activities. The process is completed by a strategy conference, which decides on strategic planning using target values.

Strategic planning decisions are included in operational planning, which takes place and is decided on in the second half of the year. Executive and Supervisory Boards jointly approve the annual plan. We check on our success level via monthly reporting that uses comparisons of planned/actual figures. The reporting system also forms the basis for our quarterly rolling forecasts.

MANAGEMENT REPORT BUSINESS DEVELOPMENT


## WACKER POLYMERS

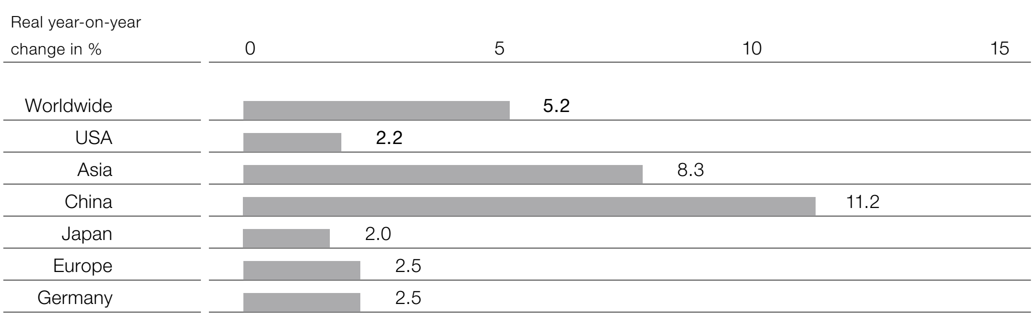
is a world-leading producer of polymer binders and additives. As heat-sealing additives, VINNOL® surface-coating resins form long-lasting and strong bonds with a multitude of materials. Composites with perfect surfaces and no shrinkage (e.g. for flexible automotive design) are only possible via VINNAPAS® surface-coating resins.

# THE ECONOMY AND CHEMICALS

## UNDERLYING CONDITIONS – GENERAL ECONOMIC AND CHEMICAL-SECTOR DEVELOPMENTS

The global economy's upturn continued in 2007 even though the American economy grew more slowly than expected due to the real estate market crisis. Moreover, general underlying conditions have worsened. The sharply higher oil price and rises in other raw-material costs and consumer prices began to negatively impact growth. According to International Monetary Fund (IMF) estimates, the global economy grew 5.2 % in 2007 (2006: 5.4 %).

GDP GROWTH IN 2007




Sources: worldwide: (IMF), USA (US Dept. of Commerce), Asia (ADB), China (ADB), Japan (IMF), Europe (IMF), Germany (Federal Statistics Office)

In the USA, economic growth weakened significantly. According to the U.S. Department of Commerce, GDP grew by 2.2 % in 2007 (2006: 2.9 %). The slowdown is a result of the real estate market crisis, which is mainly weighing on the financial sector worldwide. Many home loans were issued to households with poor credit ratings, who were then no longer able to meet their payments. Rising interest rates and the simultaneous drop in property prices have caused dozens of mortgage companies to apply for bankruptcy. Since the subprime loans were refinanced via structured investment vehicles (SIVs) on capital markets, hedge funds and investment banks suffered significant losses and a capital-market crisis ensued. The American Federal Reserve subsequently decided to cut interest rates.

Asian economies were unaffected by these problems and continued their dynamic growth trend in 2007. The Asian Development Bank (ADB) expects a rise of 8.3 % (2006: 7.7 %). China remains Asia's growth engine, significantly boosting its economy. According to ADB figures, the Chinese economy grew 11.2 % (2006: 11.1 %). India, too, recorded strong growth of 8.5 % (2006: 9.7 %) according to the ADB. On the other hand, Japan's economy stalled. Weak domestic demand and a construction-sector crisis are placing a drag on the Japanese economy, which is expected by the IMF to post 2 % growth in 2007 (2006: 2.2 %).

European economic growth remained at similarly high levels to the previous year. Major factors were the continued high level of capital expenditures and dynamic exports. The IMF expects eurozone growth of 2.5 % in 2007 (2006: 2.8 %).

Germany's economic upturn remained intact in 2007. According to German federal statistics, GDP grew 2.5 % (2006: 2.9 %) – primarily driven by capital expenditures and the country's continuing high export share. Germany also experienced good job growth. The unemployment figures dropped to under 3.5 million for the first time in many years and the number of socially-insured jobs rose. State and federal revenues in Germany continued to improve due to the economic upturn.

### CHEMICAL MARKETS – GROWTH TREND REMAINS INTACT

Demand for chemical products was unabated in 2007, too. The German chemical industry grew significantly despite the strong euro and high raw-material and energy prices. The negative impact on the raw-material and energy front led companies to raise prices for many chemicals and chemical products. Sector sales climbed to €174.4 billion in 2007 (2006: €162.2 billion) – up 7.5 %. This robust demand was driven by both strong international and domestic sales. The positive economic trend was the primary reason for good domestic demand. Numerous chemical-industry customers have markedly expanded their production capacity which, in turn, stoked domestic chemical demand. Domestic sales rose 7 % to €79.3 billion (2006: €74.1 billion).

The German chemical industry's export figures reached a new record level in 2007. Sales totaled €95.1 billion (2006: €88.1 billion), up 8 % year on year. The healthy market development in Europe and strong demand from Asia fueled international sales. Sales in the USA, however, declined.

### SILICON WAFER MARKET – 300 MM WAFERS DRIVE GROWTH

The semiconductor market grew in 2007. According to German Electrical and Electronic Manufacturers' Association (ZVEI) data, chip makers' sales rose 4 % last year. The semiconductor market has experienced continuous growth since 2002 – and thus its longest-ever period of uninterrupted growth. The global market for silicon wafers made gains once more, too. According to SEMI trade association figures, semiconductor wafer sales – in terms of the global amount of surface area sold – posted a year-on-year increase of 8.3 %. This development was primarily fueled by the 300 mm silicon wafer segment, whose sales climbed almost 50 %. Sales of 200 mm wafers and smaller diameters, however, declined. According to SEMI, the global wafer surface area sold was up 0.5 % in Q4 2007 compared to the preceding quarter and 5.6 % against Q4 2006.

# PROFITABILITY

## WACKER BOOSTS CONSOLIDATED SALES BY 13.3 %, WITH EVEN STRONGER INCREASES IN EBITDA AND EBIT

WACKER was able to continue its positive business trend in fiscal 2007 and thus boosted sales once more. Sales amounted to €3.78 billion (2006: €3.34 billion) – a gain of 13.3 %. We primarily profited from strong customer demand in many of our targeted sectors. The rise is particularly due to volume gains and higher product prices. The four largest divisions contributed to WACKER's growth. Siltronic achieved the biggest sales increase with a year-on-year gain of 14.9 % to €1.45 billion (2006: €1.26 billion). WACKER FINE CHEMICALS, our smallest division, posted sales matching the prior-year level.

EXTERNAL SALES BY SEGMENT

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| SILTRONIC | 1,445.1 | 1,257.6 | 912.5 | 812.5 |
| WACKER SILICONES | 1,313.6 | 1,243.9 | 1,081.8 | 1,008.9 |
| WACKER POLYMERS | 623.7 | 548.9 | 473.0 | 424.1 |
| WACKER POLYSILICON | 243.8 | 132.7 | 132.5 | 109.1 |
| WACKER FINE CHEMICALS | 100.6 | 101.4 | 104.1 | 94.5 |
| Other | 54.5 | 52.4 | 51.8 | 55.2 |
| Group | 3,781.3 | 3,336.9 | 2,755.7 | 2,504.3 |

80.9 % or €3.06 billion of WACKER Group sales were international. Whereas business in the Americas was somewhat lower year on year, sales in Europe rose. In Asia, WACKER generated sales of over €1 billion for the first time ever. At €1.27 billion, sales were up 31.8 % compared to fiscal 2006. Domestic sales reached €723.5 million (2006: €657.6 million), up 10.0 % year on year. The share of domestic sales was 19.1 %.

DOMESTIC AND INTERNATIONAL SALES (BY CUSTOMER LOCATION)

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| External sales | 3,781.3 | 3,336.9 | 2,755.7 | 2,504.3 |
| Thereof domestic | 723.5 | 657.6 | 572.3 | 566.6 |
| Thereof international | 3,057.8 | 2,679.3 | 2,183.4 | 1,937.7 |

WACKER posted an even stronger gain in EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) compared to sales. At €1.00 billion (2006: €786.3 million) EBITDA crossed the billion-euro mark for the first time ever. This represents a 27.4 % rise – caused by high volume growth, as well as price and productivity increases, which more than offset exchange-rate effects and higher costs, especially for energy and raw materials. The EBITDA margin rose as well, reaching 26.5 % (2006: 23.6 %). EBIT (Earnings Before Interest and Taxes) also increased significantly, climbing 42.4 percent to €649.6 million (2006: €456.3 million). The result would have been even better if the euro had not strengthened so much against the dollar.

Despite the sales gain, selling, administrative and R&D expenses only rose 2.4 % to €480.1 million (2006: €468.7 million). Selling costs grew the fastest – up €9.6 million to €233.5 million (2006: €223.9 million). R&D and administrative expenses were virtually stable. R&D costs amounted to €152.5 million (2006: €152.3 million) and administrative costs came in at €94.1 million (2006: €92.5 million).

The interest result of €–1.0 million improved by €22.3 million year on year. Customer prepayments at the WACKER POLYSILICON division made a major contribution here. We were able to generate interest income via an increase in existing cash and cash equivalents. At the same time, we reduced financial liabilities thanks to our good liquidity situation – which positively influenced the interest result.

At €–1.6 million (2006: €–2.0 million), the investment result was slightly better compared to fiscal 2006. Both the pro rata results from investments in joint ventures and associates (at €–9.3 million in 2007, a €0.4 million improvement on 2006) and other investment income remained virtually unchanged, at €7.7 million (2006: €7.7 million).

Tax expenses rose to €209.9 million in fiscal 2007 (2006: €103.8 million), resulting in a tax rate of 33 % (2006: 25 %). The lower tax rate in 2006 was influenced by deferred taxes formed on loss carry-forwards which were used up in fiscal 2007.

SUMMARIZED INCOME STATEMENT

| € million | | 2007 | 2006 |
|---|---|---|---|
| **Sales** | | **3,781.3** | 3,336.9 |
| **Gross profit from sales** | | **1,152.0** | 958.9 |
| Selling, R&D and general administrative expenses | | **–480.1** | –468.7 |
| Other operating income and expenses | | **–20.7** | –31.9 |
| **Operating result** | | **651.2** | 458.3 |
| Income from participations (incl. investments in joint ventures and associates) | | **–1.6** | –2.0 |
| **EBIT (earnings before interest and taxes)** | | **649.6** | 456.3 |
| Financial result | | **–17.5** | –40.7 |
| **Income before taxes** | | **632.1** | 415.6 |
| Income taxes | | **–209.9** | –103.8 |
| **Net income before minority interests** | | **422.2** | 311.8 |
| **Thereof attributable to Wacker Chemie AG shareholders (net income)** | | **422.0** | 311.3 |
| Thereof attributable to other minority interests | | **0.2** | 0.5 |
| **Earnings per share** | in € | **8.49** | 6.46 |
| **EBITDA** | | **1,001.5** | 786.3 |
| **ROCE** | in % | **25.3** | 17.9 |

# ASSETS

## BALANCE-SHEET TREND: ASSETS

On December 31, 2007, the WACKER Group's balance-sheet total amounted to €3.92 billion (2006: €3.26 billion) – a rise of 20.3 %. This growth resulted from higher business volumes and customer prepayments to WACKER POLYSILICON. Whereas non-current assets grew 16.0 % to €2.49 billion (2006: €2.15 billion), current assets climbed 28.4 % to €1.43 billion (2006: €1.11 billion).

Among the non-current assets, property, plant and equipment showed the fastest growth. Additionally, financial assets rose considerably. The increase in investment activity, particularly at WACKER POLYSILICON, raised the carrying amount of property, plant and equipment by €2.12 billion (2006: €1.92 billion). Compared to the prior-year figure, this represents a €205.8 million or 10.7 % gain.

On the reporting date, the carrying amount for financial assets was €266.9 million (2006: €163.5 million), up €103.4 million or 63.2 % year on year. This increase was due to capital contributions to the Group's joint ventures with Samsung Electronics and SCHOTT Solar. Other assets, including tax receivables, were likewise up strongly by 89.6 % to €74.9 million (2006: €39.5 million). The accrued VAT associated with prepayments from German customers was a major reason for this gain. Moreover, the funds for securing provisions for employees' early retirement rose.

In terms of current assets, cash and cash equivalents as well as other assets rose. Cash inflows from prepayments and robust operational cash flow that were not used to reduce financial liabilities or to finance investments boosted cash and cash equivalents to €366.5 million (2006: €42.9 million). Trade receivables fell €15.1 million to €460.6 million (2006: €475.7 million) despite higher sales. The value of inventories remained virtually steady at €403.5 million (2006: €407.9 million). Other assets, including tax receivables, rose from €185.5 million to €196.9 million, primarily due to the derivatives' higher market values.

## BALANCE-SHEET TREND: LIABILITIES

Primarily due to the high net profit, the Group's equity on the reporting date rose €279.8 million to €1.87 billion (2006: €1.59 billion) – an increase of 17.6 %. The equity ratio remained virtually unchanged at 47.6 % due to the higher balance-sheet total. For the 2006 fiscal year, WACKER distributed dividends in 2007 amounting to €124.5 million. Changes due to currency translation of foreign subsidiaries' financial statements and to currency-hedging measures on balance reduced equity by €17.9 million.

Non-current and current financial liabilities dropped by €192.1 million year on year. The main factor for this were cash inflows from operational business and prepayments from customers. As per December 31, 2007, financial liabilities amounted to €217.8 million (2006: €409.9 million) – of which €164.2 million (2006: €321.9 million) were non-current and €53.6 million (2006: €88.0 million) were current financial liabilities. Net financial liabilities (the balance of financial liabilities and cash and cash equivalents) dropped €515.7 million year on year. On the reporting date, cash and cash equivalents exceeded financial liabilities by €148.7 million.

In total, non-current liabilities rose to €1.46 billion (2006: €1.13 billion) – an increase of 29.0 %. This resulted almost exclusively from higher long-term prepayments for future polysilicon shipments. These prepayments climbed €386.9 million to €604.7 million (2006: €217.8 million).

Another important change in non-current liabilities was the previously mentioned decline in financial liabilities. Other liabilities increased due to higher employee bonuses.

## CORPORATE ACQUISITIONS AND THE SALE OF CORPORATE ENTITIES

In 2007, WACKER neither acquired nor sold any business entity, thus there were no resultant changes to assets.

## OFF-BALANCE-SHEET ASSETS

A major asset that does not appear on the balance sheet 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 influencing factor in the acceptance of our products and solutions by customers.

In our opinion, our business success is additionally influenced by a series of intangibles. These include long-standing relationships with customers and the trust of our customers in our product and solution-related expertise. Just as important are factors such as profound know-how and the experience of our employees, as well as our many years of expertise in R&D, production and business process structures and project management.

### SUMMARIZED BALANCE SHEET AS PER DECEMBER 31

| € million | 2007 | 2006 |
|---|---|---|
| ASSETS | | |
| Intangible assets/property, plant and equipment | 2,135.0 | 1,935.4 |
| Investments in joint ventures and associates | 196.2 | 98.3 |
| Other non-current assets | 159.4 | 112.5 |
| **Non-current assets** | **2,490.6** | **2,146.2** |
| Inventories | 403.5 | 407.9 |
| Trade receivables | 460.6 | 475.7 |
| Other current assets | 563.4 | 228.4 |
| **Current assets** | **1,427.5** | **1,112.0** |
| **Total assets** | **3,918.1** | **3,258.2** |
| LIABILITIES | | |
| **Equity** | **1,865.6** | **1,585.8** |
| Minority shares in limited partnership capital | 32.6 | 31.8 |
| Non-current provisions | 614.2 | 543.8 |
| Financial liabilities | 164.2 | 321.9 |
| Other non-current liabilities | 649.9 | 235.0 |
| Thereof customer prepayments | 604.7 | 217.8 |
| **Non-current liabilities** | **1,460.9** | **1,132.5** |
| Financial liabilities | 53.6 | 88.0 |
| Trade payables | 241.8 | 205.9 |
| Other non-current provisions and liabilities | 296.2 | 246.0 |
| **Current liabilities** | **591.6** | **539.9** |
| **Liabilities** | **2,052.5** | **1,672.4** |
| **Total equity and liabilities** | **3,918.1** | **3,258.2** |
| **Capital employed** | **2,566.9** | **2,555.1** |

# FINANCIAL POSITION

The primary aim of our financial policies is to bolster WACKER's financial strength. The focal task is to sufficiently cover the financial needs of our operational business and investments. Organized centrally, the Group's financial management experts are responsible for cash management and financing, as well as hedging against currency, interest-rate and price risks. To do so, they only employ derivative financial instruments if these are based on funds, loans or planned transactions from our operations.

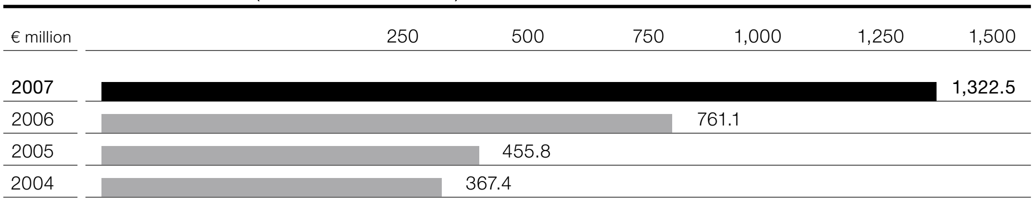
## FINANCIAL ANALYSIS

On December 31, 2007, financial liabilities were nearly €200 million below the prior-year figure. Net financial liabilities showed a credit balance of €148.7 million on the reporting date. Aside from the financial liabilities posted in this report, WACKER has sufficient unused credit lines available to secure the financing of additional future investments. The Group does not use off-balance-sheet financial instruments.

## CASH FLOW

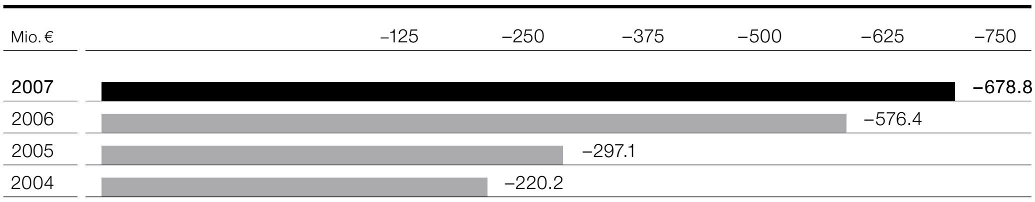
WACKER's internal financial strength improved significantly in 2007. Cash inflow from operating activities amounted to €1.32 billion (2006: €761.1 million), rising 73.8 %. This was in part due to our operating income and to customer payments for future polysilicon shipments. Cash inflows from prepayments rose €181.8 million to €413.2 million (2006: €231.4 million). The increase in net income accounted for a €110.4 million gain over the prior-year figure. Further significant rises in gross cash flow are attributable to higher HR provisions for taxes and early-retirement obligations as well as to much better receivables management. Adjusted for exchange-rate effects, trade receivables rose just €4.0 million in 2007, whereas there had been an increase of €70.7 million in 2006.

OPERATING CASH FLOW (GROSS CASH FLOW)



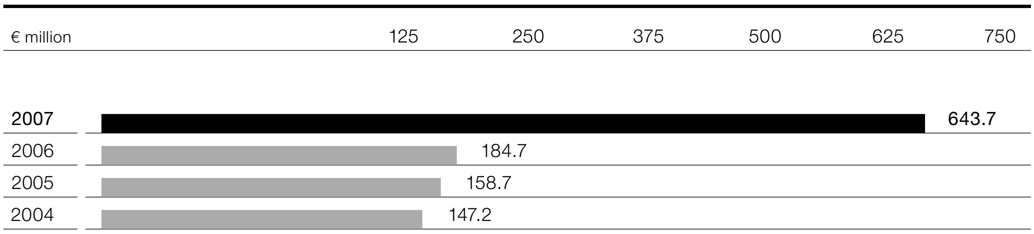

Liquidity outflows for investments in intangible assets, property, plant, equipment, and financial assets amounted to €678.8 million in 2007 (2006: €576.4 million) – an increase of €102.4 million. Substantial funds flowed into production facilities for polysilicon, siloxane, silicon wafers and dispersible polymer powders, as well as into our joint ventures with Samsung Electronics and SCHOTT Solar. Investments in these two joint ventures totaled €112.8 million. You'll find further details on these investment projects in the section on segments.

CASH FLOW FROM INVESTMENT ACTIVITIES



Net cash flow (the difference between cash inflow from operating activities and cash outflow due to investment activities) amounted to €643.7 million in 2007 (2006: €184.7 million) – a year-on-year gain of €459.0 million.

NET CASH FLOW




In fiscal 2007, cash flow from financing activities totaled €318.9 million (2006: €174.9 million). It exclusively consists of repayments to lenders (in a broader sense). Key items here included the distribution of dividends to shareholders (primarily to Wacker Chemie AG shareholders) amounting to €124.5 million and the reduction in financial liabilities of €194.4 million.

## PROPOSAL ON APPROPRIATION OF PROFITS

In accordance with German Commercial Code accounting rules, Wacker Chemie AG posted a retained profit of €1.09 billion in 2007. Following 2007's positive results, the Executive and Supervisory Boards will propose a dividend of €2.25 per share and a special bonus of €0.75 per share to shareholders at the annual meeting. The base dividend reflects a designated minimum payout ratio of 25 % of net income. Additionally, shareholders will benefit from our excellent financial performance by receiving a special bonus. Based on shares entitled to dividends as per December 31, 2007, this base dividend corresponds to a payout of €111.8 million. Another €37.3 million will be distributed via the special bonus.

Calculated in relation to WACKER's average share price in 2007, the yield of both dividend components is 2.0 %. The Executive and Supervisory Boards will propose to shareholders at the annual meeting a credit of €617.0 million to retained earnings. The remaining amount is treated as profit carried forward.

## RATING

WACKER has sufficient unused credit lines available and does not use financial instruments such as bonds and commercial paper. This is why WACKER has not published a credit rating yet.

## GENERAL OVERVIEW OF THE BUSINESS SITUATION

The WACKER Group has once again enhanced its key corporate indicators and continued on its successful growth path. We were able to reach or surpass the goals we set last year.

## SUPPLEMENTAL INFORMATION. GERMAN TAKEOVER DIRECTIVE IMPLEMENTATION ACT

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

| Regulation | Topic | Details and references |
|---|---|---|
| § 315 (4) 1 | COMPOSITION OF SUBSCRIBED CAPITAL | Wacker Chemie AG's subscribed capital totals 52,152,600 non-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 shareholder meeting. The remaining 1,692,317 shares are subject to Supervisory Board approval. |
| § 315 (4) 2 | RESTRICTIONS ON VOTING RIGHTS OR ON THE TRANSFER OF SHARES | There are no restrictions on voting rights or on the transfer of shares. |
| § 315 (4) 3 | DIRECT OR INDIRECT CAPITAL STAKES | Dr. Alexander Wacker Familiengesellschaft mbH, based in Munich, and Blue Elephant Holding GmbH, based in Pöcking, each hold over 10 % of the subscribed capital. |
| § 315 (4) 4 | OWNERS OF SHARES ENTAILING SPECIAL RIGHTS | Shareholders have not been given any special rights that bestow control powers. Insofar as emloyees hold shares in Wacker Chemie AG's capital, they exercise their resultant control rights directly. |
| § 315 (4) 5 | METHOD OF VOTING-RIGHT CONTROL IN THE CASE OF EMPLOYEE PARTICIPATION | |
| § 315 (4) 6 | LEGAL STIPULATIONS AND ARTICLES OF INCORPORATION PRINCIPLES REGARDING THE APPOINTMENT AND DISMISSAL OF EXECUTIVE BOARD MEMBERS AND AMENDMENTS TO SAID ARTICLES | 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 Incorporation do not contain any further provisions in this respect. Pursuant to Section 4 of the Articles of Incorporation, the number of Executive Board members is fixed by the Supervisory Board, which also appoints an Executive Board member as President & CEO. Amendments to the Articles of Incorporation 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 Incorporation if only the wording thereof is affected. |

| Regulation | Topic | Details and references |
|---|---|---|
| § 315 (4) 7 | AUTHORITY OF THE EXECUTIVE BOARD TO ISSUE OR BUY BACK SHARES | In accordance with a resolution passed at the March 15, 2006 annual shareholder 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 % of capital stock. No capital has been authorized for the issue of new shares. |
| § 315 (4) 8 | MAJOR AGREEMENTS ASSOCIATED WITH CONTROL CHANGES DUE TO A TAKEOVER BID | Various agreements with joint-venture partners include "change of control" clauses. These clauses deal with what might happen if one of the joint-venture partners were taken over. If a competitor were to make a bid to take over Wacker Chemie AG, its joint-venture partners would be able to acquire its shares in a joint venture where Wacker Chemie AG and, where appropriate, its subsidiaries were minority stakeholders. In one specific case, a joint-venture partner, having acquired shares held by WACKER, would additionally be entitled to exercise a put option on their minority stake in a joint venture where a WACKER company had a majority stake. The partner would therefore be entitled to demand that WACKER acquire this minority stake. The present arrangements comply with the usual standards for such joint-venture agreements. |
| § 315 (4) 9 | SEVERANCE AGREEMENTS WITH THE EXECUTIVE BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID | There are no severance agreements etc. with employees or with Executive Board members in the event of a takeover bid – except for the Executive Board chairman's right to give notice (please refer to the Compensation Report). |

In sum, there are no special arrangements for share-related voting rights or for any resultant control opportunities, whether due to special share categories or restrictions on voting rights or transfers. Provisions to appoint or dismiss Executive Board members do not go above and beyond legal requirements. Should there be a takeover bid, no major WACKER divisions and activities can be given up as a result of existing "change of control" clauses.

# SEGMENTS

## SILTRONIC

Siltronic boosted its total sales by 15 % to €1.45 billion in 2007 (2006: €1.26 billion). This rise was primarily due to higher production volumes. Currency and price effects virtually cancelled each other out. With a nearly 60 % share, Asia (including Japan) was by far the largest market for Siltronic last year.

Siltronic's EBITDA reached €478.1 million (2006: €355.6 million) – a gain of 34 %. This resulted in an EBITDA margin of 32.9 % (2006: 28.2 %). Key factors in this rise were shifts in the product mix toward 300 mm wafers and sales to the solar industry, as well as efficiency increases. As a result, Siltronic was able to more than offset negative exchange-rate effects from the strong euro.

Siltronic's investments amounted to €200.0 million in 2007 (2006: €167.7 million). A major part of these funds flowed into expansion of 300 mm wafer production at its Burghausen, Germany site, where Siltronic boosted existing capacity by another 60,000 wafers per month to reach 135,000 in the future. A focal investment in 2007 was the new 300 mm production facility in Singapore, which Siltronic is building together with its partner Samsung Electronics. The joint venture will be starting production soon. Associated buildings, infrastructure and equipment have been completed and initial production tests are already up and running. Official commissioning of the new plant is expected in the first half of 2008. By the end of 2010, this joint venture should reach a monthly capacity of some 300,000 wafers and employ up to 800 people. Siltronic and Samsung are investing around US$1 billion there.

Siltronic had 5,634 employees on December 31, 2007 (Dec. 31, 2006: 5,585).

KEY DATA: SILTRONIC

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Total sales | 1,451.6 | 1,263.1 | 925.0 | 813.7 |
| EBITDA | 478.1 | 355.6 | 166.7 | 58.0 |
| EBIT | 337.2 | 213.1 | 5.8 | –100.7 |
| Capital expenditures | 200.0 | 167.7 | 68.0 | 187.3 |
| R&D expenditures | 63.9 | 63.2 | 65.4 | 71.0 |
| Employees (Number) (as of Dec. 31) | 5,634 | 5,585 | 5,631 | 6,032 |

## WACKER SILICONES

WACKER SILICONES' total sales rose 6 % to €1.36 billion in 2007 (2006: €1.29 billion). This growth was primarily due to volume gains and partially to price increases. Negative currency shifts, however, impacted our sales development. The division achieved its highest growth rates in Asia, though sales rose significantly in several other regions, too. In the Americas, sales barely reached the prior-year figure due to currency effects.

WACKER SILICONES' EBITDA equaled €226.9 million in 2007 (2006: €231.9 million). Thus, the division nearly matched its prior-year earnings despite significantly higher raw-material and energy costs, as well as negative exchange-rate effects. The EBITDA margin was 16.7 % (2006: 18.0 %). To counter rising raw-material, energy, packaging and transport costs, WACKER SILICONES raised pyrogenic-silica prices effective July 1, 2007. Further price increases for all silicone products took effect globally on January 1, 2008.

In 2007, WACKER SILICONES invested a total of €102.2 million (2006: €140.9 million) – a year-on-year and project-related decline of 27 %. Significant funds flowed into ongoing construction and expansion of the Zhangjiagang (China) silicone production site. In early February 2007, two facilities came on stream to produce silicone elastomers and silicone sealants. Siloxane and pyrogenic-silica production plants, which WACKER is jointly building with Dow Corning, also made major progress. The commissioning of silica production is set for early 2008 and siloxane production is expected to start in 2010.

Participation in K 2007, the world's largest plastics tradeshow (held from October 24-31 in Düsseldorf, Germany) was a key event for the division. WACKER SILICONES featured numerous novel products for the plastics industry there. These ranged from ultra-high molecular weight silicone additives and silicone-based thermoplastics to permanently flexible hybrid adhesives and oil-bleeding silicone rubber grades. WACKER SILICONES also presented its comprehensive consulting and services portfolio.

The numbers of employees at WACKER SILICONES rose to 3,871 on the reporting date (Dec. 31, 2006: 3,767).

KEY DATA: WACKER SILICONES

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Total sales | 1,361.0 | 1,286.9 | 1,119.3 | 1,045.4 |
| EBITDA | 226.9 | 231.9 | 211.0 | 189.9 |
| EBIT | 144.6 | 147.8 | 111.5 | 105.8 |
| Capital expenditures | 102.2 | 140.9 | 102.9 | 107.0 |
| R&D expenditures | 35.9 | 34.4 | 33.4 | 33.1 |
| Employees (Number) (as of Dec. 31) | 3,871 | 3,767 | 3,596 | 3,596 |

## WACKER POLYMERS

WACKER POLYMERS' total sales rose 13 % to €632.8 million last year (2006: €559.6 million). In particular, construction industry demand for dispersible polymer powder showed extremely strong growth, especially for tile adhesives and thermal insulation systems. The elimination of specific production bottlenecks and a newly built plant at the Burghausen site contributed to this volume and sales growth. In terms of regions, business was especially strong in Asia, South America and Eastern Europe. However, all other regions likewise posted higher sales compared to prior-year levels.

In 2007, WACKER POLYMERS generated EBITDA of €107.0 million (2006: €106.6 million). Earnings growth did not fully keep up with the sales gain. This was primarily due to significantly higher raw-material prices and precursor costs resulting from a relatively long plant shutdown at our largest supplier. We were thus forced to procure these materials elsewhere. As a result, the EBITDA margin declined to 16.9 % (2006: 19.0 %). To offset its higher raw-material costs, the division raised product prices significantly.

WACKER POLYMERS' investments in 2007 of €41.0 million (2006: €17.8 million) more than doubled compared to the prior-year figure. The division primarily focused on expanding dispersible-polymer-powder production capacities at its Burghausen site. It also invested in its new Nanjing (China) site that is currently under construction. In Q3 2007, a spray dryer came on stream to produce dispersible polymer powders at Burghausen. With an annual capacity of 30,000 metric tons, the new facility is the largest of its kind worldwide. Another facility on the same scale is being built in Nanjing. With these measures, the division intends to secure and extend its leading position in China, which is a key growth market. The new facility is expected to come on stream by the end of 2008. In addition, WACKER POLYMERS opened two new technical centers in Beijing and Singapore. Thus, the division can provide even better and more effective advice to the region's customers and accelerate market development. The creation of new composites – flexible materials – is showing promise.

The signing of an agreement with Air Products and Chemicals marked a key milestone in global expansion of polymer operations last year. This agreement enables WACKER POLYMERS to acquire full ownership of Air Products Polymers (APP) and Wacker Polymer Systems (WPS), its two joint ventures with Air Products. As part of the agreement, WACKER will retain the vinyl acetate/ethylene (VAE) activities of the joint ventures, while Air Products will receive full ownership of the Elkton (MD, USA) and Piedmont (SC, USA) production facilities and their related businesses plus payment of US$265 million. As the world's leading supplier of dispersible polymer powders for construction applications, the division expects a series of strategic advantages from its intended acquisition. These include backward integration at U.S. and Asian dispersion plants, as well as the expansion of its supply chain outside the eurozone. The division is strengthening its market position in the adhesives and coatings sectors.

As per December 31, 2007, WACKER POLYMERS had 1,128 employees (Dec. 31, 2006: 1,050).

KEY DATA: WACKER POLYMERS

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Total sales | 632.8 | 559.6 | 473.8 | 424.9 |
| EBITDA | 107.0 | 106.6 | 99.1 | 102.6 |
| EBIT | 80.5 | 88.8 | 80.9 | 80.9 |
| Capital expenditures | 41.0 | 17.8 | 21.0 | 9.1 |
| R&D expenses | 7.6 | 7.1 | 7.9 | 7.4 |
| Employees (Number) (as of Dec. 31) | 1,128 | 1,050 | 1,000 | 986 |

## WACKER POLYSILICON

WACKER POLYSILICON's total sales rose 40 % to €456.9 million in 2007 (2006: €325.6 million). This strong growth was fueled by higher prices and volume gains stemming from the expansion of production capacities. Continued strong solar-industry demand had a particularly positive influence on the division's polysilicon business. Business volume grew significantly in all regions compared with the prior year. In percentage terms, WACKER POLYSILICON achieved its highest growth rates in Asia, followed by Europe and the Americas.

In 2007, WACKER POLYSILICON generated EBITDA of €182.2 million (2006: €118.3 million) – a gain of 54 %. This means earnings outpaced sales growth despite higher raw-material and energy costs. The EBITDA margin was 39.9 % (2006: 36.3 %).

WACKER POLYSILICON invested €259.5 million in the year under review (2006: €148.5 million). The strong increase of 75 % resulted from ongoing expansion projects at the division's Burghausen site. With an annual capacity of 3,500 metric tons of polysilicon, Expansion Stage 6 came on stream in Q3 2007, earlier than planned.

In mid-June 2007, WACKER POLYSILICON announced that polysilicon production in Burghausen was set to rise by another 7,000 metric tons per year. The first polysilicon from this expansion phase is expected by the end of 2009. The new facility is expected to reach full capacity by 2010. Expansion Phases 7 and 8 now under construction and a new granular-polysilicon facility will boost total annual polysilicon capacity from a current 10,000 to over 22,000 metric tons by the end of 2010.

The division also announced in mid-June that it would build a new granular polysilicon facility. With an annual nominal capacity of 650 metric tons, this new plant is expected to come on stream by year-end 2008. Granular solar silicon will be manufactured there from trichlorosilane using the so-called fluidized-bed process. Granular silicon offers processing advantages to solar-wafer manufacturers that employ certain production techniques, thereby supplementing WACKER's existing product portfolio for the photovoltaics industry. WACKER successfully tested its new method in pilot reactors over the past 2½ years and is now initiating first-ever commercial-scale production.

To continue expanding their supply chains in the growing solar-energy market, WACKER and SCHOTT Solar GmbH established two joint ventures for producing and marketing silicon wafers to the solar industry. In the years to come, this joint undertaking is set to invest a total of some €370 million in facilities at Jena (Thuringia) and Alzenau (Bavaria), Germany. Total solar-wafer production capacity is set to expand in stages, reaching about one gigawatt per year by 2012. On October 29, WACKER SCHOTT Solar GmbH laid the cornerstone for a new solar-wafer production facility in Jena.

On December 31, 2007, WACKER POLYSILICON had 1,003 employees (Dec. 31, 2006: 875).

KEY DATA: WACKER POLYSILICON

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Total sales | 456.9 | 325.6 | 288.1 | 258.8 |
| EBITDA | 182.2 | 118.3 | 90.2 | 74.5 |
| EBIT | 135.0 | 88.8 | 66.2 | 46.7 |
| Capital expenditures | 259.5 | 148.5 | 67.6 | 34.3 |
| R&D expenses | 6.3 | 5.1 | 5.3 | 6.0 |
| Employees (Number) (as of Dec. 31) | 1,003 | 875 | 832 | 769 |

## WACKER FINE CHEMICALS

WACKER FINE CHEMICALS generated total sales of €112.4 million in 2007 (2006: €112.6 million), thereby matching the prior-year level. The division's higher sales of biotech products were able to offset its declining business in custom fine chemicals and catalog products, which had been affected by consolidation measures. Europe continues to account for the largest share of WACKER FINE CHEMICALS' sales. In percentage terms, growth was strongest in Asia.

The division's EBITDA was €9.5 million in 2007 (2006: €10.5 million) – a decline of 10 %. This resulted in an EBITDA margin of 8.5 % (2006: 9.3 %).

WACKER FINE CHEMICALS invested €7.5 million in 2007 (2006: €4.0 million). To further strengthen its position in pharmaceutical proteins (biologics), the division is continuing expansion of biopharmaceutical production facilities at its Jena site. The existing production facility's expansion complies with GMP (Good Manufacturing Practice) standards. At the same time, WACKER FINE CHEMICALS is building a new facility for process development and quality control. Overall, some €15 million has been budgeted for this project. Biologics are finding increasing use as active ingredients in drugs. They are used, for example, in the treatment of cancer, multiple sclerosis and hepatitis.

As per December 31, 2007, WACKER FINE CHEMICALS had 245 employees (Dec. 31, 2006: 300).

KEY DATA: WACKER FINE CHEMICALS

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Total sales | 112.4 | 112.6 | 110.5 | 103.3 |
| EBITDA | 9.5 | 10.5 | 17.6 | 16.1 |
| EBIT | –7.5 | –4.5 | 10.1 | 8.5 |
| Capital expenditures | 7.5 | 4.0 | 13.2 | 3.6 |
| R&D expenses | 2.1 | 6.0 | 6.1 | 5.9 |
| Employess (Number) (as of Dec. 31) | 245 | 300 | 321 | 311 |

## OTHER

The “Other” segment posted sales of €247.2 million in 2007 (2006: €211.0 million). This increase of 17 % is primarily due to greater demand for in-house corporate services and the passing on of higher energy costs to Group subsidiaries. EBITDA from “Other” amounted to €-2.2 million (2006: €-35.3 million).

# REGIONS

In 2007, the WACKER Group achieved sales of €3.78 billion (2006: €3.34 billion), of which Asia accounted for €1.27 billion (2006: €961.4 million). This represents a gain of 32 %. Asia was not only the strongest region in terms of percentage growth last year, it also captured, in absolute terms, the largest share of Group sales: namely 34 %. The Greater China region (the People's Republic of China plus Taiwan) accounted for €644.7 million (2006: €456.7 million) or roughly half of our Asian sales.

EXTERNAL SALES BY CUSTOMER LOCATION

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Germany | 723.5 | 657.6 | 572.3 | 566.6 |
| Europe (excluding Germany) | 1,034.7 | 960.8 | 840.0 | 831.4 |
| Americas | 642.6 | 659.2 | 615.3 | 547.2 |
| Asia | 1,267.1 | 961.4 | 639.3 | 559.1 |
| Other regions | 113.4 | 97.9 | 88.8 | 0.0[1] |
| Group | 3,781.3 | 3,336.9 | 2,755.7 | 2,504.3 |

[1] Asia/Other regions were still combined in 2004.

In European countries excluding Germany, WACKER generated sales of €1.03 billion in 2007 (2006: €960.8 million) – a gain of 8 % year on year.

Consolidated sales in Germany rose 10 % to €723.5 million (2006: €657.6 million). In the Americas, dollar-denominated sales increases were hit by exchange-rate effects when translated into euros at €642.6 million (2006: €659.2 million) – nearly 3 % below the prior-year figure. In Other Regions, the Group boosted sales by 16 % to €113.4 million (2006: €97.9 million).

EXTERNAL SALES BY GROUP COMPANY LOCATION

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Germany | 3,341.0 | 2,886.7 | 2,359.8 | 2,119.0 |
| Europe (excluding Germany) | 26.6 | 23.0 | 28.2 | 29.9 |
| Americas | 659.1 | 700.8 | 647.5 | 571.2 |
| Asia | 480.2 | 418.9 | 305.3 | 339.0 |
| Other regions | 1.8 | 1.4 | 2.9 | 7.2 |
| Consolidation | –727.4 | –693.9 | –588.0 | –562.0 |
| Group | 3,781.3 | 3,336.9 | 2,755.7 | 2,504.3 |

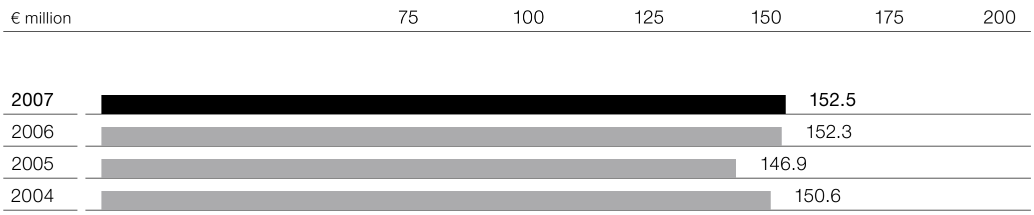
# FURTHER INFORMATION

## RESEARCH AND DEVELOPMENT

Once again, R&D spending remained high in 2007 at €152.5 million (2006: €152.3 million). The R&D quotient (research and development spending as a percentage of Group sales) was 4 %. WACKER's R&D aims to offer customers even better products, to develop novel solutions and to set up new fields of work. Close customer collaborations are a vital part of our R&D program.

R&D efforts at WACKER are advanced on two levels – centrally and decentrally. The Group's individual business divisions mainly focus on semiconductor technology, silicone chemistry, polymer chemistry and biotechnology, as well as innovative processes for producing polycrystalline silicon. WACKER now has around 150 projects based on 40 technology platforms. R&D is supported by 16 technical centers worldwide that implement customers' local needs via sales-related development.

R&D SPENDING




At the core of our R&D is the "Consortium für elektrochemische Industrie" (WACKER's corporate research facility). It has some 200 employees currently conducting research in six departments: catalysis and processes, functional materials, polymers, organic synthesis, biotechnology, and analytics/toxicology/computer chemistry (modeling). The Consortium focuses not only on devising novel products and processes, but also on developing and extending technology platforms. The Consortium's research work is wide-ranging. Research projects are identified Group-wide via methodical observations and evaluations of technical and scientific developments.

In 2007, WACKER continued expanding its network of expertise to sustainably secure its technology leadership and achieve profitable growth through innovations. For example, WACKER is fully funding the new Institute of Silicon Chemistry at the Technical University of Munich (TUM) for at least six years. The new institute is under the direction of the Chair of Macromolecular Chemistry, which carries the WACKER name. The Group particularly sees promising potential in macromolecular silicon chemistry. Other research areas include conductive silicon polymers and hybrid polymers, as well as the chemistry of surface coatings and silicon nanoparticles. The new institute is already up and running.

In 2007, WACKER developed and launched a series of new products and processes. The semiconductor industry uses so-called design rules, which define the fineness of feasible structures on chips. Whereas today's ICs usually have structural sizes of 90 to 45 nanometers, the industry is already working on the next chip generation. Thus, electronic products will become ever smaller and more powerful. Today, Siltronic is working on improving geometries and reducing the incidence of particles and defects on wafer surfaces for the next chip generation. Initial samples in line with the future 32 nanometer design rule have already been produced and sent to customers for evaluation.

WACKER contributes to environmental protection via the development of polyurethane adhesives, foams and coatings that are free of toxic isocyanate. With the help of specialty silanes, Group researchers have been able to produce an isocyanate-free PU foam for DIY-related and professional construction applications.

Moreover, WACKER has developed a novel protective-colloid system for dry-mix mortar applications with a high polymer content. Properties such as good flexibility and elongation, as well as high mechanical strength and minimum water absorption are important in highly polymer-modified sealing slurries and tile adhesives. The new protective colloid significantly improves the processing and storage properties of such dry-mix mortars.

To provide the photovoltaics industry with new ways of producing silicon crystals, WACKER has developed a novel process for manufacturing granular polysilicon. The process relies on the fluidized bed principle with trichlorosilane as feedstock. Unlike the silicon-rod deposition technique, the polysilicon in this process is deposited on tiny silicon grains that are exposed to trichlorosilane in the reactor. Thus, granular polysilicon can be continually "harvested" from the reactor.

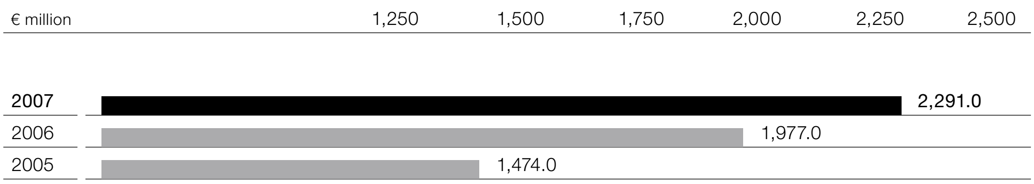
This novel process, which poses extreme technological challenges, was successfully tested on a pilot scale at the Burghausen plant. In 2007, all construction and process-engineering-related preparations were completed for transferring the new process to large-scale production. Granular polysilicon has diverse advantages, such as helping to further reduce energy consumption during production.

Biotech research in 2007 focused on genetic optimization of the E. coli-based WACKER secretion system to produce pharmaceutical proteins. In a sequencing project, the E. coli production-strain genome was fully decoded. Successful sequencing and genetic analysis of WACKER's proprietary E. coli production strain is an important step in further promoting and enhancing WACKER's proprietary E. coli secretion system.

## PROCUREMENT

In 2007, WACKER's total procurement volume amounted to €2.29 billion (2006: €1.98 billion). This 15.9 % rise is a result of significantly higher sales and major investments, as well as price increases for certain key raw materials. The procurement rate (procurement volume total as a share of Group sales) was 60.6 % (2006: 59.2 %). Some 1,300 different raw materials and numerous technical goods and services were purchased last year for plant-engineering and maintenance-related purposes.

PROCUREMENT VOLUME




Our integrated procurement system's aim is to ensure the availability of our products for customers worldwide. We run all procurement processes via our SAP IT system – supplemented by our own custom data-processing programs linked to SAP. Our procurement management system provides continuous detailed data on all purchasing activities. WACKER centrally manages agreements concerning suppliers, quality assurance, enhancement of procurement processes, support of global suppliers and all procurement-related processes for large-scale investment projects. Material delivery scheduling and dispatch is conducted regionally or locally. This boosts the security of local supplies and optimizes local deliveries of raw materials and other products.

The execution of procurement processes via electronic communication channels is increasingly important at WACKER. Around 55 % of all orders were processed this way in 2007. For example, we use channels such as ELEMICA (the chemical industry's e-commerce platform) and SAP's Supplier Self Service functions for some major raw-material suppliers. In addition, over 40 different e-catalogs are used. Electronic communication channels have enabled us to streamline procurement processes even further.

To ensure our own supply of raw materials and the availability of product supplies for our customers, we continually strive to enhance our supply chain. We have signed long-term agreements with many logistics providers. Sea, air and rail transport are coordinated globally and road transport is handled decentrally. To reduce road-transport and environmental impact, a large share of the containers leaving WACKER's German sites are exported via rail – totaling over 12,000 freight containers per year.

## EMPLOYEES

The number of employees at WACKER grew in 2007. On the reporting date (December 31, 2007), the Group had 15,044 employees (Dec. 31, 2006: 14,668) worldwide, up 2.6 % year on year. This increase was primarily due to ongoing strategic divisional expansion projects. Personnel expenses, including profit sharing, also rose. Total expenses amounted to €1.01 billion (2006: €962.4 million), representing a 5.5 % increase over the prior-year figure. These expenses included outlays for benefits and the company pension plan amounting to €190.3 million.

PERSONAL EXPENSES

| € million | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Group | 1,014.9 | 962.4 | 867.8 | 881.8 |

11,624 WACKER employees (77 %) work in Germany and 3,420 employees (23 %) elsewhere in the world. Notably, the number of employees in China – where we are now massively expanding production capacities for silicones and polymer products – grew by 105. In Germany, the number of employees rose by 284, primarily the result of capacity expansion for hyperpure polycrystalline silicon at our Burghausen site.

EMPLOYEES AS OF DECEMBER 31, 2007

| | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Germany | 11,624 | 11,340 | 11,296 | 11,344 |
| International | 3,420 | 3,328 | 3,138 | 3,344 |
| Group | 15,044 | 14,668 | 14,434 | 14,688 |

We lay the foundation for our employees' qualifications and quality via training. Beside the task of training the next generation of workers, we also view training as our social responsibility toward young people. Overall, 616 trainees (2006: 610) are learning a trade/profession at the Group's German sites, including the Vocational Training Center in Burghausen. The main focus of training is on scientific and technical disciplines, in which 538 trainees receive a sound education. The remaining 78 are business administration trainees. In total, we offer training in 15 different disciplines.

In addition to traditional training, WACKER offers an 18-month General Management Trainee Program for university graduates. Currently, six graduates are on this program. Siltronic offers a separate program in which another six trainees meet that division's specific needs.

At WACKER, learning doesn't stop once training is finished. As a key corporate success factor, we need employees who continually broaden and expand their expertise. With over 50,000 e-learning training sessions completed via WACKER's intranet and over 11,600 participants in seminars, workshops and conferences, our commitment is clear.

Without personnel development, it would be impossible to identify and correctly deploy qualifications and quality. In addition to the advanced training offered to employees, personnel development is also responsible for identifying young management potential. This is conducted Group-wide using a uniform process. In 2007, 12 potential young executives completed management training as part of the "Focus Program." For newly appointed "Executive Personnel," WACKER also offers general management training which serves to enhance leadership and managerial expertise. In total, the company invested €6.2 million (2006: €5.2 million) in personnel development and advanced training last year.

WACKER relies on knowledge transfer to ensure that valuable expertise is not lost due to the departure of technical and managerial employees. Employees are quickly prepared for new positions in a structured manner. During their initial period and under the direction of experts, employees and their predecessors draft documentation that includes valuable information and experiences relating to their new task. This “knowledge map” helps new technical and managerial employees to work more effectively and use their predecessors’ expertise.

How can we improve? This question is a strategic task not only for management, but for all WACKER employees. Last year, our staff submitted 4,400 improvement suggestions and ideas. This is a new record in the employee suggestion scheme’s 80-year history. The suggestions ranged from work safety and environmental protection through to more efficient operations. The calculable benefits amounted to €7.6 million (2006: €3.8 million).

In 2007, the association of German chemical industry employers (BAVC) and the German chemical industry union (IG BCE) concluded a new collective bargaining agreement. It took effect on February 1, 2007 and has a duration of 14 months. For the month of February, employees received a lump-sum supplement of €70 (€20 for trainees). From March 1, 2007, they received a monthly salary increase of 3.6 % and a one-time payment of 0.7 % of 13 months’ salary. Effective July 1, 2007, the base salaries for non-pay-scale employees rose 3.1 % and a one-time payment of 1 % of their fixed salary was made. An employee stock program – such as in the IPO year of 2006 – was not conducted in 2007.

WACKER offers its employees an attractive company pension plan. The majority of pension claims lies with the Wacker Chemie VVaG pension fund. Established in 1928, the pension fund has some 15,000 members and provides pension payments to some 6,000 retirees. The average pension paid is around €650 per month. WACKER matches employees’ annual pension contributions. In addition, employees have the opportunity to enlist in a private scheme that minimizes their tax burden while saving for retirement.

## SUSTAINABILITY

For WACKER, sustainable development means balancing economic, ecological and social factors in everything we do, thereby achieving long-term sustainable growth. In 2007, WACKER published its current Sustainability Report for the period 2003 to 2006.

## ENVIRONMENTAL PROTECTION COSTS

WACKER continually invests in environmental protection. Investments are divided into mandatory environmental protection facilities/equipment and voluntary measures. Investments comprise both remedial as well as production-integrated environmental protection measures.

For example, WACKER has begun to upgrade its Burghausen site landfill with an intermediate sealing layer. This preventive measure ensures that sealing of the landfill – which was already intact and fully functional – will be significantly enhanced for the future.

Another measure at Burghausen was the installation of novel technology – which we developed ourselves – to recover hydrogen chloride at a pyrogenic silica production plant. In 2007, this resulted in the recovery of some 2,000 metric tons of hydrogen chloride which was recycled as a production raw material. On a similar scale, we were also able to save on auxiliary materials and significantly reduce the wastewater load.

The Nünchritz site's clarifier was modified to suit production capacity expansion, for example by constructing a wastewater pretreatment plant.

In 2007, WACKER invested €8.0 million in new environmental protection measures (2006: €3.4 million).

## ENERGY BALANCE

In 2007, higher production volumes increased WACKER's electricity consumption to 2.1 million MWh (2006: 1.9 million MWh). At its Burghausen site, the Group's own highly efficient gas and steam cogeneration power plant and hydro-power plant produced 1.3 million MWh. Thus, WACKER was able to produce almost two-thirds of its own electricity.

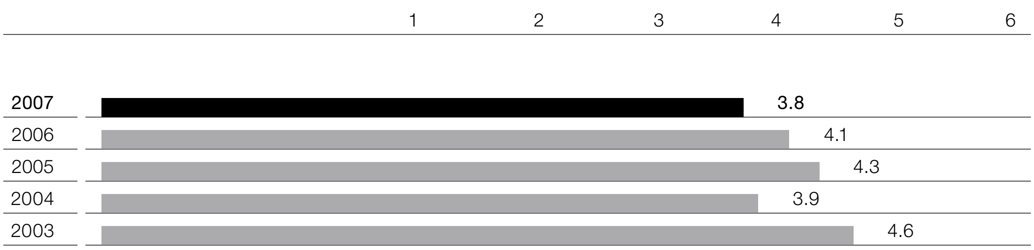
Heat consumption remained virtually stable last year, thanks (in part) to Nünchritz, where a specially designed steam boiler was built for the waste incinerator plant. This boiler enables the recycling of heat and generates 11 metric tons of heating steam per hour. This cuts 15 % off the central steam generation plant's load, thereby preventing 11,000 metric tons of $CO_2$ emissions. At the Nünchritz power plant, heavy heating oil was completely replaced by natural gas, which also greatly reduced $CO_2$ emissions.

## WORKPLACE SAFETY

Safety at the workplace is one of the most important tasks in terms of corporate responsibility. WACKER does a lot to ensure employee safety and to provide healthy work conditions. Moreover, safety forms the basis for smooth production. At WACKER, systematic workplace safety includes regular hazard assessment, workplace monitoring and a comprehensive health-protection program for our employees.

In 2007, WACKER Burghausen’s fire department invested some €1.5 million in two new high-performance vehicles. With a one-of-a-kind turbo extinguisher in the region, fires can now be fought safely and effectively at a rate of up to 8,000 liters of extinguishing agent per minute from a distance of 150 m. A ladder rescue truck with a telescopic boom lift enables the firefighting specialists to put out fires and carry out rescue missions at great heights – of up to 44 m.

NUMBER OF NOTIFIABLE ACCIDENTS PER 1 MILLION HOURS WORKED




In 2007, we launched the “New Workplace Safety Impetus” initiative at our sites worldwide to minimize workplace accidents. This initiative aims to help reduce the already low number of accidents last year. Throughout the Group, there were 3.8 (2006: 4.1) industrial accidents per 1 million hours worked. For comparison purposes: the insurance association of the German chemical industry (BG Chemie) lists an average of 9.05 accidents per 1 million hours worked in 2006.

## SOCIAL COMMITMENT

In fiscal 2007, WACKER promoted select scientific, social and cultural projects. Education and science are central themes of the Group’s social commitment. With its experiment kit, WACKER supports education in the natural sciences. Under the “learning by doing” motto, students can conduct experiments involving silicone fluids, silicone antifoam agents and construction-chemical silicones, as well as sealants and adhesives. WACKER has issued 2,250 experiment kits to high schools. At German sites, we also participated in a kindergarten science project: a “researcher’s toolbox” helped to introduce children to the exciting world of the natural sciences.

The WACKER Silicone Award stands along the Kipping Award as silicon chemistry’s most important international accolade and was presented for the twelfth time last year. The €10,000 prize went to Prof. Yitzhak Apeloig, President of the Technion – Israel Institute of Technology in Haifa. The award was in recognition of Prof. Apeloig’s pioneering theoretical and experimental work in organosilicon chemistry.

WACKER is committed to fighting child poverty in Germany. Last year, we donated €100,000 to the Munich charity “Die Arche - Christliches Kinder- und Jugendwerk e. V.” which it will use for its work there. The Ark is a charity that mainly helps five- to twelve-year-olds from socially disadvantaged families in several German cities. It provides the children with hot meals and tutoring, organizes leisure activities and offers psychological counseling.

After the tsunami disaster in December 2004, which destroyed many parts of Southeast Asia’s coastal regions, we established the charitable WACKER HILFSFONDS (WACKER Relief Fund). The Group and its employees have contributed to this fund and support a project run by Germany’s Augsburg-based Malteser relief agency in a Sri Lankan UNESCO village. WACKER built a new school in Kosgoda where children attend grades two through five. 72 children attended the school in 2007 – its second year of existence. WACKER HILFSFONDS supported a further project last year together with the “Little Smile” organization. In Pilane, a new training center with classrooms was completed.

# RISK AND OPPORTUNITY REPORT

## RISK MANAGEMENT – SYSTEMATIC AND TARGETED RISK IDENTIFICATION

The goal of risk management at WACKER is to identify risks as early as possible, to evaluate them appropriately, and – if necessary – to master them via suitable measures. As a specialty-chemical and semiconductor company, we have a particular responsibility in operating our plants and protecting health and the environment. This is why all our production sites have employees devoted to plant and workplace safety, as well as health and environmental protection. Our risk management complies with German legislation on control and transparency in companies (KonTraG) and is a key component in all our decisions and business processes.

We employ various instruments for the early detection and identification of risks. The Executive Board is informed of current and future business developments via monthly reports by the Corporate Controlling department. Specific individual risks of corporate entities and divisions are compiled in a risk list, continually monitored and likewise reported to the Executive Board. We evaluate and compare strategic opportunities and risks at regular meetings with divisions. These meetings also serve as venues for communicating Group-wide risks and discussing possible solutions. Since the divisions are responsible for their own results, risk management is closely interwoven with the process of operational controlling. Corporate Controlling is responsible for risk controlling.

Furthermore, Corporate Auditing regularly inspects, on behalf of the Executive Board, the efficiency and effectiveness of risk management processes at all corporate entities and subsidiaries. The reliability of risk management and reporting – as well as compliance with regulations, approval limits and stipulations under competition law – is audited, too. Moreover, the risk management system is checked externally by certified auditors – as part of the annual audit.

## ECONOMIC AND SECTOR-RELATED RISKS

Even if the strong economic growth experienced over the past two years should weaken somewhat in 2008, we still expect further gains for the chemical industry and the general economy. Our planning assumes that the positive global economic trend will continue. Similarly, we do not expect any major changes in our competitive position. Nevertheless, it is possible that economic growth in the USA could weaken more significantly than forecast. This might, in turn, impact the global economic trend. We see further potential risks in a continued strengthening of the euro and rising raw-material and energy prices. If the euro should weaken and raw-material and energy prices fall, this would present additional opportunities for our operations.

SALES-MARKET RISKS

Strong competition in most of WACKER's sales markets can clearly affect attainable product prices. In addition, we supply some sectors, such as the semiconductor industry, that are subject to cyclical changes in demand. To counter these risks, WACKER intends to expand the share of resilient product sectors in its portfolio and to rank among the global leaders in every area of activity. Furthermore, we strive to achieve long-term customer loyalty via continual product-quality enhancements. Through close collaborations with customers, we aim to develop novel applications at an early stage.

PROCUREMENT-MARKET RISKS

As a chemical and semiconductor manufacturer, we are subject to risks associated with shifts in the availability and prices of raw materials and energy, as well as starting materials and intermediates. In some areas, we rely on only one supplier for the procurement of production equipment. We attempt to counter procurement risks via a series of measures. These include long-term supply agreements with partners of high creditworthiness, centrally negotiated procurement agreements for strategically important raw materials, and multiple suppliers for any one product. If raw-material prices remain at a high level – as has been the case over the past two years – we will try to increase our product prices.

FINANCIAL RISKS

Financial risks primarily stem from trade receivables and Group financing, as well as currency, interest-rate and price shifts. WACKER's Treasury department is responsible for controlling and monitoring these risks. A policy on dealing with financial risks has been defined in detail.

WACKER minimizes risks stemming from trade receivables by demanding collateral (e.g. retention of title) depending on the nature and extent of the service provided. Preventive measures also include references and credit checks, as well as the evaluation of historical data from our business relationship to date (particularly payment behavior). Moreover, we take out credit insurance to minimize risks.

WACKER uses derivative financial instruments and forward contracts to hedge against currency, interest and price risks. Derivatives are only used if covered by operations-related investments and financing or planned transactions. The Group does not engage in speculative transactions.

In the case of derivatives, WACKER is exposed to credit risks arising from non-performance of contractual agreements by the contracting partners. For this reason, business is only conducted with financially sound banks and partners. These transactions are governed by internal corporate procedures that stipulate separation of trading and processing. Processing is subject to stringent controls.

Our liquidity planning enables us to detect liquidity risks at an early stage. WACKER is in a position to access extensive cash and cash equivalents.

Precious metal catalysts (platinum, gold and palladium) are sometimes required by WACKER for production facilities. To counter price risks when purchasing precious metals, the company concludes forward and precious metals lending transactions as required.

The vast majority of the Group's pension guarantees are covered by the WACKER Pension Fund, pension-related funds, special-purpose assets and insurance plans managed by the Wacker Chemie VVaG pension fund. This fund manages the pension insurance of WACKER employees in accordance with its General Terms and Conditions of Insurance. Due to the pension fund's above-average performance in the past and its very solid financial situation, we do not expect any risks to arise for WACKER in relation to company pension guarantees.

### RISK OF DAMAGES

WACKER's production facilities meet high technical and safety standards. However, operating malfunctions cannot be ruled out. Issues such as environmental protection, plant/workplace and health & safety are vital and firmly anchored in our business ethos. WACKER has globally binding principles on these issues. In addition to appropriate insurance coverage, WACKER has installed emergency response plans that are regularly evaluated and tested. Via extensive maintenance monitoring and ongoing inspection, we try to ensure the highest possible level of operational safety at our production sites.

### EMISSION ALLOWANCES

To improve climate protection, many countries want to limit emissions from energy-intensive industries. This particularly applies to $CO_2$ emissions. The EU intends to reach this goal by granting emission allowances to relevant industrial companies and the energy sector. WACKER is affected at its Burghausen and Nünchritz sites in Germany. Certificates were issued for the periods 2005 to 2007 as well as 2008 to 2012, no certificates for the emission of $CO_2$ have been issued. WACKER has not experienced any negative emissions-trading effects to date. We have installed an early warning system that enables us to react quickly if our emission allowances should not suffice.

LEGAL RISKS

To counter legal risks arising from a variety of tax, trade, anti-trust and environmental laws and regulations, we base our decisions on centralized contract management and extensive legal counsel. In many cases, we seek external legal advice. Patents, trade marks and licenses are monitored and protected by the Intellectual Property department. By reviewing patent regulations, we intend to determine – prior to initiating R&D projects – to what extent existing third-party patents and intellectual property rights could impair competitive marketing of newly developed products, technologies and processes. We currently know of no potential risks that could arise from patent infringements. An antitrust action in the context of possible price-fixing agreements for road salt is currently pending against Wacker Chemie AG and other companies. Wacker Chemie AG is cooperating with the relevant authorities; this action is not expected to have significant effect on the company's financial situation.

As a globally operating company, it is our steadfast determination to observe and act in accordance with the laws, statutes and ethics of the various countries in which we are active. WACKER's Code of Conduct defines and stipulates binding rules of behavior for all employees. Via employee training, we enhance awareness for these issues and attempt to prevent reputation-related risks.

OTHER RISKS

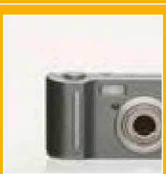
We rely on high-performance IT systems for our operations. We use state-of-the-art hardware and software to prevent the loss or manipulation of data, as well as unauthorized access to our IT network. We have a uniform Group-wide IT infrastructure specially equipped with security systems. Thanks to our globally focused IT management and state-of-the-art technologies, we do not see any major IT-related dangers or security risks.

WACKER relies on highly qualified employees, whose performance is vital for WACKER's future growth and success. We compete with other companies for highly-qualified technical and management staff – in the face of a simultaneous decline in qualified applicants. To counter the risk that we cannot fill open positions and training slots with suitable applicants, we take various measures to enhance our attractiveness as a potential employer. WACKER has always strongly emphasized employee retention via a myriad of training activities, exemplary benefits and performance-oriented compensation.

## EVALUATION OF OVERALL RISK

According to the current state of our knowledge, we are not aware of any existential risks – even when taken as a whole – that endanger the WACKER Group's continuance in the foreseeable future.

MANAGEMENT REPORT SUPPLEMENTARY REPORT AND OUTLOOK


WACKER POLYSILICON
is a worldwide leading polysilicon producer with its extensive portfolio of hyperpure silicon for semiconductor and photovoltaic applications. Polysilicon wafers are the foundation of optimally functioning microelectronics in digicams and USB sticks. Crystalline silicon solar cells transform sunlight into electricity without contributing to global warming.

# SUPPLEMENTARY REPORT

WACKER concluded its acquisition of Air Products and Chemicals Inc.'s shares in Air Products Polymers (APP) and Wacker Polymer Systems (WPS) – our two former joint ventures – on January 31, 2008. Consequently, WACKER will take full ownership of the two companies' activities in Allentown (PA, USA), Calvert City (KY, USA), Cologne and Burghausen (Germany), South Brunswick (NJ, USA) and Ulsan (South Korea). This boosts the number of WACKER employees by around 430 employees. In return, Air Products is to receive the production facilities at Elkton (MD, USA) and Piedmont (SC, USA), as well as related business and a payment of US$265 million.

Cash and cash equivalents that were held by the joint ventures and to which Air Products was entitled on a pro rata basis were paid out, too. Based on provisional figures, this item totaled US$316.4 million. At the same time as the payout, WACKER received cash inflows provisionally calculated to be US$58.6 million. These inflows refer to those cash and cash equivalents held by the Air Products companies which – in line with the partners' individual stakes – were not consolidated. The final figures may differ from what was stated above. WACKER's stake in APP had been 35 percent, with Air Products holding the remaining 65 percent. As for WPS, WACKER held 80 percent and Air Products 20 percent. The full consolidation of these activities within the WACKER Group takes effect February 1, 2008. WACKER expects APP and WPS to be fully integrated into its Group structures by late 2008.

# OUTLOOK

## UNDERLYING CONDITIONS – OVERALL ECONOMY AND SECTOR

Following strong growth for five years running, the global economy is expected to slow over the next two years. Economic analysts expect the U.S. real estate market crisis and its related financial fallout to further impact economic growth. Other problems include rising energy and raw-material costs, higher inflation rates and – for eurozone countries – the euro's major gain against the dollar. The International Monetary Fund (IMF) forecasts global economic growth of 4.1 % in 2008.

Analysts disagree as to how the U.S. economy will develop in 2008 – with expectations ranging from a recession to moderate growth there. The construction sector will particularly suffer due to the continuing housing-market crisis, since fewer houses are being built. Further property-price drops could negatively impact consumer spending and impair economic growth. The OECD expects American economic growth of 2.0 % in 2008 and 2.2 % in 2009.

The rate of growth will also slow in Asia, albeit moderately. According to an Asian Development Bank (ADB) report, risk factors have risen. The ADB primarily expects adverse effects if the U.S. economy slows down and inflation dangers increase. Nevertheless, the long-term economic growth trend remains intact. The ADB forecasts Asian growth of 8.0 % in 2008. Despite a slight decline in China, the ADB still expects double-digit growth there, namely 10.5 % in 2008. Japan's economic growth will be weaker over the next two years compared to 2007. The OECD forecasts Japanese growth of 1.6 % in 2008 and 1.8 % in 2009.

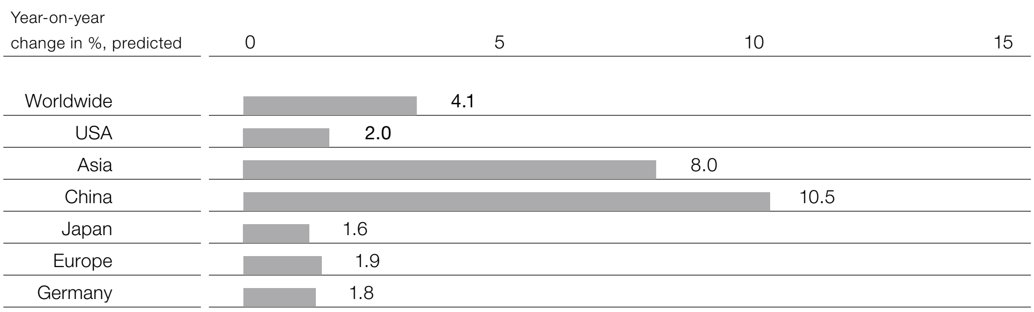
The general trend in Europe will likewise be weaker, although the upward trend is set to remain intact. The OECD is forecasting growth of 1.9 % in 2008, reaching 2.0 % in 2009. The strong euro, which adversely impacts the export sector, and the unforeseeable effects of the U.S. real estate market crisis are acting as breaks on European growth. These same factors are also responsible for Germany's economic slowdown over the next two years compared to 2007. The German ifo economic institute is expecting GDP growth of 1.8 % in 2008 and 1.5 % in 2009.

### CHEMICAL MARKETS – OPTIMISTIC ABOUT 2008

The VCI (German chemical industry association) is optimistic about 2008. Despite the slowdown, the association expects chemical-production growth of 2.5 %. In light of high energy and crude-oil prices, chemical prices will probably rise by around 2 %. Sales are likely to climb 4.5 %. Strong Asian demand should continue and offset weaker business in the USA. Sales growth is also expected in Germany.

In its most recent analysis of the silicon-wafer market, Gartner Dataquest (the market research institute) is forecasting further surface-area volume growth in 2008 and 2009. In particular, growth is being fueled by the 300 mm wafer segment. All in all, Gartner Dataquest is forecasting gains in global surface-area sold of 8.4 % in 2008 and 9.2 % in 2009.

GDP GROWTH ESTIMATES FOR 2008




Sources: worldwide (IMF), USA (OECD), Asia (ADB), China (ADB), Japan (OECD), Europa (OECD), Germany (ifo Institut)

## THE WACKER GROUP'S FUTURE DEVELOPMENT

WACKER's business has developed very well over the past two years. We expect this trend to be able to continue in the next two years under the above-mentioned conditions. WACKER profits from its ever-expanding global presence. Throughout its divisions, WACKER is so solidly positioned that the course charted by the Group does not need any notable strategic and organizational changes.

Changes will take place at the top of both Wacker Chemie AG's Executive and Supervisory Boards in 2008. At its last meeting in fiscal 2007, the Supervisory Board made key personnel decisions that serve to ensure long-range continuity in the company's management and direction.

Effective May 8, 2008, Dr. Peter-Alexander Wacker will step down as President & CEO and run for the Supervisory Board at the Annual Shareholder Meeting that same day. Dr. Karl Heinz Weiss, Wacker Chemie AG's current Supervisory Board Chairman, is stepping down upon reaching the age limit for supervisory board members. Dr. Peter-Alexander Wacker's successor as President & CEO will be Dr. Rudolf Staudigl, who has been a member of the Executive Board since 1995. The Supervisory Board renewed Dr. Staudigl's employment contract in December 2007 for another five years. He will take over as President & CEO following the Annual Shareholding Meeting.

### WACKER'S PRODUCT PORTFOLIO OPENS UP FURTHER GROWTH OPPORTUNITIES

WACKER's product portfolio ideally leverages key megatrends and growth regions for the future. As a result, the Group has major opportunities to successfully continue its growth strategy. We profit from the energy megatrend via our production of polysilicon for the solar industry. Rising energy prices and sinking costs for photovoltaic systems are making solar electricity increasingly competitive. With its innovative products in areas such as thermal insulation, WACKER POLYMERS makes a major contribution to saving energy and cutting greenhouse-gas emissions. We are convinced that energy will become an even more important issue in the years to come.

We leverage the digitalization megatrend via the manufacture of silicon wafers for the semiconductor industry. The increasing digitalization of products and ever greater silicon demand in consumer electronics are driving volume growth. Additionally, this development is being fueled by strong growth in Asia that would not be possible without digitalization and the build-up of infrastructure. The share of 300 mm wafers in the semiconductor industry will show particularly strong growth. We profit from this high demand via the expansion of our 300 mm capacities in Burghausen and Freiberg, as well as in Singapore, where we are building a 300 mm wafer fab together with Samsung.

WACKER has numerous products that will be of vital importance for the Asian growth region's further development. Our strong presence in Asian markets means we are well prepared to participate in growth there. In almost all sectors, we offer products and solutions that boost the region's living standards and promote its urbanization, infrastructural expansion, as well as environmental protection.

### ADDITIONAL GROWTH OPPORTUNITIES AT WACKER POLYMERS AND IN THE SOLAR INDUSTRY

Supplementing these growth aspects, we hope to generate additional growth potential via our joint venture with SCHOTT Solar concerning solar-wafer production and from the acquisition of Air Product's shares in our two joint ventures Air Products Polymers (APP) and Wacker Polymer Systems (WPS).

The new joint venture with SCHOTT Solar (WACKER SCHOTT Solar GmbH) will build a new solar-wafer production facility in Jena, Germany. Production capacity is expected to reach some 120 megawatts by the end of 2008. By 2012, production capacity will have been extended step by step to 1 gigawatt. The JV with SCHOTT boosts our share of value added during the solar-cell and solar-system production process. The joint venture is expected to be one of the world's largest manufacturers of solar wafers.

Thanks to our complete acquisition of Air Products' shares in our joint ventures, we expect a series of strategic benefits for our global construction-polymers business. These include backward integration in dispersion manufacture at U.S. and Asian plants, as well as expansion of our supply chain outside the eurozone. The acquisition makes a major contribution toward boosting annual sales at WACKER POLYMERS to around €1 billion.

## GROWTH TO BE MET WITH THE COMMISSIONING OF NEW PRODUCTION FACILITIES

Over the next two years, WACKER will be commissioning numerous production facilities at virtually all divisions. These include the above-mentioned solar-wafer facility at Jena in 2008 and ramp-ups such as:

- The new fab for 300 mm silicon wafers – being jointly built with Samsung in Singapore – in the first half of 2008
- A spray dryer for production of dispersible polymer powders at our Nanjing (China) polymer site with a nominal capacity of 30 kt
- A facility to manufacture pyrogenic silica at Zhangjiagang, China.

In 2009, another facility to produce polysilicon in Burghausen – Expansion Phase 7 – will start multi-crystalline polysilicon production.

## EXPECTED FINANCIAL PERFORMANCE

WACKER expects to further boost its sales in the next two fiscal years. WACKER POLYSILICON is expected to post the strongest internal growth. The Group foresees a sales gain of around €250 million resulting from the complete acquisition of Air Products' shares in our joint ventures. Overall, we see a very good chance of boosting sales, as in the prior two years, by over 10 % in 2008. For 2009, we expect sales growth to outpace global GDP growth.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) should also rise. The earnings gain will strongly depend on developments in raw-material and energy costs, as well as exchange rates.

Our future policy on dividends is oriented toward distributing at least 25 % of Group profits to shareholders, assuming the responsible committees agree.

## EXPECTED FINANCIAL SITUATION

Over the next few years, investment activities will remain at a high level. On average, WACKER is planning on investing some 15 % of sales. Total investment of around €1 billion in fiscal 2008 will be above the prior-year figure due to the acquisition of Air Products' shares in our two joint ventures. In 2009, investments will be somewhat lower without this special item. WACKER intends to finance its planned investments through its operational cash flow.

## RESEARCH AND DEVELOPMENT

WACKER will continue to invest strongly in R&D in 2008 and 2009. Investments will be slightly higher than in fiscal 2007.

## EMPLOYEES

The number of employees will rise in 2008. Due to the acquisition of Air Products' shares in our two joint ventures, WACKER will gain some 430 employees. Moreover, we will hire new personnel as a result of our expansion plans. For fiscal 2009, we are planning on boosting employee numbers slightly once again.

To continue attracting highly-qualified and well-trained university graduates in the future, too, WACKER will implement a strategy next year to help find sufficient graduates in various disciplines.

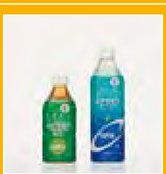
## OVERALL EVALUATION OF BUSINESS DEVELOPMENTS FOR THE NEXT TWO YEARS

From today's viewpoint, WACKER is strategically so well-positioned that the company will continue its profitable growth course. However, this is based on the assumption that dollar weakness does not worsen and that raw-material and energy prices do not climb significantly. Development of the global semiconductor market will remain a key factor for WACKER.

Even with these challenges, we expect WACKER to be able to remain on course for growth.

YOU'LL FIND ALL GROUP-WIDE AND SEGMENT-SPECIFIC FIGURES IN THE CONSOLIDATED **FINANCIAL STATEMENTS** SECTION, WHICH INCLUDES THE REPORT OF THE SUPERVISORY BOARD AND A CORPORATE GOVERNANCE STATEMENT.

FINANCIAL STATEMENTS




## WACKER FINE CHEMICALS

stands out with its outstanding R&D expertise. Future-oriented developments (such as biotech-manufactured, kosher-certified L-cysteine as a multifunctional raw material and CAVAMAX® cyclodextrins for the molecular encapsulation of substances) open up novel application fields and products for the life-science industry. Examples include the removal of flavor notes and the protection of sensitive substances.

# INCOME STATEMENT
## FOR THE PERIOD JANUARY 1 TO DECEMBER 31

| € million | 2007 | 2006 | |
|---|---|---|---|
| **Sales** | **3,781.3** | 3,336.9 | → 01 Notes |
| Costs of goods sold | –2,629.3 | –2,378.0 | |
| **Gross profit from sales** | **1,152.0** | 958.9 | |
| Selling expenses | –233.5 | –223.9 | |
| Research and development expenses | –152.5 | –152.3 | |
| General administrative expenses | –94.1 | –92.5 | |
| Other operating income | 116.4 | 77.4 | → 01 Notes |
| Other operating expenses | –137.1 | –109.3 | → 01 Notes |
| **Operating result** | **651.2** | 458.3 | |
| Income from investments in joint ventures and associates | –9.3 | –9.7 | → 02 Notes |
| Other income from participations | 7.7 | 7.7 | → 02 Notes |
| **EBIT (earnings before interest and taxes)** | **649.6** | 456.3 | |
| Interest result | –1.0 | –23.3 | → 02 Notes |
| Other financial result | –1.2 | –3.4 | → 02 Notes |
| Limited partnership interests | –15.3 | –14.0 | → 02 Notes |
| **Income before taxes** | **632.1** | 415.6 | |
| Income taxes | –209.9 | –103.8 | → 03 Notes |
| **Net income before minority interests** | **422.2** | 311.8 | |
| Minority interests | –0.2 | –0.5 | → 12 Notes |
| **Net income attributable to Wacker Chemie AG shareholders** | **422.0** | 311.3 | |
| **Earnings per share in € (undiluted / diluted)** | **8.49** | 6.46 | → 19 Notes |

# BALANCE SHEET
## AS OF DECEMBER 31

ASSETS

| € million | 2007 | 2006 | |
|---|---|---|---|
| Intangible assets | 10.1 | 16.3 | → 05 Notes |
| Property, plant and equipment | 2,123.4 | 1,917.6 | → 06 Notes |
| Investment property | 1.5 | 1.5 | → 07 Notes |
| Investments in joint ventures and associates | 196.2 | 98.3 | → 08 Notes |
| Financial assets | 70.7 | 65.2 | → 08 Notes |
| Trade receivables | 0.8 | 0.0 | → 10 Notes |
| Other assets | 59.1 | 24.0 | → 10 Notes |
| Tax receivables | 15.8 | 15.5 | → 10 Notes |
| Deferred taxes | 13.0 | 7.8 | → 03 Notes |
| Non-current assets | 2,490.6 | 2,146.2 | |
| Inventories | 403.5 | 407.9 | → 09 Notes |
| Trade receivables | 460.6 | 475.7 | → 10 Notes |
| Other assets | 136.4 | 124.6 | → 10 Notes |
| Tax receivables | 60.5 | 60.9 | → 10 Notes |
| Cash and cash equivalents (liquid assets) | 366.5 | 42.9 | → 11 Notes |
| Current assets | 1,427.5 | 1,112.0 | |
| | 3,918.1 | 3,258.2 | |

## TOTAL EQUITY AND LIABILITIES

| € million | 2007 | 2006 | |
|---|---|---|---|
| Subscribed capital, Wacker Chemie AG | 260.8 | 260.8 | |
| Capital reserves, Wacker Chemie AG | 157.4 | 157.4 | |
| Treasury shares | –45.1 | –45.1 | |
| Retained earnings | 1,541.3 | 1,243.5 | |
| Translation adjustment | –93.7 | –58.5 | |
| Gains and losses recognized in equity | 29.6 | 11.8 | |
| Equity attributable to Wacker Chemie AG shareholders | 1,850.3 | 1,569.9 | |
| Minority interests | 15.3 | 15.9 | |
| Equity | 1,865.6 | 1,585.8 | → 12 Notes |
| Minority shares in limited partnership capital | 32.6 | 31.8 | → 02 Notes |
| Provisions for pensions | 369.2 | 354.8 | → 13 Notes |
| Other provisions | 166.8 | 138.2 | → 14 Notes |
| Provisions for taxes | 78.2 | 50.8 | → 14 Notes |
| Deferred taxes | 40.4 | 13.6 | → 03 Notes |
| Financial liabilities | 164.2 | 321.9 | → 15 Notes |
| Other liabilities | 609.5 | 221.4 | → 16 Notes |
| Non-current liabilities | 1,460.9 | 1,132.5 | |
| Other provisions | 14.5 | 24.8 | → 14 Notes |
| Provisions for taxes | 22.9 | 18.6 | → 14 Notes |
| Tax liabilities | 13.4 | 19.7 | → 16 Notes |
| Financial liabilities | 53.6 | 88.0 | → 15 Notes |
| Trade payables | 241.8 | 205.9 | → 16 Notes |
| Other liabilities | 245.4 | 182.9 | → 16 Notes |
| Current liabilities | 591.6 | 539.9 | |
| Liabilities | 2,052.5 | 1,672.4 | |
| | 3,918.1 | 3,258.2 | |

# STATEMENT OF CASH FLOWS
## FOR THE PERIOD JANUARY 1 TO DECEMBER 31

| € million | 2007 | 2006 | |
|---|---|---|---|
| Net income before minority interests | 422.2 | 311.8 | |
| Depreciation and amortization | 351.9 | 330.0 | |
| Changes in provisions | 69.1 | –6.1 | |
| Changes in deferred taxes | 17.1 | 0.3 | |
| Other non-cash gains and losses | 15.3 | 14.0 | |
| Gains and losses from disposal of non-current assets | –0,3 | 3.3 | |
| Result from equity accounting and joint-venture dividends | 9.7 | 11.5 | |
| Changes in inventories | –3.7 | –37.2 | |
| Changes in trade receivables | –4.0 | –70.7 | |
| Changes in other assets | –23.1 | –63.5 | |
| Changes in other liabilities | 55.1 | 36.3 | |
| Changes in advance payments received | 413.2 | 231.4 | |
| Cash flow from operating activities (gross cash flow) | 1,322.5 | 761.1 | → 21 Note |
| Payments related to intangibles and property, plant and equipment | –562.5 | –483.5 | |
| Payments related to financial assets | –120.4 | –96.8 | |
| Proceeds from disposal of intangibles and property, plant and equipment | 3.7 | 3.6 | |
| Proceeds from disposal of associates/financial assets | 0.4 | 0.3 | |
| Cash flow from investment activities | –678.8 | –576.4 | → 21 Note |
| Net cash flow | 643.7 | 184.7 | → 21 Note |
| Dividends paid | –124.2 | –70.9 | |
| Sale of treasury shares | 0.0 | 408.7 | |
| Capital contributions from minority interests | 0.0 | 12.6 | |
| Dividends paid to minority interests | –0.3 | –0.1 | |
| Withdrawal of limited partnership capital | –13.9 | –11.8 | |
| Change in bank liabilities | –169.5 | –499.5 | |
| Change in other financial liabilities | –11.0 | –13.9 | |
| Cash flow from financing activities | –318.9 | –174.9 | → 21 Note |
| Changes in cash flow due to exchange rate fluctuations | –1.2 | –1.6 | |
| Change in cash and cash equivalents | 323.6 | 8.2 | |
| At beginning of year | 42.9 | 34.7 | |
| At year-end | 366.5 | 42.9 | |

# STATEMENT OF CHANGES IN EQUITY
## FOR THE PERIOD JANUARY 1 TO DECEMBER 31

| € million | Subscribed capital | Capital reserves | Treasury shares | Revenue reserves/ consolidated result | Translation adjustment | Direct changes | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|
| As per Jan. 1, 2006 | 260.8 | 59.9 | −142.6 | 789.4 | −35.1 | −1.3 | 3.3 | 934.4 |
| Net income | 0.0 | 0.0 | 0.0 | 311.3 | 0.0 | 0.0 | 0.5 | 311.8 |
| Financial instruments[1] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.1 | 0.0 | 13.1 |
| | 0.0 | 0.0 | 0.0 | 311.3 | 0.0 | 13.1 | 0.5 | 324.9 |
| Dividends paid | 0.0 | 0.0 | 0.0 | −70.9 | 0.0 | 0.0 | −0.1 | −71.0 |
| Capital contribution | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 12.6 | 12.6 |
| Sale of treasury shares | 0.0 | 97.5 | 97.5 | 213.7 | 0.0 | 0.0 | 0.0 | 408.7 |
| Translation differences | 0.0 | 0.0 | 0.0 | 0.0 | −23.4 | 0.0 | −0.4 | −23.8 |
| Dec. 31, 2006 | 260.8 | 157.4 | −45.1 | 1,243.5 | −58.5 | 11.8 | 15.9 | 1,585.8 |
| As per Jan. 1, 2007 | 260.8 | 157.4 | −45.1 | 1,243.5 | −58.5 | 11.8 | 15.9 | 1,585.8 |
| Net income | 0.0 | 0.0 | 0.0 | 422.0 | 0.0 | 0.0 | 0.2 | 422.2 |
| Financial instruments[1] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 17.8 | 0.0 | 17.8 |
| | 0.0 | 0.0 | 0.0 | 422.0 | 0.0 | 17.8 | 0.2 | 440.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | −124.2 | 0.0 | 0.0 | −0.3 | −124.5 |
| Translation differences | 0.0 | 0.0 | 0.0 | 0.0 | −35.2 | 0.0 | −0.5 | −35.7 |
| Dec. 31, 2007 | 260.8 | 157.4 | −45.1 | 1,541.3 | −93.7 | 29.6 | 15.3 | 1,865.6 |

[1] €0.3 million (2006: €0.0 million) thereof are accounted for by pro-rata fair-value changes that do not impact results when recorded. These changes are the result of derivative financial instruments at companies accounted for using the equity method.

Cf. Note 12

# SEGMENT INFORMATION BY DIVISION
## FOR THE PERIOD JANUARY 1 TO DECEMBER 31

2007

| € million | Siltronic | Silicones | Polymers | Polysilicon | Fine Chemicals | Other | Consolidation | Group |
|---|---|---|---|---|---|---|---|---|
| External sales | 1,445.1 | 1,313.6 | 623.7 | 243.8 | 100.6 | 54.5 | 0.0 | **3,781.3** |
| Internal sales | 6.5 | 47.4 | 9.1 | 213.1 | 11.8 | 192.7 | −480.6 | **0.0** |
| **Total sales** | **1,451.6** | **1,361.0** | **632.8** | **456.9** | **112.4** | **247.2** | **−480.6** | **3,781.3** |
| **EBIT** | **337.2** | **144.6** | **80.5** | **135.0** | **−7.5** | **−40.2** | **0.0** | **649.6** |
| Depreciation and amortization | 140.9 | 82.3 | 26.5 | 47.2 | 17.0 | 38.0 | 0.0 | **351.9** |
| **EBITDA** | **478.1** | **226.9** | **107.0** | **182.2** | **9.5** | **−2.2** | **0.0** | **1,001.5** |
| EBIT includes: income from investments in associates | −7.2 | −3.7 | 0.0 | 1.5 | 0.0 | 0.1 | 0.0 | **−9.3** |
| Impairment losses | −2.5 | −0.1 | −8.9 | 0.0 | −12.5 | −0.7 | 0.0 | **−24.7** |
| Additions to property, plant and equipment[1] | 118.4 | 100.7 | 41.0 | 228.3 | 7.5 | 82.6 | 0.0 | **578.5** |
| Additions to financial assets[2] | 81.6 | 1.5 | 0.0 | 31.2 | 0.0 | 6.5 | 0.0 | **120.8** |
| **Asset additions** | **200.0** | **102.2** | **41.0** | **259.5** | **7.5** | **89.1** | **0.0** | **699.3** |
| Assets (Dec. 31) | 1,230.6 | 973.0 | 255.3 | 618.9 | 52.3 | 875.2 | −87.2 | **3,918.1** |
| Liabilities (Dec. 31) | 354.9 | 325.9 | 80.7 | 767.7 | 18.6 | 578.8 | −74.1 | **2,052.5** |
| **Net assets (Dec. 31)** | **875.7** | **647.1** | **174.6** | **−148.8** | **33.7** | **296.4** | **−13.1** | **1,865.6** |
| Investments in joint ventures and associates included in net assets (Dec. 31) | 134.6 | 23.3 | 0.0 | 32.7 | 0.0 | 5.6 | 0.0 | **196.2** |
| Research and development expenses | −63.9 | −35.9 | −7.6 | −6.3 | −2.1 | −36.7 | 0.0 | **−152.5** |
| Employees (Dec. 31) | 5,634 | 3,871 | 1,128 | 1,003 | 245 | 3,163 | 0 | **15,044** |
| Employees (average) | 5,628 | 3,828 | 1,095 | 953 | 279 | 3,143 | 0 | **14,926** |

[1] Intangible assets; property, plant and equipment, investment property
[2] Investments in joint ventures and associates, and financial assets

The segment information by division is an integral part of the consolidated financial statements. For comments on the key indicators, see Note 22 of the financial statements.

2006

| € million | Siltronic | Silicones | Polymers | Polysilicon | Fine Chemicals | Other | Consolidation | Group |
|---|---|---|---|---|---|---|---|---|
| External sales | 1,257.6 | 1,243.9 | 548.9 | 132.7 | 101.4 | 52.4 | 0.0 | **3,336.9** |
| Internal sales | 5.5 | 43.0 | 10.7 | 192.9 | 11.2 | 158.6 | −421.9 | **0.0** |
| **Total sales** | **1,263.1** | **1,286.9** | **559.6** | **325.6** | **112.6** | **211.0** | **−421.9** | **3,336.9** |
| **EBIT** | **213.1** | **147.8** | **88.8** | **88.8** | **−4.5** | **−76.4** | **−1.3** | **456.3** |
| Depreciation and amortization | 142.5 | 84.1 | 17.8 | 29.5 | 15.0 | 41.1 | 0.0 | **330.0** |
| **EBITDA** | **355.6** | **231.9** | **106.6** | **118.3** | **10.5** | **−35.3** | **−1.3** | **786.3** |
| EBIT includes: income from investments in associates | −1.6 | −7.7 | 0.0 | 0.0 | 0.0 | −0.4 | 0.0 | **−9.7** |
| Impairment losses | −0.8 | 0.0 | 0.0 | 0.0 | −8.6 | −5.7 | 0.0 | **−15.1** |
| Additions to property, plant and equipment[1] | 102.3 | 110.1 | 17.8 | 148.5 | 4.0 | 45.8 | 0.0 | **428.5** |
| Additions to financial assets[2] | 65.4 | 30.8 | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | **96.8** |
| **Asset additions** | **167.7** | **140.9** | **17.8** | **148.5** | **4.0** | **46.4** | **0.0** | **525.3** |
| Assets (Dec. 31) | 1,173.8 | 965.0 | 222.3 | 374.5 | 68.6 | 690.9 | −236.9 | **3,258.2** |
| Liabilities (Dec. 31) | 535.9 | 392.1 | 90.0 | 353.6 | 28.0 | 496.4 | −223.6 | **1,672.4** |
| **Net assets (Dec. 31)** | **637.9** | **572.9** | **132.3** | **20.9** | **40.6** | **194.5** | **−13.3** | **1,585.8** |
| Investments in joint ventures and associates included in net assets (Dec. 31) | 63.6 | 28.4 | 0.0 | 0.0 | 0.0 | 6.3 | 0.0 | **98.3** |
| Research and development expenses | −63.2 | −34.4 | −7.1 | −5.1 | −6.0 | −36.5 | 0.0 | **−152.3** |
| Employees (Dec. 31) | 5,585 | 3,767 | 1,050 | 875 | 300 | 3,091 | 0 | **14,668** |
| Employees (average) | 5,586 | 3,719 | 1,042 | 868 | 315 | 3,069 | 0 | **14,599** |

[1] Intangible assets; property, plant and equipment, investment property
[2] Investments in joint ventures and associates, and financial assets

The segment information by division is an integral part of the consolidated financial statements. For comments on the key indicators, see Note 22 of the financial statements.

# SEGMENT INFORMATION BY REGION
## FOR THE PERIOD JANUARY 1 TO DECEMBER 31

2007

| € million | Germany | Europe (excl. Germany) | Americas | Asia | Other regions | Consoli-dation | Group |
|---|---|---|---|---|---|---|---|
| External sales by customer location | 723.5 | 1,034.7 | 642.6 | 1,267.1 | 113.4 | 0.0 | **3,781.3** |
| External sales by Group company location | 3,341.0 | 26.6 | 659.1 | 480.2 | 1.8 | −727.4 | **3,781.3** |
| Additions to property, plant and equipment[1] | 521.1 | 4.0 | 10.5 | 42.7 | 0.2 | 0.0 | **578.5** |
| Additions to financial assets[2] | 39.2 | 81.6 | 0.0 | 0.0 | 0.0 | 0.0 | **120.8** |
| **Asset additions (Dec. 31)** | **560.3** | **85.6** | **10.5** | **42.7** | **0.2** | **0.0** | **699.3** |
| Assets (Dec. 31) | 3,823.0 | 571.1 | 304.5 | 501.4 | 0.9 | −1,282.8 | **3,918.1** |
| Liabilities (Dec. 31) | 2,152.6 | 155.5 | 135.7 | 206.8 | 0.6 | −598.7 | **2,052.5** |
| **Net assets (Dec. 31)** | **1,670.4** | **415.6** | **168.8** | **294.6** | **0.3** | **−684.1** | **1,865.6** |
| Research and development expenses | −136.8 | 0.0 | −10.8 | −9.9 | 0.0 | 5.0 | **−152.5** |
| Employees (Dec. 31) | 11,624 | 174 | 1,596 | 1,639 | 11 | 0 | **15,044** |

2006

| € million | Germany | Europe (excl. Germany) | Americas | Asia | Other regions | Consoli-dation | Group |
|---|---|---|---|---|---|---|---|
| External sales by customer location | 657.6 | 960.8 | 659.2 | 961.4 | 97.9 | 0.0 | **3,336.9** |
| External sales by Group company location | 2,886.7 | 23.0 | 700.8 | 418.9 | 1.4 | −693.9 | **3,336.9** |
| Additions to property. plant and equipment[1] | 368.8 | 0.5 | 8.6 | 50.5 | 0.1 | 0.0 | **428.5** |
| Additions to financial assets[2] | 31.5 | 65.3 | 0.0 | 0.0 | 0.0 | 0.0 | **96.8** |
| **Asset additions (Dec. 31)** | **400.3** | **65.8** | **8.6** | **50.5** | **0.1** | **0.0** | **525.3** |
| Assets (Dec. 31) | 3,127.9 | 435.7 | 312.0 | 454.6 | 0.7 | −1,072.7 | **3,258.2** |
| Liabilities (Dec. 31) | 1,608.3 | 73.6 | 174.3 | 195.3 | 0.3 | −379.4 | **1,672.4** |
| **Net assets (Dec. 31)** | **1,519.6** | **362.1** | **137.7** | **259.3** | **0.4** | **−693.3** | **1,585.8** |
| Research and development expenses | −137.5 | 0.0 | −10.8 | −10.8 | 0.0 | 6.8 | **−152.3** |
| Employees (Dec. 31) | 11,340 | 134 | 1,629 | 1,555 | 10 | 0 | **14,668** |

[1] Intangible assets; property, plant and equipment and investment property

[2] Investments in associates, financial assets

The segment information by region is an integral part of the consolidated financial statements. For comments on the key indicators, see Note 22 of the financial statements.

# NOTES

## ACCOUNTING PRINCIPLES AND METHODS

Wacker Chemie AG's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), in effect on the reporting date and as used in the EU, as well as with the supplementary rulings of Section 315a, Subsection 1 of the German Commercial Code (HGB).

All applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were applied in the year under review, as well.

To enhance the presentation's clarity, various items in the consolidated income statement and the balance sheet have been summarized. These items are separately stated and explained in the Notes.

The Group's functional currency is the euro. All amounts are in millions of euros (€ million), unless expressly stated otherwise.

The consolidated financial statements, the Group management report and any other documents subject to disclosure laws have been filed with the publisher of the electronic Federal Bulletin. Wacker Chemie AG is registered under the number HRB 159705 at the Munich District Court. The consolidated financial statements and Group management report can be accessed via WACKER's website under www.wacker.com. As prescribed by Section 161 of the German Stock Corporation Act (AktG), a declaration of conformity with the German Corporate Governance Code has been issued and made available to shareholders via WACKER's website.

Wacker Chemie AG's Executive Board released the consolidated financial statements for presentation to the Supervisory Board on February 21, 2008.

## STANDARDS / INTERPRETATIONS NOT APPLIED EARLIER

The International Accounting Standards Board (IASB) has issued the following standards, interpretations, and changes to existing standards, which are not yet binding and which Wacker Chemie AG will not implement earlier than required.

### IFRS 2: “SHARE-BASED PAYMENT”

The IASB adopted revisions to IFRS 2 in January 2008. First obligatory use of the revised standard is for reporting years beginning on or after January 1, 2009. The European Union has not yet given its endorsement. Wacker Chemie AG does not expect this to impact its consolidated financial statements.

### IFRS 3: “BUSINESS COMBINATIONS”

The IASB adopted revisions to IFRS 3 in January 2008 as a result of the “Business Combinations – Phase II” project. First obligatory use of the revised standard is for reporting years beginning on or after January 1, 2009. The European Union has not yet given its endorsement. In the event of future company acquisitions, the standard's use may produce results different from those that would have been obtained under previous IFRS regulations. This might well be the case if shares in a company are not acquired in their entirety.

### IFRS 8: “OPERATING SEGMENTS”

First obligatory use of the revised standard is for reporting years beginning on or after January 1, 2009. Earlier use is possible. The European Union gave its endorsement on November 21, 2007. Wacker Chemie AG’s first obligatory use will take place in 2008 at the earliest. This is expected to have little impact on Wacker Chemie AG’s consolidated financial statements, since its management approach is already being implemented in segment reporting.

### IAS 1: “PRESENTATION OF FINANCIAL STATEMENTS”

The IASB adopted revisions to IAS 1 in September 2007. First obligatory use of the revised standard is for reporting years beginning on or after January 1, 2009. The European Union has not yet given its endorsement. We assume that use of this revised standard will have a major impact on certain parts of the consolidated financial statements and their presentation. A particularly significant change will be how the development of equity capital is described. Additionally, the income statement will be restructured.

### IAS 23: “BORROWING COSTS”

First obligatory use of the revised standard is for reporting years beginning on or after January 1, 2009. The European Union has not yet given its endorsement. As a result of the revised standard, borrowing costs will no longer be treated as immediate expense in the case of investment projects, but will be capitalized. A tendency toward higher asset additions and subsequently higher depreciation will therefore be the result. Moreover, lower interest expenses are to be expected. The magnitude of these changes cannot be estimated a priori.

### IAS 27: “CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS”

First obligatory use of the revised standard is for reporting years beginning on or after July 1, 2009. The European Union has not yet given its endorsement. The revised standard must be used in the event of future company acquisitions, thereby impacting Wacker Chemie AG’s consolidated financial statements. Especially in the case of successive company acquisitions, certain situations have not yet been covered by IAS 27. A lack of relevant data makes it impossible to assess the extent to which the revised standard implies changes to our accounting methods.

### IFRIC 11: “IFRS 2 - GROUP AND TREASURY SHARE TRANSACTIONS”

First obligatory use is for reporting years beginning on or after March 1, 2007. Wacker Chemie AG does not expect this interpretation’s use to have any impact on its consolidated financial statements.

### IFRIC 12: “SERVICE CONCESSION ARRANGEMENTS”

First obligatory use is for reporting years beginning on or after January 1, 2008. Wacker Chemie AG does not expect this interpretation’s use to have any impact on its consolidated financial statements.

### IFRIC 13: “CUSTOMER LOYALTY PROGRAMMES”

First obligatory use is for reporting years beginning on or after July 1, 2008. The European Union has not yet given its endorsement. Wacker Chemie AG does not expect this to impact its consolidated financial statements.

### IFRIC 14: “IAS 19 - THE LIMIT ON A DEFINED BENEFIT ASSET, MINIMUM FUNDING REQUIREMENTS AND THEIR INTERACTION”

First obligatory use is for reporting years beginning on or after January 1, 2008. Based on the previous use of IAS 19 regulations, Wacker Chemie AG does not expect this interpretation’s use to have any impact on its consolidated financial statements.

## SCOPE OF CONSOLIDATION

The consolidated financial statements include the financial statements of Wacker Chemie AG and its subsidiaries. Subsidiaries are companies in which Wacker Chemie AG directly or indirectly has a voting majority or uniform control. Joint ventures and associates are entities where Wacker Chemie AG exercises significant influence, normally holding 20-50 % of the votes. These entities are included in the consolidated financial statements at equity. If subsidiaries and joint ventures have their own subsidiaries, these are not included in the table below. Companies in which Wacker Chemie AG has less than a 20-% shareholding are shown as other investments under non-current financial assets.

| | Germany | Europe (excl. Germany) | Americas | Asia | Other regions | **Total** |
|---|---|---|---|---|---|---|
| Fully consolidated subsidiaries (incl. parent company) | | | | | | |
| Jan. 1, 2007 | 17 | 14 | 7 | 19 | 1 | 58 |
| Additions | 1 | | | 1 | | 2 |
| Disposals and mergers | –1 | –1 | –1 | –1 | | –4 |
| **Dec. 31, 2007** | **17** | **13** | **6** | **19** | **1** | **56** |
| Companies accounted for using the equity method | | | | | | |
| Jan. 1, 2007 | 0 | 0 | 2 | 5 | 0 | 7 |
| Additions | 2 | | | | | 2 |
| **Dec. 31, 2007** | **2** | **0** | **2** | **5** | **0** | **9** |
| Non-consolidated subsidiaries[1] | | | | | | |
| Jan. 1, 2007 | 1 | 0 | 0 | 0 | 0 | 1 |
| **Dec. 31, 2007** | **1** | **0** | **0** | **0** | **0** | **1** |
| Total | | | | | | |
| Jan. 1, 2007 | 18 | 14 | 9 | 24 | 1 | 66 |
| Additions | 3 | | | 1 | | 4 |
| Disposals and mergers | –1 | –1 | –1 | –1 | | –4 |
| **Dec. 31, 2007** | **20** | **13** | **8** | **24** | **1** | **66** |

[1] Not consolidated because of insignificance (W.E.L.T. Reisebüro GmbH; share 51 %)

| Additions to fully consolidated subsidiaries | |
|---|---|
| WACKER SCHOTT Solar Vertriebs GmbH (Jena, new entity in Q4 2007) | 51% |
| Wacker Polymer Systems (Nanjing) Co. Ltd. (Nanjing, China, new entity in Q2 2007) | 100% |

| Disposals / mergers of fully consolidated subsidiaries | |
|---|---|
| Consortium für elektrochemische Industrie GmbH (Munich, Germany, merged with Wacker Chemie AG, as of Jan. 1, 2007) | 100 % |
| Wacker NSCE Malaysia Sdn. Bhd. (Kulim, Malaysia, divestiture in Q4 2007) | 100 % |
| Siltronic Holding B.V. (Krommenie, Amsterdam; merged with Siltronic International Holding B.V. in Q4 2007) | 100 % |
| Siltronic Holding Corp. (Portland (Oregon), USA; merged with Siltronic Corp., Portland (Oregon), USA, in Q4 2007) | 100 % |

| Additions to companies consolidated at equity | |
|---|---|
| WACKER SCHOTT Solar GmbH (Jena, new entity in Q4 2007) | 50 % |
| Thin Materials AG (Eichenau, Germany, acquisition of stock in Q4 2007) | 23 % |

The additions in 2007 refer to the following Group entities: Wacker Polymer Systems (Nanjing) Co. Ltd. was established in spring 2007. Additionally, WACKER SCHOTT Solar Vertriebs GmbH, Jena (Germany), was set up as a joint venture with SCHOTT Solar GmbH in October. Wacker Chemie AG has a 51-% stake in this joint venture. At the same time, WACKER SCHOTT Solar GmbH, Jena (Germany), was founded. Wacker Chemie AG and SCHOTT Solar GmbH each have a 50-% stake in this company. The investment in WACKER SCHOTT Solar GmbH is posted at equity.

In Q4 2007, further shares in Thin Materials AG, Eichenau, were acquired. This exceeded the threshold of 20 % of shares. As a result, the investment is posted at equity.

On December 7, 2007, Wacker Chemie AG, Munich (Germany), and Air Products and Chemicals Inc., Allentown (Pennsylvania, USA), signed an agreement to sell shares. The agreement concerns the transfer of Air Products’ stake in certain companies.

The shares in question are Air Products’ 20-% stakes in each of the following former joint ventures: Wacker Polymer Systems GmbH & Co. KG, Burghausen (Germany), Wacker Polymer Systems Geschäftsführungs GmbH, Burghausen (Germany), Wacker Polymer Materials (Shanghai) Co. Ltd., Shanghai (China), Wacker Polymer Systems (ZJG) Co. Ltd., Zhangjiagang (China), and Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi (China).

Additionally, Wacker Chemie AG acquired 80.6226 % of the shares in Air Products Polymers Holdings, L.P., and 65 % of the shares in Air Products Korea Inc., Seoul, being directly or indirectly held in each case by Air Products and Chemicals, Inc.

The conditions for purchasing these shares took effect at midnight on January 31, 2008; the purchase price paid on this day for all the shares covered by the agreement totaled €216.2 million. The purchase price was paid in cash. The timing of the transaction currently makes it impossible to provide further details. This transaction will be discussed in our Q1 2008 report. Please refer to the supplementary report for further details on this transaction.

## CONSOLIDATION METHODS

The consolidated financial statements are based on the financial statements of Wacker Chemie AG and its consolidated subsidiaries, with December 31 as closing day. Several of the companies consolidated at equity have September 30 as their closing day. Their financial statements are included accordingly, because final figures are only available from this date; significant transactions up to December 31 did not take place. For the purposes of inclusion in the consolidated financial statements, the individual financial statements were audited by independent auditors.

Investments in subsidiaries are consolidated by applying the purchase method; the cost of the investment is set off against the Group share in equity of the consolidated subsidiaries at the time of acquisition or first inclusion into the consolidated financial statements. The equity is calculated after including all identifiable assets and liabilities; all balance-sheet items are accounted for at fair value. If the cost of the investment is greater than the value of equity acquired, this positive difference is recognized as goodwill and tested annually for impairment. A negative difference, i.e. an excess of the acquired interest in equity over the cost of the investment, is recognized as profit.

Entities accounted for using the equity method are initially measured at cost. If the cost is higher than the share of equity, the difference is included in the carrying amount of the investment. On the reporting day, this difference must be checked for possible impairment. If the cost is less than the share of equity at the time of acquisition, the difference is recorded in the income statement as income from investments. All remaining shares are accounted for as financial instruments available for sale.

Unrealized results, sales, expenses and income, as well as receivables and liabilities between the consolidated companies and unrealized results from sales to and from associates are eliminated.

For consolidation entries impacting income, the effects on income tax are taken into account and deferred taxes are included.

## FOREIGN CURRENCY TRANSLATION

In the individual financial statements of Group companies, all receivables and liabilities in foreign currencies are translated at the closing day rate, whether they have been hedged or not. Forward contracts that – from an economic point of view – are used for hedging, are presented at fair values.

The financial statements of consolidated companies are prepared in the local currency. The items of these statements are translated on the basis of the "functional currency" principle – according to the modified closing day rate method. Since WACKER Group subsidiaries run their businesses along independent financial, economic and organizational lines, the functional currency is, as a rule, identical with each company's local currency. In the consolidated financial statements, expenses and income from the financial statements of subsidiaries stated in foreign currency are translated at the annual average rate, whereas assets and liabilities are translated at the closing day rate. Currency differences resulting from the translation of equity are set off against equity. Translation differences from different exchange rates in the consolidated income statement are likewise recognized directly in equity.

In the case of divestiture, the translation difference is reversed against income.

The exchange rates of the major currencies used in these financial statements, and their corresponding fluctuations against the euro, are as follows:

| | | Closing day rate | | Annual average rate | |
|---|---|---|---|---|---|
| | ISO Code | Dec. 31, 07 | Dec. 31, 06 | 2007 | 2006 |
| U.S. dollar | USD | 1.47 | 1.32 | 1.37 | 1.26 |
| Japanese yen | JPY | 164.86 | 156.49 | 161.14 | 145.95 |
| Singapore dollar | SGD | 2.11 | 2.02 | 2.06 | 1.99 |
| Chinese renminbi | CNY | 10.74 | 10.27 | 10.41 | 10.01 |

## ACCOUNTING AND VALUATION PRINCIPLES

The consolidated financial statements of Wacker Chemie AG and its German and international subsidiaries are prepared in accordance with uniform accounting and valuation principles. Preparation of the IFRS-compliant consolidated financial statements necessitates the use of certain assumptions and estimates affecting the measurement and presentation of recognized assets and debts, income and expenses, as well as contingent liabilities. The assumptions on which the estimates are based primarily relate to the uniform definition of useful life, the recognition and measurement of accruals and provisions, the scope for realizing future tax relief and the assumptions relating to impairment tests. The actual values may in individual instances differ from the assumptions and estimates made. Changes in value are recognized as soon as they become apparent and are included in the results of the period when the change occurred and, if applicable, in future reporting periods.

SALES are recognized when goods and services have been duly delivered/performed and paid. Sales include income from services. The section on segment information reports on sales by sector and region.

COSTS OF GOODS SOLD show the costs of any products, merchandise and services sold. In addition to direct costs, such as material, payroll and energy costs, they cover overheads including depreciation and inventory adjustments. This item includes the cost of outward freight.

SELLING EXPENSES include costs incurred by the sales organization, advertising, market research and applications support at customer sites. This item also shows commission expenses.

RESEARCH AND DEVELOPMENT EXPENSES include costs entailed by the development of products and processes. Research costs in the narrower sense are recognized as an expense when incurred. Development costs are only capitalized when all the prescribed recognition criteria have been met cumulatively, when the research phase can be separated clearly from the development phase and when the costs incurred can be allocated to the individual project phases without overlaps. Currently, not all IAS 38 capitalization criteria have been met due to the numerous interdependences within development projects and the uncertainty about which products will ultimately become commercially viable.

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.

ACQUIRED INTANGIBLE ASSETS are measured at cost and, if their useful life can be determined, amortized on a straight-line basis. If the useful life of intangible assets cannot be determined, they undergo an annual impairment test. The useful life is taken to be between four and eight years, unless otherwise indicated – e.g. as a result of the life of a patent. Amortization of intangible assets (apart from goodwill) is allocated to the functional areas that use them.

SELF-CONSTRUCTED 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 on a straight-line basis. The useful life corresponds to that of the acquired intangible assets. Where development costs are recognized as an intangible asset, they comprise the costs directly and indirectly attributable to the development process. Development expenditure recognized as an intangible asset is amortized over the useful life of the corresponding production facilities from the start of production.

GOODWILL is not amortized but annually tested for impairment. 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. Additionally, intrinsic value is examined whenever any events or circumstances indicate possible impairment. Goodwill amortization is presented under other operating expenses.

We recognize PROPERTY, PLANT AND EQUIPMENT in the balance sheet at cost and depreciate them by the straight-line method in accordance with their probable useful life.

GRANTS FROM THIRD PARTIES reduce the cost; unless otherwise stated, these grants (investment subsidies) are issued by government bodies.

BORROWING COSTS are not recognized as part of the costs of assets.

INCOME GRANTS that are not offset by future expenses are recognized as income. The cost of construction of SELF-CONSTRUCTED 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 ARE DECOMMISSIONED, SOLD OR ABANDONED, the gain or loss from the difference between the sales proceeds and the residual carrying amount is presented under other operating income or expenses.

Non-current assets also include ASSETS RELATING TO LEASES. Property, plant and equipment rented by way of FINANCE LEASES are recognized at fair value at the inception, unless the present values of the minimum lease payments are lower. Depreciation is by the straight-line method over the estimated useful life, or over the term of the contract if shorter.

The obligations from FUTURE LEASE INSTALLMENTS are recognized under financial liabilities.

PROPERTY, PLANT AND EQUIPMENT ARE DEPRECIATED basically in accordance with the following periods of useful life:

| in years | Periods of useful life |
|---|---|
| Production buildings | 20 to 40 |
| Other buildings | 10 to 30 |
| Plant and machinery | 6 to 12 |
| Vehicles | 4 to 6 |
| Business and office equipment | 6 to 10 |

If the carrying amounts of intangible assets or items of property, plant and equipment determined in accordance with the above principles are higher than their recoverable amounts at the reporting date, **impairment losses** are recognized as an expense. The recoverable amounts are determined from the fair value less costs to sell or, if higher, from the present value of the estimated future cash flows from the use of the asset. The need for write-downs due to impairment losses is assessed yearly for such assets or groups of assets where an impairment may be suspected. Where the reasons for impairment no longer exist, impairment losses are reversed.

INVESTMENT PROPERTY is measured according to the cost model.

The SHARES IN NON-CONSOLIDATED SUBSIDIARIES AND INVESTMENTS presented as non-current financial assets are measured at cost, unless different fair values are available.

Changes in fair value are recognized in the income statement upon realization through disposal or if the fair value falls below the acquisition cost. LOANS advanced are measured at amortized cost, except that non-interest-bearing and low-interest loans advanced are measured at their present value.

SHARES IN ASSOCIATED COMPANIES and JOINT VENTURES are generally measured at the Group's share of equity. Pro rata income is included in the Group's income statement and increases or decreases the carrying amount. Any changes in the investee's equity that have not been included in the investee's profit or loss are directly recognized in the Group's equity. Dividends paid by joint ventures and associated companies reduce their equity and therefore decrease the carrying amount without affecting profits. If an associated company, or joint venture, faces losses that have exhausted its equity, these losses are fully written off in the consolidated balance sheet. Any additional losses are not included in the consolidated financial statements. The book value is not increased until the loss carryforward has been set off and the equity is positive again.

INVENTORIES are measured at cost, using the average cost method. Lower replacement costs or realizable prices at the balance sheet date are taken into account through write-downs to their net realizable value. Purchase and production costs include directly attributable costs as well as an appropriate portion of the indirect materials and indirect labor, and also straight-line depreciation. Borrowing costs are not capitalized.

Write-downs are recognized for inventory risks as a result of extended periods of storage and reduced usability, according to the lower of cost or market principle. In the income statement, cost of UNUSED PRODUCTION CAPACITY is also included in the costs of goods sold.

For production reasons, WORK IN PROGRESS AND FINISHED GOODS are presented combined under goods.

A FINANCIAL INSTRUMENT is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. WACKER's financial assets include, in particular, cash and cash equivalents, and trade receivables as well as other receivables and derivative financial assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes and derivative financial liabilities. Financial instruments are generally recognized as soon as WACKER becomes a party to the contractual regulations of the financial instrument. However, in the case of purchase or sale at usual market terms (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant to the initial recognition and derecognition. This is the date on which the asset is delivered to or by WACKER. In general, financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis.

FINANCIAL ASSETS are measured at fair value on initial recognition. For all financial assets not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the balance sheet generally correspond to the market prices of the financial assets. If these are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters. Financial assets and liabilities are subsequently valued in line with, and allocated to, the category – cash and cash equivalents, financial assets available for sale, loans and receivables or financial liabilities recognized at amortized cost.

TRADE RECEIVABLES and OTHER ASSETS are always recognized at amortized cost, except for derivative financial instruments. Risks are taken into account through appropriate depreciation booked as valuation allowances. Allowances for uninsured receivables – or for the deductible in the case of insured receivables – are made whenever legal proceedings are taken. If an incoming receivable is no longer expected even though an appeal has been filed, the gross receivable is written off and the allowances made are reversed. Where long-term receivables are non-interest-bearing or low-interest-bearing, they are discounted.

FINANCIAL ASSETS AVAILABLE FOR SALE – Investments in equity instruments, debt instruments and investment fund shares are classified as financial assets available for sale. They are recognized at fair value, provided that this value can be reliably calculated. Observable market prices are used here. Unrealized profits and losses take account of deferred taxes and are shown as changes in equity that do not impact results. If equity instruments do not have a price listed on an active market and their fair value cannot be reliably calculated, they are measured at cost. If the fair values of financial assets available for sale are lower than acquisition costs and there are objective signs that an asset's value has been impaired, the cumulative loss included directly in equity is reversed and shown in the consolidated income statement. WACKER bases its appraisal of possible impairments on all available information, such as market conditions and prices, and investment-specific factors as well as the length of time during, and the extent to, which the drop in value is below acquisition costs. Impairments affecting a debt instrument are reversed in subsequent periods, provided that the reasons for the impairment no longer apply.

DERIVATIVE FINANCIAL INSTRUMENTS are used only for hedging purposes, in order to reduce the Group's exposure to the risks posed by exchange-rate fluctuations and changes in interest rates and in raw materials prices impacting the operating and financing activities. Derivative financial instruments are always recognized at fair value, notwithstanding the purpose for, or the intention with, which they have been concluded. Positive fair values are recognized as a receivable, and negative fair values as a liability. If there are changes in the fair value of the financial instruments used to limit the risk of lower future inflows or higher outflows (cash flow hedges), these changes are included in equity after consideration of any related tax effects.

Measures to cover the risk of changes in the market value of recognized assets or liabilities lead to "fair value hedges". Fair value changes are identified for both the underlying business and for the derivative financial instruments used for hedging, and these changes are presented under "Other financial result" in the income statement. Derivative financial instruments are accounted for at the trade date.

Upon their addition, CASH AND CASH EQUIVALENTS (LIQUID ASSETS), including cash accounts and current cash investments with banks, have a residual period of up to three months and are amortized at cost, which is equivalent to their nominal value.

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 taken into account. Liabilities from finance lease contracts are shown as financial liabilities at the present value of the future leasing installments.

TRADE LIABILITIES and OTHER LIABILITIES are, as a matter of principle, amortized at cost using the effective interest method.

There are no CONTINGENCIES recorded in the balance sheet.

DEFERRED TAX ASSETS AND LIABILITIES are recognized for temporary differences between tax bases and carrying amounts, as well as for consolidation entries recognized in the income statement. 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 tax is determined on the basis of the tax rates that, under current law, are applicable at the time of realization in the individual countries, or are anticipated. Netting of deferred tax assets and liabilities is only performed to the extent that is possible under the same tax regime.

MINORITY INTERESTS IN THE LIMITED PARTNERSHIP CAPITAL of consolidated companies are reported as financial liability; pro rata results and dividend payments increase or diminish this liability.

PENSION PROVISIONS are measured according to the projected unit credit method. This method takes account not only of pensions and entitlements to future pensions known at the balance sheet date, but also of estimated increases in salaries and pensions. The calculation is based on actuarial valuations, taking account of biometric calculation bases.

Actuarial gains and losses are only recognized as income or expense once they move outside a margin of ten percent of the present value of the defined benefit obligation. In this instance, the exceeding amounts distributed over the future average remaining working life of the employees. The expense from funding the pension provisions (service costs) is allocated to the costs for the functional areas concerned; the interest costs are funded in the other financial result. If assets are funded 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 return on plan assets are also reported under “Other financial result.”

PROVISIONS are made in the balance sheet for current legal or constructive obligations if outflow of resources to cover these obligations is probable, and the amount of these obligations can be estimated reliably. The measurement is based on the estimated amounts required to settle the obligations, known risks and Group contingencies. All cost components, which are also recognized under inventories, are in principle included in the measurement of the other provisions. Non-current provisions are measured at the present value at the reporting date.

EMISSIONS CERTIFICATES allotted free of charge are measured at a nominal value of nil. Provisions are recognized if the emissions certificates available do not cover the anticipated obligations. Proceeds from the sale of emissions certificates allotted free of charge are included in other operating income.

## CHANGES IN ACCOUNTING METHODS / STANDARDS USED FOR FIRST TIME

### IFRS 7: "FINANCIAL INSTRUMENTS: DISCLOSURES"

First obligatory use is for reporting years beginning on or after January 1, 2007. The disclosures on financial instruments became much broader in scope as a result of first-time use. This does not affect the inclusion or valuation of the balance-sheet items. Besides the supplements to the description of the accounting and valuation methods, we particularly direct your attention to Notes 10 and 20 of the consolidated financial statements.

### AMENDMENTS TO IAS 1: "PRESENTATION OF FINANCIAL STATEMENTS – CAPITAL DISCLOSURES"

First obligatory use is for reporting years beginning on or after January 1, 2007. Capital disclosures in the consolidated financial statements became broader in scope as a result of first-time use. This does not affect the inclusion or valuation of the balance-sheet items.

### IFRIC 7: "APPLYING THE RESTATEMENT APPROACH UNDER IAS 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES"

First obligatory use is for reporting years beginning on or after March 1, 2006. First-time use has no impact on Wacker Chemie AG's consolidated financial statements.

### IFRIC 8: “SCOPE OF IFRS 2”

First obligatory use is for reporting years beginning on or after May 1, 2006. First-time use has no impact on Wacker Chemie AG’s consolidated financial statements.

### IFRIC 9: “REASSESSMENT OF EMBEDDED DERIVATIVES”

First obligatory use is for reporting years beginning on or after June 1, 2006. First-time use has no impact on Wacker Chemie AG’s consolidated financial statements.

### IFRIC 10: “INTERIM FINANCIAL REPORTING AND IMPAIRMENT”

First obligatory use is for reporting years beginning on or after November 1, 2006. The EU gave its endorsement on June 1, 2007. It did not impact the last two quarterly reports of 2007 or Wacker Chemie AG’s consolidated financial statements dated December 31, 2007.

## 01 SALES / FUNCTIONAL COSTS / OTHER OPERATING INCOME / OTHER OPERATING EXPENSES

01

### SALES

Sales include €103.8 million (2005: €75.2 million) from other services.

OTHER OPERATING INCOME

| € million | 2007 | 2006 |
|---|---|---|
| Gains from currency transactions | 88.8 | 45.3 |
| Income from reversal of provisions | 7.4 | 2.2 |
| Insurance compensations | 1.5 | 8.9 |
| Income from reversal of valuation allowances for receivables | 0.5 | 1.5 |
| Gains from disposal of assets | 2.4 | 1.6 |
| Subsidies / grants | 4.3 | 3.4 |
| Other | 11.5 | 14.5 |
| | 116.4 | 77.4 |

OTHER OPERATING EXPENSES

| € million | 2007 | 2006 |
|---|---|---|
| Losses from currency transactions | –78.6 | –66.4 |
| Losses from valuation allowances for receivables | –2.3 | –0.8 |
| Losses from disposal of non-current assets / depreciation of property, plant and equipment | –19.1 | –20.0 |
| Amortization of goodwill | –7.7 | 0.0 |
| Other | –29.4 | –22.1 |
| | –137.1 | –109.3 |

Other operating expenses include expenses not attributable to functional areas.

In the year under review, impairment losses mainly impact the assets of WACKER POLYMERS, WACKER FINE CHEMICALS as well as Siltronic. The WACKER POLYMERS segment is to cease its PVB (polyvinyl butyral) activities by the end of fiscal 2008. Impairment losses relate to any remaining assets (amounting to €8.9 million). In the course of of a restructuring program that started in 2006, the WACKER FINE CHEMICALS segment is to cease its ester / ketene activities by early fiscal 2008. Impairment losses relate to any remaining assets (amounting to €4.8 million). In both cases, impairment losses were measured on the basis of the low value in use. Because the time until the shutdown of the affected property, plant and equipment was short, the calculated cash flows were not discounted.

In the Siltronic segment, machinery was shut down due to production-related restructuring measures. There are no positive net realizable values or values in use. The impairment loss totals €2.5 million. Amortization of goodwill relates to valuation allowance from the acquisition of Prothera GmbH's biotech business in fiscal 2005 (WACKER FINE CHEMICALS segment). The estimated cash flow is based on planning values.

The goodwill impairment test has been based on a ten-year timescale that takes account of the special nature of biotech business. Key indicators include anticipated sales, as well as personnel and material costs. The experience gained from completed test periods has been taken into account. The discount rate is 6.9 %.

## 02 INTEREST RESULT / OTHER FINANCIAL RESULT / LIMITED PARTNERSHIP RESULT



| € million | 2007 | 2006 |
|---|---|---|
| Income from investments in joint ventures and associates[1] | –9.3 | –9.7 |
| **Other result from participations** | | |
| Income from participations[2] | 8.2 | 7.7 |
| Other income from participations | 0.1 | 0.0 |
| Amortization of participations | –0.6 | 0.0 |
| | 7.7 | 7.7 |
| **Interest result** | | |
| Interest and similar income | 14.6 | 9.9 |
| Thereof from financial instruments available for sale | 0.3 | 0.2 |
| Thereof from financial instruments held to maturity | 5.8 | 0.0 |
| Interest and similar expenses | –15.6 | –33.2 |
| | –1.0 | –23.3 |
| **Other financial result** | | |
| Other financial income | 1.1 | 4.7 |
| Interest portion of non-current provisions/liabilities/finance lease | –1.3 | –6.2 |
| Other financial expenses | –1.0 | –1.9 |
| | –1.2 | –3.4 |
| Other shareholders' limited partnership result[3] | –15.3 | –14.0 |

[1] Income from investments in joint ventures and associates mainly relates to investments in companies in Germany, the USA, China and Singapore. This income includes not only the shares of net results, but also amounts from the reversal of differences between the investment's costs of assets and the share of equity at the time of acquisition.

[2] Income from participations mainly relates to investments in companies in the USA.

[3] In the WACKER Group, limited partnerships with minority shareholders are consolidated. The share of the net income before minority interests due to the minority shareholders in these limited partnerships is shown under this item. In the balance sheet, the minority shareholders' share of the equity of these limited partnerships is presented separately as non-current liabilities.

## 03 INCOME TAXES

The calculation is based on the current regulations of actual or expected tax rates in the individual countries at the realization time. These are generally based on the legal regulations valid or adopted on the reporting date.

In Germany, a solidarity surcharge is added to corporate tax. In addition, a trade income tax has to be paid; this varies depending on the municipality in which the company has its site. The trade income tax is a deductible operating expense up until and including the 2007 taxable period.

TAX RATES IN GERMANY

| in % | 2007 | 2006 |
|---|---|---|
| Weighted average trade income tax rate | 14.7 | 14.7 |
| Corporate tax rate | 25.0 | 25.0 |
| Solidarity surcharge | 5.5 | 5.5 |

The income from foreign Group companies is subject to taxation at the tax rates valid in the country where the site is located. Deferred taxes on undistributed profits of subsidiaries were not calculated. The effort required to determine possible resulting tax effects would have been unreasonably high. €567.5 million (2005: €199.8 million) is available for distribution.

| € million | 2007 | 2006 |
|---|---|---|
| Current taxes | −192.8 | −103.5 |
| Deferred taxes | −17.1 | −0.3 |
| **Income taxes** | **−209.9** | **−103.8** |
| **Reconciliation to the effective tax rate** | | |
| Pre-tax result | 632.1 | 415.6 |
| Income tax rate for Wacker Chemie AG in % | 38.0 | 38.0 |
| **Expected tax expenses** | **−240.2** | **−157.9** |
| Tax rate differentials | 5.2 | 2.4 |
| Tax effect of non-deductible expenses | −9.5 | −9.9 |
| Tax effect of tax-free income | 11.8 | 13.7 |
| Taxes for previous years | −10.4 | −6.2 |
| Change in valuation allowances for deferred tax assets | 30.6 | 44.3 |
| Taxes attributable to minority shareholders | −5.8 | −5.3 |
| Effect of tax legislation changes | 10.6 | 15.5 |
| Other | −2.2 | −0.4 |
| **Total income tax** | **−209.9** | **−103.8** |
| **Effective tax load in %** | **33.2** | **25.0** |

When deferred taxes were calculated for the Group's German-based corporate entities, changes to German tax law – effective from 2008 – were taken into account. The result of these changes is to reduce the German income tax rate to approximately 30 %.

During the year under review, the change in valuation allowances for deferred taxes mainly impacts the tax effect from the sale of Wacker NSCE Malaysia at Siltronic Japan Corporation. This made it possible to realize the temporary difference due to the valuation principles. In 2006, no deferred taxes were formed on the temporary difference, because a realization had not been expected.

### ALLOCATION OF DEFERRED TAXES

| € million | 2007 Deferred tax assets | 2007 Deferred tax liabilities | 2006 Deferred tax assets | 2006 Deferred tax liabilities |
|---|---|---|---|---|
| Intangible assets | 1.9 | 0.0 | 2.4 | 0.0 |
| Property, plant and equipment | 1.9 | 84.2 | 0.0 | 110.7 |
| Current assets | 7.4 | 10.2 | 9.2 | 3.6 |
| Pension provisions | 10.3 | 0.0 | 18.7 | 0.0 |
| Other provisions | 36.5 | 12.4 | 32.5 | 3.2 |
| Liabilities | 21.3 | 0.0 | 34.3 | 0.2 |
| Loss carryforwards | 0.1 | 0.0 | 14.6 | 0.0 |
| Tax credits | 0.0 | 0.0 | 0.2 | 0.0 |
| | 79.4 | 106.8 | 111.9 | 117.7 |
| Setoffs | –66.4 | –66.4 | –104.1 | –104.1 |
| Balance sheet item | 13.0 | 40.4 | 7.8 | 13.6 |

The existing tax loss carryforwards can still be used as follows:

### TAX LOSS CARRYFORWARDS

| € million | 2007 | 2006 |
|---|---|---|
| Within 1 year | 0.8 | 0.6 |
| Within 2 years | 1.0 | 0.8 |
| Within 3 years | 1.1 | 2.0 |
| Within 4 years | 2.2 | 1.2 |
| Within 5 years or later | 7.1 | 69.8 |
| | 12.2 | 74.4 |
| Thereof loss carryforwards not expected to be realizable | –10.9 | –36.5 |
| Thereof loss carryforwards expected to be realizable | 1.3 | 37.9 |

04

## 04 DEVELOPMENTS OF FIXED ASSETS

| € million | Intangible assets | Property, plant and equipment | Investment property | Investments in joint ventures and associates | Financial assets | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at Jan. 1, 2006 | 268.6 | 6,124.6 | 45.4 | 14.0 | 66.4 | 6,519.0 |
| Additions | 3.7 | 424.8 | 0.0 | 96.0 | 0.8 | 525.3 |
| Disposals | −35.5 | −80.9 | 0.0 | 0.0 | −0.3 | −116.7 |
| Transfers | 3.9 | −3.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other changes[1] | 0.0 | 0.0 | 0.0 | −11.5 | 0.0 | −11.5 |
| Exchange rate differences | −2.7 | −122.0 | 0.0 | −0.2 | −0.2 | −125.1 |
| **Balance at Dec. 31, 2006** | **238.0** | **6,342.6** | **45.4** | **98.3** | **66.7** | **6,791.0** |
| **Depreciations** | | | | | | |
| Balance at Jan. 1, 2006 | 252.4 | 4,267.1 | 43.9 | 0.0 | 1.6 | 4,565.0 |
| Additions | 6.5 | 323.5 | 0.0 | 0.0 | 0.0 | 330.0 |
| Disposals | −35.0 | −74.5 | 0.0 | 0.0 | 0.0 | −109.5 |
| Exchange rate differences | −2.2 | −91.1 | 0.0 | 0.0 | −0.1 | −93.4 |
| **Balance at Dec. 31, 2006** | **221.7** | **4,425.0** | **43.9** | **0.0** | **1.5** | **4,692.1** |
| **Net carrying amounts as of Dec. 31, 2006** | **16.3** | **1,917.6** | **1.5** | **98.3** | **65.2** | **2,098.9** |
| Impairment losses | 0.8 | 14.3 | 0.0 | 0.0 | 0.0 | 15.1 |
| Reduction in cost due to investment grant | | | | | | 319.8 |
| **Cost** | | | | | | |
| Balance as of Jan. 1, 2007 | 238.0 | 6,342.6 | 45.4 | 98.3 | 66.7 | 6,791.0 |
| Additions | 5.6 | 572.9 | 0.0 | 114.3 | 6.5 | 699.3 |
| Disposals | −123.6 | −113.8 | 0.0 | 0.0 | −0.4 | −237.8 |
| Transfers | 1.4 | −1.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other changes[1] | 0.0 | 0.0 | 0.0 | −9.7 | 0.0 | −9.7 |
| Exchange rate differences | −1.7 | −100.7 | 0.0 | −6.7 | 0.0 | −109.1 |
| **Balance at Dec. 31. 2007** | **119.7** | **6,699.6** | **45.4** | **196.2** | **72.8** | **7,133.7** |
| **Depreciations** | | | | | | |
| Balance as of Jan. 1. 2007 | 221.7 | 4,425.0 | 43.9 | 0.0 | 1.5 | 4,692.1 |
| Additions | 12.9 | 338.4 | 0.0 | 0.0 | 0.6 | 351.9 |
| Disposals | −123.6 | −110.4 | 0.0 | 0.0 | 0.0 | −234.0 |
| Exchange rate differences | −1.4 | −76.8 | 0.0 | 0.0 | 0.0 | −78.2 |
| **Balance as of Dec. 31. 2007** | **109.6** | **4,576.2** | **43.9** | **0.0** | **2.1** | **4,731.8** |
| **Net carrying amounts as of Dec. 31, 2007** | **10.1** | **2,123.4** | **1.5** | **196.2** | **70.7** | **2,401.9** |
| Impairment losses | 7.7 | 17.0 | 0.0 | 0.0 | 0.0 | 24.7 |
| Reduction in cost due to investment grant | | | | | | 328.2 |

[1] For companies accounted for using the equity method, this item includes the change due to the application of the equity method.

05

05 INTANGIBLE ASSETS

| € million | Trademarks, licenses and similar intellectual property rights | Goodwill | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at Jan. 1, 2006 | 135.1 | 133.5 | 268.6 |
| Additions | 2.9 | 0.8 | 3.7 |
| Disposals | –31.7 | –3.8 | –35.5 |
| Transfers | 3.9 | 0.0 | 3.9 |
| Exchange rate differences | –2.1 | –0.6 | –2.7 |
| **Balance at Dec. 31, 2006** | **108.1** | **129.9** | **238.0** |
| **Depreciations** | | | |
| Balance at Jan. 1, 2006 | 124.6 | 127.8 | 252.4 |
| Additions | 6.5 | 0.0 | 6.5 |
| Disposals | –31.2 | –3.8 | –35.0 |
| Exchange rate differences | –1.6 | –0.6 | –2.2 |
| **Balance at Dec. 31, 2006** | **98.3** | **123.4** | **221.7** |
| **Net carrying amounts as of Dec. 31, 2006** | **9.8** | **6.5** | **16.3** |
| **Cost** | | | |
| Balance at Jan. 1, 2007 | 108.1 | 129.9 | 238.0 |
| Additions | 4.4 | 1.2 | 5.6 |
| Disposals | –0.2 | –123.4 | –123.6 |
| Transfers | 1.4 | 0.0 | 1.4 |
| Exchange rate differences | –1.6 | –0.1 | –1.7 |
| **Balance at Dec. 31, 2007** | **112.1** | **7.6** | **119.7** |
| **Depreciations** | | | |
| Balance at Jan. 1, 2007 | 98.3 | 123.4 | 221.7 |
| Additions | 5.2 | 7.7 | 12.9 |
| Disposals | –0.2 | –123.4 | –123.6 |
| Exchange rate differences | –1.3 | –0.1 | –1.4 |
| **Balance at Dec. 31, 2007** | **102.0** | **7.6** | **109.6** |
| **Net carrying amounts as of Dec. 31, 2007** | **10.1** | **0.0** | **10.1** |

This item describes acquired assets. The additions to trademarks relate to operating activities. The addition to goodwill is due to subsequent payments related to the acquisition of Wacker Biotech GmbH.

In the year under review, amortized goodwill that is no longer attributable and that results from the acquisition of subsidiaries is shown as a disposal. This type of goodwill is at least seven years old.

## 06 PROPERTY, PLANT AND EQUIPMENT

| € million | Land, buildings, similar rights | Plant and machinery | Other fixtures, business and office equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at Jan. 1, 2006 | 1,058.7 | 4,429.9 | 490.9 | 145.1 | **6,124.6** |
| Additions | 28.0 | 158.4 | 22.5 | 215.9 | **424.8** |
| Disposals | –3.2 | –53.1 | –22.6 | –2.0 | **–80.9** |
| Transfers | –0.4 | 84.7 | 11.6 | –99.8 | **–3.9** |
| Exchange rate differences | –33.1 | –84.4 | –2.3 | –2.2 | **–122.0** |
| **Balance at Dec. 31, 2006** | **1,050.0** | **4,535.5** | **500.1** | **257.0** | **6,342.6** |
| **Depreciations** | | | | | |
| Balance at Jan. 1, 2006 | 592.2 | 3,269.9 | 405.0 | 0.0 | **4,267.1** |
| Additions | 43.7 | 250.6 | 29.2 | 0.0 | **323.5** |
| Disposals | –2.6 | –50.1 | –21.8 | 0.0 | **–74.5** |
| Transfers | 0.0 | –0.2 | 0.2 | 0.0 | **0.0** |
| Exchange rate differences | –17.1 | –72.1 | –1.9 | 0.0 | **–91.1** |
| **Balance at Dec. 31, 2006** | **616.2** | **3,398.1** | **410.7** | **0.0** | **4,425.0** |
| **Net carrying amounts as of Dec. 31, 2006** | **433.8** | **1,137.4** | **89.4** | **257.0** | **1,917.6** |
| **Thereof finance lease** | | | | | |
| Gross carrying amounts | 89.7 | 49.2 | 0.0 | 0.0 | **138.9** |
| Depreciations | –68.1 | –14.4 | 0.0 | 0.0 | **–82.5** |
| **Net carrying amounts** | **21.6** | **34.8** | **0.0** | **0.0** | **56.4** |
| **Cost** | | | | | |
| Balance at Jan. 1, 2007 | 1,050.0 | 4,535.5 | 500.1 | 257.0 | **6,342.6** |
| Additions | 48.0 | 197.4 | 33.8 | 293.7 | **572.9** |
| Disposals | –13.4 | –82.9 | –18.1 | 0.6 | **–113.8** |
| Transfers | 3.8 | 179.3 | 9.1 | –193.6 | **–1.4** |
| Exchange rate differences | –25.1 | –70.4 | –2.1 | –3.1 | **–100.7** |
| **Balance at Dec. 31, 2007** | **1,063.3** | **4,758.9** | **522.8** | **354.6** | **6,699.6** |
| **Depreciations** | | | | | |
| Balance at Jan. 1, 2007 | 616.2 | 3,398.1 | 410.7 | 0.0 | **4,425.0** |
| Additions | 40.0 | 266.7 | 31.7 | 0.0 | **338.4** |
| Disposals | –10.9 | –81.9 | –17.6 | 0.0 | **–110.4** |
| Transfers | –4.4 | 3.8 | 0.6 | 0.0 | **0.0** |
| Exchange rate differences | –13.5 | –61.4 | –1.9 | 0.0 | **–76.8** |
| **Balance at Dec. 31, 2007** | **627.4** | **3,525.3** | **423.5** | **0.0** | **4,576.2** |
| **Net carrying amounts as of Dec. 31, 2007** | **435.9** | **1,233.6** | **99.3** | **354.6** | **2,123.4** |
| **Thereof finance lease** | | | | | |
| Gross carrying amounts | 89.7 | 49.2 | 0.1 | 0.0 | **139.0** |
| Depreciations | –72.6 | –18.0 | 0.0 | 0.0 | **–90.6** |
| **Net carrying amounts** | **17.1** | **31.2** | **0.1** | **0.0** | **48.4** |

## 07 INVESTMENT PROPERTY

| € million | Intangible assets | Land, buildings, similar rights | Plant and machinery | Other fixtures, business and office equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at Jan. 1, 2006 | 0.4 | 11.8 | 32.8 | 0.4 | **45.4** |
| **Balance at Dec. 31, 2006** | **0.4** | **11.8** | **32.8** | **0.4** | **45.4** |
| **Depreciations** | | | | | |
| Balance at Jan. 1, 2006 | 0.4 | 10.3 | 32.8 | 0.4 | **43.9** |
| **Balance at Dec. 31, 2006** | **0.4** | **10.3** | **32.8** | **0.4** | **43.9** |
| **Net carrying amounts as of Dec. 31, 2006** | **0.0** | **1.5** | **0.0** | **0.0** | **1.5** |
| **Cost** | | | | | |
| Balance at Jan. 1, 2007 | 0.4 | 11.8 | 32.8 | 0.4 | **45.4** |
| **Balance at Dec. 31, 2007** | **0.4** | **11.8** | **32.8** | **0.4** | **45.4** |
| **Depreciations** | | | | | |
| Balance at Jan. 1, 2007 | 0.4 | 10.3 | 32.8 | 0.4 | **43.9** |
| **Balance at Dec. 31, 2007** | **0.4** | **10.3** | **32.8** | **0.4** | **43.9** |
| **Net carrying amounts as of Dec. 31, 2007** | **0.0** | **1.5** | **0.0** | **0.0** | **1.5** |

Wacker Chemie AG owns real estate at its former production site in Cologne, Germany. The real estate comprises land and infrastructure (energy, wastewater, etc.). The land is rented or on long-term lease; there is no finance lease. This real estate is subject to the same depreciation-method and useful-life principles as assets used for our own purposes. Third parties operate, maintain and look after this land and infrastructure in Cologne. Any third-party costs are charged directly to the tenants or leaseholders.

| € million | **2007** | 2006 |
|---|---|---|
| Fair value | **13.8** | 13.8 |
| Income from rent / operating leases | **1.4** | 1.4 |
| Costs | **–0.3** | –0.3 |

The fair value is based on our own estimates; it is reviewed by external experts every three to four years.

## 08 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES / FINANCIAL ASSETS

| € million | Investments in joint ventures and associates | Other investments | Other financial assets | Financial assets |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at Jan. 1, 2006 | 14.0 | 63.8 | 2.6 | 66.4 |
| Additions | 96.0 | 0.6 | 0.2 | 0.8 |
| Disposals | 0.0 | 0.0 | −0.3 | −0.3 |
| Changes resulting from application of the equity method | −11.5 | 0.0 | 0.0 | 0.0 |
| Exchange rate differences | −0.2 | −0.1 | −0.1 | −0.2 |
| **Balance at Dec. 31, 2006** | **98.3** | **64.3** | **2.4** | **66.7** |
| **Depreciations** | | | | |
| Balance at Jan. 1, 2006 | 0.0 | 1.6 | 0.0 | 1.6 |
| Exchange rate differences | 0.0 | −0.1 | 0.0 | −0.1 |
| **Balance at Dec. 31, 2006** | **0.0** | **1.5** | **0.0** | **1.5** |
| **Net carrying amounts as of Dec. 31, 2006** | **98.3** | **62.8** | **2.4** | **65.2** |
| **Cost** | | | | |
| Balance at Jan. 1, 2007 | 98.3 | 64.3 | 2.4 | 66.7 |
| Additions | 114.3 | 6.4 | 0.1 | 6.5 |
| Disposals | 0.0 | 0.0 | −0.4 | −0.4 |
| Changes resulting from application of the equity method | −9.7 | 0.0 | 0.0 | 0.0 |
| Exchange rate differences | −6.7 | 0.0 | 0.0 | 0.0 |
| **Balance at Dec. 31, 2007** | **196.2** | **70.7** | **2.1** | **72.8** |
| **Depreciations** | | | | |
| Balance at Jan. 1, 2007 | 0.0 | 1.5 | 0.0 | 1.5 |
| Additions | 0.0 | 0.6 | 0.0 | 0.6 |
| **Balance at Dec. 31, 2007** | **0.0** | **2.1** | **0.0** | **2.1** |
| **Net carrying amounts as of Dec. 31, 2007** | **196.2** | **68.6** | **2.1** | **70.7** |

The additions to the companies accounted for using the equity method mainly relate to our participation in Siltronic Samsung Wafer Pte. Ltd., Singapore, and in WACKER SCHOTT Solar GmbH, Jena (Germany).

## 09 INVENTORIES

09

| € million | 2007 | 2006 |
|---|---|---|
| Raw materials and supplies | 115.2 | 114.0 |
| Goods and merchandise | 285.3 | 292.1 |
| Services not charged | 2.1 | 1.1 |
| Advance payments | 0.9 | 0.7 |
| | 403.5 | 407.9 |
| Thereof recorded at net realizable value | 84.0 | 75.4 |

## 10 ACCOUNTS RECEIVABLE / OTHER ASSETS / TAX RECEIVABLES

10

| | | | 2007 | | | 2006 |
|---|---|---|---|---|---|---|
| € million | Total | Thereof non-current | Thereof current | Total | Thereof non-current | Thereof current |
| Trade receivables | 461.4 | 0.8 | 460.6 | 475.7 | 0.0 | 475.7 |
| Thereof, non-current due > 5 years | | 0.0 | | | 0.0 | |
| Receivables from associated companies | 7.4 | 0.0 | 7.4 | 7.2 | 0.0 | 7.2 |
| Loans and interest receivables | 0.9 | 0.0 | 0.9 | 4.2 | 0.0 | 4.2 |
| Derivative financial instruments | 57.7 | 12.1 | 45.6 | 35.5 | 0.4 | 35.1 |
| Prepaid assets | 35.4 | 24.2 | 11.2 | 19.0 | 12.3 | 6.7 |
| Investment fund shares[1] | 22.7 | 22.4 | 0.3 | 11.3 | 11.3 | 0.0 |
| Claims due to investment grants | 60.5 | 0.1 | 60.4 | 59.1 | 0.0 | 59.1 |
| Sundry assets | 10.9 | 0.3 | 10.6 | 12.3 | 0.0 | 12.3 |
| Other assets | 195.5 | 59.1 | 136.4 | 148.6 | 24.0 | 124.6 |
| Thereof, non-current due > 5 years | | 10.6 | | | 4.5 | |
| Tax receivables | 76.3 | 15.8 | 60.5 | 76.4 | 15.5 | 60.9 |
| Thereof, non-current due > 5 years | | 9.6 | | | 10.8 | |

[1] The investment fund shares for securing early-retirement liabilities are classified as available for sale.
Their market value amounts to €22.3 million (prior year: €11.6 million).
These fund shares are actively traded and individually pledged to employees participating in the early-retirement program.

Accounts receivable are shown at amortized cost, corresponding to the fair values. Default risks are – if not covered by insurance – taken into account by sufficient valuation allowances. Prepaid expenses mainly include capitalized VAT for advance payments.

DEVELOPMENT OF VALUATION ALLOWANCES

| | | | 2007 | | | 2006 |
|---|---|---|---|---|---|---|
| € million | Trade receivables | Other assets | Total | Trade receivables | Other assets | Total |
| Balance on Jan. 1 | 5.2 | 0.2 | 5.4 | 4.1 | 0.5 | 4.6 |
| Utilization | –0.8 | 0.0 | –0.8 | –1.2 | –0.7 | –1.9 |
| Addition / reversal | 0.6 | 0.1 | 0.7 | 2.5 | 0.1 | 2.6 |
| Exchange rate differences | –0.2 | 0.0 | –0.2 | –0.2 | 0.3 | 0.1 |
| **Balance on Dec. 31** | **4.8** | **0.3** | **5.1** | 5.2 | 0.2 | 5.4 |
| Overdue debts | | | | | | |
| < = 30 days | 42.3 | 0.1 | 42.4 | 30.1 | 0.9 | 31.0 |
| > 31 < = 45 days | 9.9 | 1.2 | 11.1 | 8.9 | 0.1 | 9.0 |
| > 45 days | 12.6 | 1.6 | 14.2 | 34.2 | 4.2 | 38.4 |
| **Total** | **64.8** | **2.9** | **67.7** | 73.2 | 5.2 | 78.4 |

Allowances are formed in the event of exchange-rate fluctuations and identifiable credit risks. The maximum default risk is equal to the carrying amount of the uninsured receivables. No loans or receivables were renegotiated to avoid an overdue debt or possible impairment.

Based on past experience and due to the conditions on the balance sheet date, no restrictions were placed on credit quality.

11

## 11 CASH AND CASH EQUIVALENTS (LIQUID ASSETS)

| € million | 2007 | 2006 |
|---|---|---|
| Securities (cash equivalents) | 238.6 | 0.0 |
| Demand deposits, cash on hand (cash) | 127.9 | 42.9 |
| | **366.5** | 42.9 |

Cash and equivalents are shown at their nominal values.

Securities are classified as “held to maturity.” They are commercial papers from issuers with first-rate creditworthiness.

## 12 EQUITY CAPITAL / MINORITY SHARES

12

The subscribed capital (capital stock) of Wacker Chemie AG totals €260,763,000. It comprises a total of 52,152,600 non-par value shares (aggregate shares). This corresponds to a computed par value of €5 per share. There are no different classes of shares; all shares are exclusively common shares.

As a result of the initial public offering in April 2006, the number of shares outstanding rose through the sale of shares previously held as treasury shares. The following table shows the development in the year under review and in the previous year:

| Units | 2007 | 2006 |
|---|---|---|
| Shares outstanding at the start of the financial year | 49,677,983 | 44,329,600 |
| Sale of treasury shares | 0 | 5,348,383 |
| **Shares outstanding at the end of the financial year** | **49,677,983** | **49,677,983** |
| Treasury shares held | 2,474,617 | 2,474,617 |
| **Aggregate shares** | **52,152,600** | **52,152,600** |

For notes on Wacker Chemie AG's shareholder structure, please refer to Note 24.

Capital reserves include the amounts over and above the nominal amount of shares when issued in previous years. They also include other equity capital contributions made by shareholders.

Retained earnings include amounts created in previous fiscal years at Wacker Chemie AG, transfers from annual earnings, the results of any consolidated companies minus amounts due to minority shareholders, changes that affect consolidated items in terms of net income and any changes to the scope of consolidation. In the prior year, this item rose as a result of the proceeds from the initial public offering that were not allocated to the capital reserve or the reserve for "treasury shares."

Any remaining equity shows both the differences from currency translation in the financial statements of foreign subsidiaries and the effects from measuring financial instruments. In both cases, profit was not affected.

Net income attributable to minority shareholders are made up of the following profits and losses:

| € million | 2007 | 2006 |
|---|---|---|
| Profits | –2.2 | –1.4 |
| Losses | 2.0 | 0.9 |
| **Earnings due to minority shareholders** | **–0.2** | **–0.5** |

As part of its capital management, Wacker Chemie AG complies with legal provisions concerning capital maintenance. The company is not subject to any capital requirements set down by its Articles of Incorporation. No special capital terminology is used.

The table below shows those changes directly included in equity which result from the measurement of financial instruments at fair values according to IAS 39.

| | | | 2007 | | | 2006 |
|---|---|---|---|---|---|---|
| € million | Fair value | Deferred taxes | Carrying amount value | Fair value | Deferred taxes | Carrying amount value |
| Balance on Jan. 1 | 18.7 | −6.9 | 11.8 | −2.1 | 0.8 | −1.3 |
| Additions | 45.1 | −12.3 | 32.8 | 28.7 | −10.7 | 18.0 |
| Disposals | 0.5 | −0.2 | 0.3 | 0.5 | −0.2 | 0.3 |
| Reclassification in income statement | −23.2 | 7.9 | −15.3 | −8.4 | 3.2 | −5.2 |
| Balance on Dec. 31 | 41.1 | −11.5 | 29.6 | 18.7 | −6.9 | 11.8 |

## 13 PROVISIONS FOR PENSIONS

13

WACKER Group employees can avail themselves of various post-employment pension plans, which will be determined by the legal, economic and tax environment of individual countries. These pension plans usually take account of employees' length of service and salary levels.

The company pension fund makes a distinction between defined contribution and defined benefit plans. In the case of defined contribution plans, over and above the contributions into dedicated, defined pension plans there is no further obligation for the company. Pension obligations in addition result from defined benefit plans in the form of entitlements to future pensions and ongoing payments to eligible active and former employees of the WACKER Group and their surviving dependents.

Employees in Germany have the option of converting part of their compensation into deferred compensation commitments. Benefit plans taken out by December 31, 2000 are measured at the value of years of service to date/years served to retirement (pro rata temporis), whereas any benefit plans from January 1, 2001 are measured at the present value of the defined benefit obligation. In view of their pension-like character, provisions for pensions, furthermore, include obligations for medical-insurance costs for retired employees (USA) and severance payments.

Group companies have both defined contribution and defined benefit plans. They are financed, on the one hand, through funds/Pensionskasse der Wacker Chemie VVaG and, on the other, through provisions in the form of direct commitments.

Obligations from direct benefit plans are calculated according to the projected unit credit method, which takes compensation and pension adjustments into consideration. The -current service cost of pension benefit claimants results from the planned development of the provisions for expected future pension payments. Any differences between those pension obligations calculated as planned and the defined benefit obligation at year-end are treated as actuarial gains or losses, and are spread over the average remaining service of the plan participants during the follow-up periods so far as these differences exceed 10 % of the amount of obligations. In compliance with their respective national legislation, certain relatively small foreign subsidiaries take on pension-related obligations due to severance payments after the scheduled termination of employment. Such obligations are likewise accounted for as a provision.

These obligations are funded 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 Domestic Group companies, these assets are handled by Pensionskasse der Wacker Chemie VVaG.

The funding of Pensionskasse der Wacker Chemie VVaG by the Domestic Group companies is included in expenses from pension plans. The defined benefit obligations that result from the application of the projected unit credit method are reduced by the fair value of plan assets, as well as by actuarial losses not yet recognized, or increased by actuarial gains not yet recognized. If the fund assets exceed the obligation from the pension plan, a credit item is shown in principle. A resulting asset can only be recognized to the extent the entity can draw economic benefits from these assets, e.g. in the form of refunds from the plan or reductions in future contributions to the plan (asset ceiling as per IAS 19.58 et seq.). Since Pensionskasse der Wacker Chemie VVaG fixes contributions in accordance with supervisory legislation, there is no access to the excess amount of fund assets in Germany. Consequently, any excess amounts are not capitalized. Unless fund assets cover the obligation, the net obligation is shown as a liability under provisions for pensions.

Pension obligations in Germany are calculated in accordance with the biometric calculation principles based on Prof. Klaus Heubeck's guideline tables for the year 2005. Pension obligations abroad are calculated in accordance with locally applicable actuarial principles and parameters. The calculations are based on actuarial valuations that take account of the following parameters:

PARAMETERS

| | Germany | | USA | | Japan | |
|---|---|---|---|---|---|---|
| in % | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Assumed interest rate | **5.50** | 4.50 | **6.00** | 6.00 | **2.25** | 2.00 |
| Compensation trend | **3.00** | 2.50 | **3.00–3.50** | 3.00–3.50 | | |
| Expected return on assets | **6.00** | 6.00 | **7.50** | 8.25–8.50 | | |

The expected return on plan assets was estimated according to past trends and anticipated values for the following year. Interest income may vary in the individual asset classes of the fund. The percent rate chosen corresponds to the average rate of all the assets.

To arrive at the amount recognized as a defined benefit liability, the plan assets taken out in funds are balanced against the defined benefit obligation at year-end (financial status). Provisions for pensions are obtained after the actuarial profit and loss not yet recognized are accounted for.

| € million | Germany 2007 | Foreign 2007 | **Total 2007** | Total 2006 |
|---|---|---|---|---|
| **Development of defined benefit obligation (DBO)** | | | | |
| DBO Jan. 1 | 1,492.2 | 113.4 | **1,605.6** | 1,626.0 |
| Service cost | 39.1 | 3.3 | **42.4** | 46.1 |
| Interest cost | 66.0 | 5.7 | **71.7** | 68.8 |
| Contributions by employees | 9.4 | 0.2 | **9.6** | 9.6 |
| Actual profit (–) and loss (+) | –175.3 | 2.1 | **–173.2** | –80.0 |
| Pension payments | –52.3 | –3.4 | **–55.7** | –53.1 |
| Changes in scope of consolidation | 0.0 | 0.0 | **0.0** | –0.1 |
| Exchange rate differences | 0.0 | –11.5 | **–11.5** | –12.4 |
| Other changes | 0.0 | –0.7 | **–0.7** | 0.7 |
| **DBO Dec. 31** | **1,379.1** | **109.1** | **1,488.2** | **1,605.6** |
| **Change in fund assets** | | | | |
| Fund assets at present value Jan. 1 | 1,194.6 | 84.4 | **1,279.0** | 1,208.1 |
| Actual return on fund assets | 35.2 | 6.1 | **41.3** | 84.4 |
| Employer contributions | 9.4 | 3.8 | **13.2** | 23.9 |
| Contributions by eligible parties | 9.4 | 0.2 | **9.6** | 9.6 |
| Pension payments | –38.7 | –3.1 | **–41.8** | –39.7 |
| Exchange rate differences | 0.0 | –8.9 | **–8.9** | –7.3 |
| Other changes | 0.0 | –0.3 | **–0.3** | 0.0 |
| **Fund assets at present value Dec. 31** | **1,209.9** | **82.2** | **1,292.1** | **1,279.0** |
| **Financial status** | **169.2** | **26.9** | **196.1** | **326.6** |
| Unrecognized actuarial profit / loss | –27.6 | –1.0 | **–28.6** | –61.7 |
| “Asset ceiling” as per IAS 19.58 et seq. | 200.2 | 0.0 | **200.2** | 88.3 |
| Similar benefits | 0.8 | 0.7 | **1.5** | 1.6 |
| **Accruals for pensions** | **342.6** | **26.6** | **369.2** | **354.8** |
| Provisions financed DBO to the sum of | 369.4 | 26.9 | **396.3** | 402.2 |
| Thereof German-based companies in 2006 | | | | 386.0 |
| Thereof foreign subsidiaries in 2006 | | | | 16.2 |

Pension costs incurred by defined benefit plans and the total of all pension expenses are made up as follows:

| € million | 2007 | 2006 |
|---|---|---|
| Service cost | –42.2 | –46.1 |
| Interest cost | –71.7 | –68.8 |
| Expected return on fund assets | 76.6 | 74.0 |
| Amortization of actuarial profit and loss | 105.7 | 70.6 |
| "Asset Ceiling" effect | –111.9 | –73.7 |
| Plan curtailments and settlements | –0.6 | –0.7 |
| Other | –0.4 | –0.4 |
| **Expenses from defined benefit plans** | **–44.5** | **–45.1** |
| Expenses from defined contribution plans | –1.3 | –1.4 |
| Other pension expenses | –2.3 | –1.2 |
| **Pensions expenses** | **–48.1** | **–47.7** |
| Contributions to state pension plans | –51.3 | –51.6 |
| **Expenses for post-employment benefits** | **–99.4** | **–99.3** |
| Thereof included in payroll expenses (functional costs) | –104.3 | –103.6 |
| Thereof included in other financial result | 4.9 | 4.3 |

| € million | 2007 | 2006 | 2005 |
|---|---|---|---|
| Experience-based adjustments to DBO amount to | 12.6 | –12.3 | –14.7 |
| Experience-based adjustments to plan assets amount to | 34.3 | –7.1 | –81.8 |

We expect contributions to the plan assets to amount to €10.5 million in 2008.

COMPOSITION OF THE PLAN ASSETS

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| in % | Total | Thereof third parties | Thereof Group[1] | Total | Thereof third parties | Thereof Group[1] |
| Real estate | 16.8 | 11.6 | 5.2 | 17.1 | 11.8 | 5.3 |
| Loans / fixed interest securities | 38.5 | 38.5 | 0.0 | 39.1 | 39.1 | 0.0 |
| Shares / funds | 38.8 | 38.8 | 0.0 | 40.7 | 40.7 | 0.0 |
| Cash and cash equivalents | 5.9 | 5.9 | 0.0 | 3.1 | 3.1 | 0.0 |
| **Total** | **100.0** | **94.8** | **5.2** | 100.0 | 94.7 | 5.3 |

[1] Items posted here are used by Group companies.

14

### 14 OTHER PROVISIONS / TAX PROVISIONS

| € million | 2007 Total | 2007 Thereof non-current | 2007 Thereof current | 2006 Total | 2006 Thereof non-current | 2006 Thereof current |
|---|---|---|---|---|---|---|
| Personnel | 101.7 | 97.1 | 4.6 | 97.4 | 92.9 | 4.5 |
| Sales / purchasing | 4.6 | 0.0 | 4.6 | 6.3 | 0.0 | 6.3 |
| Environmental protection | 51.2 | 51.2 | 0.0 | 47.8 | 45.0 | 2.8 |
| Restructuring | 0.8 | 0.8 | 0.0 | 1.1 | 0.3 | 0.8 |
| Other | 23.0 | 17.7 | 5.3 | 10.4 | 0.0 | 10.4 |
| **Other provisions** | **181.3** | **166.8** | **14.5** | 163.0 | 138.2 | 24.8 |
| **Tax provisions** | **101.1** | **78.2** | **22.9** | 69.4 | 50.8 | 18.6 |

#### TAX PROVISIONS
Tax provisions contain amounts for tax obligations (from regular income tax), tax audits and legal action. Existing long-term tax provisions will be largely used up over the next three to five years.

#### PERSONNEL
These provisions contain obligations for anniversary payments, other deferrals, and provisions relating to early retirement and semi-retirement schemes. Non-current provisions for anniversary payments flow out continuously. The provision for semi-retirement schemes will be exhausted by 2015 at the latest; the outflow will be continuous until that date.

#### SALES / PURCHASING PROVISIONS
These provisions cover obligations from warranty and product liability as well as rebates, bonuses or other price reductions, commissions for sales agents, and risks of possible deficiency.

#### ENVIRONMENTAL PROTECTION
These provisions are made for expected obligations concerning site contamination, water-pollution control, recultivation of landfills, clean-up of contaminated storage and production sites, and similar environmental measures. These provisions also include environmental protection charges imposed by the government. Most non-current provisions for environmental protection will be used over a period of ten to twenty years.

#### RESTRUCTURING PROVISIONS
These provisions comprise severance payments to employees who leave, expected site-closure expenses, obligations for demolition and similar charges.

## SUNDRY PROVISIONS AND ACCRUALS

These provisions relate to a number of identifiable individual risks and contingencies (e.g. damages and legal risks).

### OTHER PROVISIONS AND ACCRUALS

| € million | Jan. 1, 2007 | Utilization | Reversal | Addition/ interest effect | Exchange rate differences | Scope of consolidation/ other | **Dec. 31, 2007** |
|---|---|---|---|---|---|---|---|
| Personnel | 97.4 | –7.1 | –0.3 | 11.9 | –0.2 | 0.0 | **101.7** |
| Sales / purchasing | 6.3 | –5.7 | –1.0 | 5.1 | –0.1 | 0.0 | **4.6** |
| Environmental protection | 47.8 | –3.5 | –4.2 | 11.6 | –0.5 | 0.0 | **51.2** |
| Restructuring | 1.1 | –0.3 | 0.0 | 0.0 | 0.0 | 0.0 | **0.8** |
| Other | 10.4 | –5.6 | –1.9 | 20.2 | –0.1 | 0.0 | **23.0** |
| | **163.0** | **–22.2** | **–7.4** | **48.8** | **–0.9** | **0.0** | **181.3** |
| Thereof interest effect | | | | 1.9 | | | |

The interest effect is essentially accounted for by environmental-protection provisions and accruals.

### TAX PROVISIONS

| € million | Jan. 1, 2007 | Utilization | Reversal | Addition/ interest effect | Exchange rate differences | Scope of consolidation other | **Dec. 31, 2007** |
|---|---|---|---|---|---|---|---|
| Taxes | 69.4 | –11.0 | –2.0 | 46.0 | –1.3 | 0.0 | **101.1** |
| Thereof interest effect | | | | 0.0 | | | |

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## 15 FINANCIAL LIABILITIES

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| € million | Total | Thereof non-current | Thereof current | Total | Thereof non-current | Thereof current |
| Bank liabilities | 131.3 | 102.7 | 28.6 | 312.6 | 244.5 | 68.1 |
| Thereof > 5 years | | 0.0 | | | 42.5 | |
| Liabilities due to subsidiaries | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 |
| Thereof > 5 years | | 0.0 | | | 0.0 | |
| Liabilities from leasing arrangements[1] | 67.4 | 56.2 | 11.2 | 77.9 | 67.4 | 10.5 |
| Thereof > 5 years | | 16.7 | | | 20.9 | |
| Loans from employees[2] | 10.6 | 5.2 | 5.4 | 15.1 | 10.0 | 5.1 |
| Thereof > 5 years | | 0.0 | | | 0.0 | |
| Other financial liabilities | 8.5 | 0.1 | 8.4 | 4.1 | 0.0 | 4.1 |
| Thereof > 5 years | | 0.0 | | | 0.0 | |
| | 217.8 | 164.2 | 53.6 | 409.9 | 321.9 | 88.0 |
| Thereof > 5 years | | 16.7 | | | 63.4 | |

[1] Liabilities from leasing arrangements mainly include liabilities relating to leasing the headquarters building in Munich and the Burghausen plant's CCGT power station.
[2] These are loans made by employees to Wacker Chemie AG which promote employee wealth creation.

No material security exists for financial liabilities. If the Group cannot fulfill its repayment requirements regarding loans from employees, there are bank guarantees in place to secure employees' credits. Some bank liabilities are fixed-interest and others variable-rate; loans from employees have fixed percentage rates. Some of the bank liabilities were granted provided that certain covenants are complied with.

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## 16 LIABILITIES

| € million | Total | Thereof non-current | 2007 Thereof current | Total | Thereof non-current | 2006 Thereof current |
|---|---|---|---|---|---|---|
| **Tax liabilities** | **13.4** | **0.0** | **13.4** | 19.7 | 0.0 | 19.7 |
| Thereof > 5 years | | 0.0 | | | 0.0 | |
| **Trade liabilities** | **241.8** | **0.0** | **241.8** | 205.9 | 0.0 | 205.9 |
| Thereof > 5 years | | 0.0 | | | 0.0 | |
| Liabilities due to associated companies | 3.3 | 0.0 | 3.3 | 3.2 | 0.0 | 3.2 |
| Social security liabilities | 1.5 | 0.0 | 1.5 | 5.6 | 0.0 | 5.6 |
| Payroll liabilities | 2.5 | 0.0 | 2.5 | 2.7 | 0.0 | 2.7 |
| Profit-sharing and other bonuses | 124.0 | 0.0 | 124.0 | 97.6 | 0.0 | 97.6 |
| Other personnel liabilities | 28.6 | 0.0 | 28.6 | 26.2 | 0.0 | 26.2 |
| Derivatives | 9.4 | 3.0 | 6.4 | 1.0 | 0.1 | 0.9 |
| Deferred charges | 0.2 | 0.1 | 0.1 | 0.5 | 0.1 | 0.4 |
| Advance payments received | 665.7 | 604.7 | 61.0 | 252.5 | 217.8 | 34.7 |
| Sundry liabilities | 19.7 | 1.7 | 18.0 | 15.0 | 3.4 | 11.6 |
| **Other liabilities** | **854.9** | **609.5** | **245.4** | 404.3 | 221.4 | 182.9 |
| Thereof > 5 years | | 312.8 | | | 87.4 | |

Aside from amounts for which Group companies are liable to pay tax, tax liabilities also include taxes paid on behalf of third parties. In particular, social security liabilities refer to social security contributions yet to be paid. Other payroll liabilities especially include vacation and flextime credits, and other HR-related liabilities.

The advance payments are mainly connected to future polysilicon deliveries enabled by capacity expansions at Burghausen’s polysilicon facilities.

## 17 CONTINGENCIES / OTHER OBLIGATIONS

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Contingencies are possible obligations that are based on past events and whose existence is first confirmed by the occurrence of one or more uncertain future events that are, however, beyond the Group's influence. Present obligations can, moreover, represent contingencies if the likelihood of an outflow of resources is not strong enough to justify the recognition of a provision and/or the amount of the obligation cannot be estimated with sufficient reliability. The values assigned to contingencies correspond to the extent of liability that exists on the balance sheet date.

The contingent liabilities and other obligations below are nominal values.

| € million | 2007 | 2006 |
|---|---|---|
| Guarantees / obligations to make extra contributions | 34.2 | 0.2 |

As of December 31, 2007, there were contingencies of €34.0 million that concern an obligation to make an additional contribution in connection with setting up our joint venture Siltronic Samsung Wafer Pte. Ltd. in Singapore.

Wacker Chemie AG has a finance lease for its Munich-based headquarters building, which is used by the Group. The agreement with the lessor is scheduled to lapse in 2012. Thereafter, WACKER's Pension Fund or a company named by the Fund shall have the right to acquire the building at a price that has already been fixed.

Wacker Chemie AG has also capitalized a finance lease for the CCGT power station at its Burghausen site. The lease is due to end in 2016 at the latest, but can be terminated prematurely. In either case, WACKER reserves the right to acquire the power station at a book-value-oriented purchase price, as defined by German commercial law. Should WACKER exercise said right, it shall undertake not to sell the power station to a third party for five years.

| | 2007 | | 2006 | |
|---|---|---|---|---|
| € million | Nominal value | Present value | Nominal value | Present value |
| Minimum leasing payment within a year | 14.7 | 11.2 | 14.6 | 10.5 |
| Minimum leasing payment between one and five years | 47.1 | 39.5 | 56.6 | 46.5 |
| Minimum leasing payment of over five years | 18.4 | 16.7 | 23.6 | 20.9 |
| | 80.2 | 67.4 | 94.8 | 77.9 |
| Minimum payments from subtenancies are expected to total | 3.3 | | 3.2 | |

Operating leases are particularly used for motor vehicles and IT equipment. These leases generally last between three and five years. Tenancy agreements for office space etc. last for much longer.

| € million | 2007 | 2006 |
|---|---|---|
| **Obligations from rent and operating leases** | | |
| Due within one year | 8.6 | 8.1 |
| Due between one and five years | 12.7 | 13.2 |
| Due after five years or more | 5.4 | 6.0 |
| | 26.7 | 27.3 |
| Leasing payments based on operating leases | 8.5 | 8.4 |
| Obligations from orders for planned capital expenditures (contractual commitments) | 269.9 | 116.0 |
| Obligations related to subsequent purchase price payments | 1.2 | 2.5 |

Wacker Chemie AG has signed an agreement with joint-venture partners (Dow Corning and Samsung) to make investments in coming years and to provide the necessary equity funds and/or loans. On the balance sheet date, the WACKER Group expects further contractual contributions of some US$40 million to equity. Additionally, the Group will issue a guarantee for borrowed funds totaling some US$200 million.

The Group receives government subsidies for investment measures. These subsidies must meet the condition that a certain number of jobs should be created or maintained at certain sites. If these contractual promises are not fulfilled, any funding received must be paid back either in full or in part. The Group's contractual promises are subject to a time limit. If certain conditions arise, Wacker Chemie AG has undertaken to purchase the non-current assets of Wacker Burghausen Fußball GmbH at a price of €4.6 million. Said purchase commitment only remains valid for a limited period.

To secure the Burghausen plant's supply of the raw material ethylene, Wacker Chemie AG purchased a share in EPS Ethylen-Pipeline-Süd GmbH & Co. KG, Munich. As a result, Wacker Chemie AG has undertaken to invest €4.4 million, which is due in 2008.

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## 18 OTHER

| € million | 2007 | 2006 |
|---|---|---|
| Expenses for material | –1,320.5 | –1,181.2 |
| Personnel expenses | | |
| Wages and salaries | –824.6 | –776.3 |
| Social benefits and social aid funds | –137.3 | –134.1 |
| State pension contributions | 51.3 | 51.6 |
| Social insurance contributions | –86.0 | –82.5 |
| Pension-plan expense | –53.0 | –52.0 |
| State pension contributions | –51.3 | –51.6 |
| Expenses for post-employment benefits | –104.3 | –103.6 |
| | –1,014.9 | –962.4 |

Social benefits are mainly the employer's share of social security and trade association contributions. Pension-plan expenses are mainly pension payments and transfers to pension provisions; related interest is shown in the financial result. Amounts transferred to external pension funds are also included in pension-plan expenses.

### EXPENSES FOR AUDITOR FEES

| € million | 2007 | 2006 |
|---|---|---|
| Audit | 1.0 | 0.7 |
| Other certification services | 0.3 | 1.0 |
| Tax consultancy | 0.2 | 0.0 |
| | 1.5 | 1.7 |

Other certification services in the prior year mainly included those rendered during the IPO. Additionally, the costs of interim reviews are covered.

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## 19 EARNINGS PER SHARE / DIVIDEND

| | | 2007 | 2006 |
|---|---|---|---|
| Average number of outstanding shares | Units | 49,677,983 | 48,207,178 |
| Number of shares outstanding at year end | Units | 49,677,983 | 49,677,983 |
| Normal dividend per share entitled to a dividend | € | 2.25 | 2.00 |
| Special bonus due to IPO | € | 0.00 | 0.50 |
| Special bonus due to best-ever financial year | € | 0.75 | 0.00 |
| **Dividend per share entitled to a dividend** | € | **3.00** | **2.50** |
| Net income | € million | 422.0 | 311.3 |
| Earnings due to shares | € million | 422.0 | 311.3 |
| Earnings per share (average) | € | 8.49 | 6.46 |
| Earnings per share (reporting day) | € | 8.49 | 6.27 |

There were no diluted earnings per share in the year under review or in the prior year.

The dividend payout for fiscal 2006 amounted to €124.2 million, or €2.50 per dividend-bearing share.

The Executive Board of Wacker Chemie AG proposed the aforementioned dividend for fiscal 2007. The proposed dividend relates solely to shares entitled to a dividend, i.e. excluding any treasury shares. It is incumbent on Wacker Chemie AG's shareholder meeting to accept or reject the proposal.

Subject to shareholder approval, an amount of €149,033,949 will be paid out for the total number of 49,677,983 non-par value shares outstanding.

## 20 FINANCIAL INSTRUMENTS



### PRIMARY FINANCIAL INSTRUMENTS

CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES
(CLASSIFIED BY CATEGORY, AS PER IAS 39)

| € million | 2007 | 2006 |
|---|---|---|
| **Financial Assets** | | |
| Securities held to maturity | 238.6 | 0.0 |
| Loans and receivables | 463.5 | 478.1 |
| Financial assets available for sale | | |
| Cash and cash equivalents without securities held to maturity | 127.9 | 42.9 |
| Other financial assets available for sale | 247.3 | 233.3 |
| Derivative financial instruments | 57.7 | 35.5 |
| | 1,135.0 | 789.8 |
| **Financial liabilities** | | |
| Financial liabilities recognized at amortized cost | 250.4 | 441.7 |
| Trade payables | 241.8 | 205.9 |
| Other liabilities[1] | 858.7 | 422.5 |
| Derivative financial instruments | 9.4 | 1.0 |
| | 1,360.3 | 1,071.1 |

[1] Other liabilities include all liabilities shown in the balance-sheet items "Other Liabilities" and "Tax Liabilities" except for derivative financial instruments and deferred charges.

CARRYING AMOUNTS AND MARKET VALUES OF FINANCIAL ASSETS AND LIABILITIES
THAT ARE MEASURED AT COST OR AMORTIZED COST

| | 2007 | | 2006 | |
|---|---|---|---|---|
| € million | Carrying amount | Market value | Carrying amount | Market value |
| **Financial assets** | | | | |
| Investments[1] | 68.6 | – | 62.8 | – |
| Trade receivables | 461.4 | 461.4 | 475.7 | 475.7 |
| Other receivables and tax receivables[2] | 180.8 | 180.4 | 172.9 | 173.2 |
| Cash and cash equivalents (liquid assets) | 366.5 | 366.5 | 42.9 | 42.9 |
| | 1,077.3 | 1,008.3 | 754.3 | 691.8 |

| € million | Carrying amount 2007 | Market value 2007 | Carrying amount 2006 | Market value 2006 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Debt | 250.4 | 250.4 | 441.7 | 441.7 |
| Trade payables | 241.8 | 241.8 | 205.9 | 205.9 |
| Other liabilities | 858.7 | 858.7 | 422.5 | 422.5 |
| | 1,350.9 | 1,350.9 | 1,070.1 | 1,070.1 |

[1] This item contains financial assets available for sale whose market value cannot be reliably calculated and which have been recognized at cost. The item, together with non-current loans, is shown in the balance sheet under “Non-Current Financial Assets.”
[2] Other receivables and tax receivables totaling €2.1 million (2006: €2.4 million) are shown in the balance sheet under non-current financial assets. Additionally, €102.4 million (2006: €94.1 million) are shown under “Other Assets,” and €76.3 million (2006: €76.4 million) under “Tax Receivables.”

Interest expenses contain €13.7 million (2006: €28.1 million) from financial liabilities recognized at amortized cost. No profits were generated by derecognition of those financial instruments. Loans and receivables or financial liabilities at amortized cost in a foreign currency produced net profits of €24.5 million (2006: €19.8 million) and net losses of €-43.9 million (2006: €-41.6 million). They are listed under other operating income and expenses. Net profits from financial instruments available for sale stem mainly from investment income. Additionally, other operating income and expenses include €-3.4 million (2006: €-4.0 million) from the currency translation of cash and cash equivalents. Derivative financial instruments whose change in market value is included in the income statement led to net earnings of €32.7 million (2006: €5.2 million). €23.2 million (2006: €8.4 million) thereof relate to derivatives from hedge accounting, listed under other operating income and expenses. Financial assets and liabilities did not undergo any major impairments. Neither in the year under review, nor in the prior year, was there any redistribution of financial assets between those recognized at amortized cost and those recognized at market value or vice versa.

## DERIVATE FINANCIAL INSTRUMENTS

WACKER is exposed to exchange, interest and raw materials price risks in the normal course of its business. The raw materials price risks that are hedged against stem principally from precious metals (platinum, gold, palladium) which are used as catalysts or for other purposes in the production process.

In those instances where WACKER hedges against these risks, it uses derivative financial instruments and in particular currency option and foreign exchange contracts, foreign exchange and interest rate swaps, and interest rate caps. Derivatives are used only if they are backed by positions, cash deposits and funding or scheduled transactions arising from operations (underlying transaction); the scheduled transactions also include anticipated but not yet invoiced sales in foreign currency.

Foreign exchange hedging is performed predominantly for the US dollar, the Japanese yen and the Singapore dollar. In the case of foreign exchange hedging in the financial sector, the maturities of the receivables/liabilities are taken into account. Interest rate hedging is performed predominantly for the euro and the US dollar; the maturities of the underlying transactions are the focus of attention. Operational hedging in the sphere of foreign exchange relates to the receivables and liabilities already recognized, generally adopting time horizons of between three and four months; strategic hedging's time horizon is between four and a maximum of 27 months. The hedging of cash flows influences the income statement at the time of sales realization. Usually, cash inflows are recorded shortly afterward, depending on the payment period. As well as receivables and liabilities in respect of third parties, intra-Group financial receivables are hedged.

WACKER is exposed to a credit risk where derivatives have a positive market value and counterparties to a contract are unable to render performance. To restrict the exposure, transactions are conducted only within defined limits and with partners of very good creditworthiness. To enable risk management to be performed efficiently, the market risks within the Group are controlled centrally. The concluding and handling of transactions comply with internal guidelines and are subject to controls, taking account of the division of functions.

Market values are calculated on the maturity repurchase values of the derivatives at balance sheet date. They are calculated on the basis of quoted prices or using standard accounting methods.

The derivatives are measured at market value irrespective of their stated purpose; they are reported in the balance sheet under other assets and other liabilities. Where permissible, we apply strategic hedge accounting for hedging currency exchange risks from future foreign exchange positions. In such instances, the changes in market value of foreign exchange contracts and the changes in the intrinsic value of currency options are recognized under equity, with no effect on net income until the underlying transaction takes place. The changes in the fair values of the derivatives are recognized in the income statement.

Depending on the nature of the underlying transaction, they are booked to income either under operating profit or, in the case of hedging of financial liabilities, under the interest result.

| | 2007 | | 2006 | |
|---|---|---|---|---|
| € million | Nominal values | Market values | Nominal values | Market values |
| Foreign exchange derivatives | 1,450.9 | 67.0 | 1,038.4 | 34.3 |
| Interest rate derivatives | 50.0 | 0.0 | 190.0 | 0.2 |
| Other derivates | 5.9 | 0.1 | 5.1 | 0.0 |

Market values totaling €41.1 million (2006: €18.7 million) relate to derivative financial instruments as part of hedge accounting.

The increase in the nominal values of foreign exchange derivatives is mainly due to two facts – higher hedging rate and an increase in the underlying transaction planned. The currency option transactions still open at the end of 2007 will mature in the course of the subsequent fiscal years (2008 – 2010). The currency option volumes at the end of 2007 were US$577 million (puts) and ¥16.3 billion (puts). In addition, there are foreign exchange contracts of US$855 million and ¥8.4 billion.

A corresponding cross-currency swap was used as a foreign-exchange hedge for one loan of US$70 million. It matures in 2010.

## DETAILS ON THE TYPE AND EXTENT OF RISKS

The market, supply and financial risks relating to WACKER's products and services are described in detail in the management report. The Executive Board regularly receives analyses on the extent of these risks. In particular, analyses focus on the potential impact of raw-material price risks, foreign exchange risks and interest risks on EBITDA and the interest result.

### Foreign Exchange Risks

The evaluation of potential hedging-related risks is based on major US-dollar income and payments. Said income is understood to be all sales invoiced in US dollars, while said payments are all US-dollar purchases, as well as all site-specific costs reported in US dollars. In addition to direct US-dollar income and payments, the evaluation of potential risks also includes indirect US-dollar impact of the main raw materials (methanol and natural gas). A 1-% rise in the exchange rate of the euro against the US dollar would depress EBITDA by €6.6 million (2006: €7.1 million). By comparison, exchange rate increases of the euro compared to the SGD and JPY only have a minor impact.

### Interest Risk

Interest risks mainly relate to financial debt and interest-bearing assets. Every year, the Executive Board decides on the mix of fixed and variable-interest net financial debt. The company's possible use of interest derivatives depends on the structure at hand. If current rates had been 100 base points higher (lower) on average, the interest result would have increased (dropped) by €0.8 million (2006: €-3.3 million).

### Liquidity Risk

Liquidity risk means the risk that WACKER may not be able to adequately meet its financial obligations. To limit this risk, WACKER keeps liquid reserves in the form of current assets and credit lines. WACKER has concluded agreements with a number of banks for long-term syndicated loans and bilateral loans. The total volume of these loans is significantly higher than the financial liabilities planned.

### Raw-Material Price Risk

It is impossible to rule out risks to the company's raw-material supply, since it might become insufficient if several factors coincided to negatively impact natural gas or ethylene supplies. Ethlyene-related risks, however, will be substantially reduced by Germany's EPS pipeline, which is currently under construction. Generally speaking, potential raw-material price increases pose a risk to results. A 1-% rise would depress EBITDA by €6.8 million (2006: €5.9 million).

## 21 EXPLANATIONS ON THE STATEMENT OF CASH FLOWS

The operating cash flow is calculated by the indirect method. The indirect calculation adjusts the relevant changes in balance-sheet items to remove any exchange-rate effects or changes in scope of consolidation. The changes to the relevant balance-sheet items therefore cannot be reconciled with the corresponding values based on the published consolidated balance sheets. The cash flow from investments shows the actual outflow of funds. The associated values therefore cannot be reconciled with the additions to assets in the consolidated balance sheet either.

If subsidiaries or business activities are acquired or sold, the influences therefrom are shown as separate line items in the statement of cash flows.

The Group is financed mainly by bank loans granted in the form of loan commitments. Within the defined loan-commitment approval limits, our use of credit may be subject to considerable fluctuations both in a year and over several years.

These fluctuations cannot be interpreted as entering into and/or settling financial liabilities; consequently, only the changes in financial liabilities are shown in the statement of cash flows. Significant non-pagatory transactions in the statement of cash flows should be attributed to the segment “other” both in the year under review and in the prior-year period.

Net cash flow is the total cash flow from operations and investments.

Please refer to Note 11 for details on the composition of cash and cash equivalents (liquid assets).

CONTAINED IN THE CASH FLOW FROM OPERATING ACTIVITIES ARE:

| € million | 2007 | 2006 |
|---|---|---|
| Tax payments | –166.7 | –124.9 |
| Interest payments | –16.9 | –34.1 |
| Interest income | 14.6 | 9.9 |
| Dividends received | 8.8 | 7.7 |

## 22 EXPLANATIONS ON SEGMENT INFORMATION

The section on segment information defines WACKER Group activities primarily by business division and secondarily by region. The distinction takes account of internal control functions and reporting as well as the different risk and income structures within the business divisions. The management report describes WACKER's primary segments in detail. WACKER's secondary segments are defined in the section on segments by region. The registered office determines the secondary segment to which a consolidated company is assigned.

Any activities not assigned to a primary segment are shown as "other." Results from currency translation which cannot be assigned to a segment are also shown here.

Balance-sheet and income statement items are assigned to the primary segments in accordance with commercial discretion. Assets used jointly by several segments are shown generally under "other" unless they can be assigned clearly to a particular segment. A similar approach is adopted for borrowed funds.

Segment information is always based on the same disclosure and measurement methods as the consolidated financial statements. Receivables, liabilities, accruals, income, expenses and results between the segments are eliminated in consolidation.

### SEGMENT INFORMATION WAS OBTAINED AS FOLLOWS:

- Internal sales designate sales generated between the segments. They are billed mainly on the basis of market prices or planned direct costs.
- EBIT corresponds to operating income plus or minus income from investments in joint ventures and associates and other income from participations.
- The section on financial results shows what makes up other income from participations.
- Asset additions refer to intangible assets, property, plant and equipment, and investment property, as well as financial assets.
- Depreciation and amortization refers to intangible assets, property, plant and equipment, and investment property as well as financial assets.
- Assets include all assets on the balance sheet. Lendings, cash and cash equivalents and deferred taxes are always allocated to the segment "other."
- All borrowed funds are shown as liabilities. The Group's financial liabilities are broken down in proportion to segment assets.
- In Segments by Region, we have listed assets, liabilities and asset additions according to the relevant Group company's country of incorporation.

- Net assets correspond to equity.
- The Siltronic segment prepares its own consolidated financial statements. The figures in these statements are included largely unaltered in the Group’s segment information. The breakdown rules (e.g. financial liabilities) between the other segments therefore do not apply to Siltronic.

## 23 KEY GROUP COMPANIES



### I. SUBSIDIARIES

| in % | Capital share |
|---|---|
| **Germany** | |
| DRAWIN Vertriebs-GmbH, Ottobrunn | 100.00 |
| Siltronic AG, Munich | 100.00 |
| Wacker-Chemie Holdings GmbH & Co. KG, Burghausen | 100.00 |
| Wacker Polymer Systems GmbH & Co. KG, Burghausen | 80.00 |
| Wacker-Chemie Dritte Venture GmbH, Munich | 100.00 |
| Wacker Biotech GmbH, Jena | 100.00 |
| **Europe (excluding Germany)** | |
| Wacker Chimie S.A.S., Lyon (France) | 100.00 |
| Wacker Chemicals Ltd., Egham, Surrey (UK) | 100.00 |
| Wacker-Chemie Italia S.r.L., Peschiera Borromeo / Milan (Italy) | 100.00 |
| Siltronic Holding International B.V., Krommenie / Amsterdam (NL) | 100.00 |
| Wacker-Chemie Benelux B.V., Krommenie / Amsterdam (NL) | 100.00 |
| Wacker-Chemie S.r.o., Prague (Czech Republic) | 100.00 |
| **The Americas** | |
| Wacker Chemical Corp., Adrian, Michigan (USA) | 100.00 |
| Siltronic Corp., Portland, Oregon (USA) | 100.00 |
| Wacker Polymer Systems L.P., Allentown, Pennsylvania (USA) | 80.00 |
| Wacker Química do Brasil Ltda., São Paulo (Brazil) | 100.00 |
| **Asia** | |
| Siltronic Singapore Pte. Ltd., Singapore (Singapore) | 100.00 |
| Siltronic Japan Corp., Hikari (Japan) | 100.00 |
| Wacker Chemicals Hong Kong Ltd., Hong Kong (China) | 100.00 |
| Wacker Chemicals China Ltd., Hong Kong (China) | 100.00 |
| Wacker Metroark Chemicals Pvt. Ltd., Parganas (India) | 51.00 |
| Wacker Polymer Systems (ZJG) Co. Ltd., Zhangjiagang (China) | 80.00 |
| Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi (China) | 80.00 |
| Wacker Chemicals (Zhangjiagang) Co. Ltd., Zhangjiagang (China) | 100.00 |
| Wacker Chemicals (China) Company Ltd. (Holding), Shanghai (China) | 100.00 |

## II. COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

| in % | Capital share |
|---|---|
| Air Products Korea Inc., Seoul (Korea) | 35.00 |
| Wacker Asahi Kasei Silicone Co. Ltd., Tokyo (Japan) | 50.00 |
| Dow Corning (ZJG) Holding Co. Private Ltd., Singapore (Singapore) | 25.00 |
| Wacker Dymatic (Shunde) Co. Ltd., Guangdong (China) | 50.00 |
| Planar Solutions L.L.C., Adrian, Michigan (USA) | 50.00 |
| Siltronic Samsung Wafer Pte. Ltd., Singapore (Singapore) | 50.00 |
| WACKER SCHOTT Solar GmbH, Jena (Germany) | 50.00 |

Ownership of shares is listed separately as per Section 313, Subsection 4 of the German Commercial Code (HGB).

## KEY FIGURES FOR JOINT VENTURES AND ASSOCIATED COMPANIES

| | 2007 | | 2006 | |
|---|---|---|---|---|
| € million | Total | WACKER share | Total | WACKER share |
| Sales | 113.2 | 52.6 | 105.8 | 49.1 |
| Operating income | –30.8 | –10.0 | 5.8 | 2.9 |
| Net income | –34.4 | –10.9 | 4.9 | 2.4 |
| Non-current assets | 684.1 | 280.4 | 216.1 | 73.9 |
| Current assets | 152.1 | 70.0 | 138.9 | 66.3 |
| | 836.2 | 350.4 | 355.0 | 140.2 |
| Equity | 418.4 | 195.1 | 285.7 | 109.6 |
| Non-current liabilities | 227.2 | 85.8 | 20.6 | 7.6 |
| Current liabilities | 190.6 | 69.5 | 48.7 | 23.0 |
| | 836.2 | 350.4 | 355.0 | 140.2 |

## 24 RELATED PARTY DISCLOSURES

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In accordance with IAS 24, parties that control, or are controlled by, Wacker Chemie AG must be named unless they are already included in Wacker Chemie AG's consolidated financial statements as a consolidated company. Control exists when a shareholder has more than half the voting rights in Wacker Chemie AG or, based on provisions in the articles of association or on contractual arrangements, is able to control 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 duties under IAS 24 only in respect of the business relations with Wacker Chemie AG's main shareholders and Executive and Supervisory Board members.

The benefit relations between Wacker Chemie AG and its majority shareholder, Dr. Alexander Wacker Familiengesellschaft mbH, are only of secondary 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 other key management personnel or with companies on whose executive or supervisory committees these parties sit. This likewise applies to close family members of the aforementioned parties.

Dr. Alexander Wacker Familiengesellschaft mbH, Munich, informed Wacker Chemie AG on June 7, 2006, that it holds over 50 % in Wacker Chemie AG's dividend-bearing shares.

Blue Elephant Holding GmbH, Pöcking, informed Wacker Chemie AG on April 12, 2006, that it holds over 10 % of Wacker Chemie AG's dividend-bearing shares.

Artisan Partners Limited Partnerships, Wisconsin (USA), informed Wacker Chemie AG on September 28, 2007, that it holds over 5 % in Wacker Chemie AG's dividend-bearing shares.

Additionally, trade is conducted between some Group companies and their associated companies in the normal course of business. Business transactions are conducted at normal market terms and conditions. Receivables and liabilities in respect of associated companies are stated in Notes 10 and 16 of the consolidated financial statements. In the year under review, associated companies were charged €72.1 million (2006: €37.3 million) for sales, license revenue and administrative fees. In turn, the associated companies submitted invoices for material purchases and commissions to the amount of €1.1 million (2006: €0.3 million).

### COMPENSATION OF SUPERVISORY AND EXECUTIVE BOARDS

| in € | Fixed compen-sation | Variable compen-sation | Pensions/ service cost | Total |
|---|---|---|---|---|
| Executive Board compensation 2007 | 2,562,100 | 4,562,500 | 1,079,563 | 8,204,163 |
| Executive Board compensation 2006 | 2,396,271 | 3,950,000 | 1,083,072 | 7,429,343 |
| Pension payments for active Executive Board members 2007 | | | | 12,357,586 |
| Pension payments for active Executive Board members 2006 | | | | 11,417,558 |
| Pension payments to former members of the Executive Board and their dependants 2007 | | | | 8,639,697 |
| Pension payments to former members of the Executive Board and their dependants 2006 | | | | 8,562,266 |
| Supervisory Board compensation 2007 | 507,000 | 393,750 | | 900,750 |
| Supervisory Board compensation 2006 | 359,924 | 167,924 | | 527,848 |

Detailed information about Executive Board compensation is contained in the Compensation Report. The Compensation Report is part of the management report. German commercial law requires the inclusion of this data in the consolidated financial statements.

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

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group 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 principle opportunities and risks associated and risks associated with the expected development of the Group.

Munich, February 21, 2008
Wacker Chemie AG

Peter-Alexander Wacker Rudolf Staudigl

Joachim Rauhut Auguste Willems

# SUPERVISORY BOARD

### DR. KARL HEINZ WEISS [1, 2, 3]

Chairman
Munich
Attorney

Member of Supervisory Board / Advisory Council
- Giesecke & Devrient GmbH
- Carl Hanser GmbH & Co. KG

### ANTON EISENACKER * [1, 2, 3]

Deputy Chairman
Perach
Certified Chemical Foreman

### PETER ÁLDOZÓ *

Burghausen
HR Specialist

### DR. WERNER BIEBL

Munich
State Attorney General (retired)

### GERTRUD EBERTH-HELDRICH

Munich
Attorney

### MARKO FARTELJ *

Kirchdorf
Machine Operator

### UWE FRITZ * [1]

Altötting
District Head of the Industrial Union IG Bergbau, Chemie, Energie – Altötting

Member of Supervisory Board
- Siltronic AG **

### EDUARD-HARALD KLEIN *

Neuötting
Operator

### MANFRED KÖPPL *

Kirchdorf
Industrial Mechanic

### FRANZ-JOSEF KORTÜM [1, 2]

Stockdorf

Chairman of Board of Management
- Webasto AG

Member of Supervisory Board / Advisory Council
- Brose Fahrzeugteile GmbH & Co. KG

## SEPPEL KRAUS*

Munich
Regional Head of the Industrial Union
IG Bergbau, Chemie, Energie
Bavaria / Munich

Member of Supervisory Board
- Novartis Deutschland GmbH
- Hexal AG

## PROF. STEFAN LEBERFINGER

Munich
Certified Public Accountant, Tax Consultant

Chairman of the Board
- Hubert Burda Stiftung

Member of Supervisory Board / Advisory Council
- DOMAG Wohnbau AG
- Tomorrow Focus AG
- Thurn & Taxis Gesamtverwaltung
- Freiberger Holding GmbH & Co. KG

## HANS-JOACHIM STADTER*

Burghausen
Personal Development Specialist

## DR. THOMAS STRÜNGMANN

Tegernsee
Master of Business Administration

Member of Supervisory Board
- Strenesse AG
- Südwestbank AG

## DR. BERND W. VOSS[3]

Kronberg i. T.

Member of Board of Directors
- ABB Ltd.

Chairman of Supervisory Board
- Bankhaus Reuschel & Co.

Member of Supervisory Board
- Dresdner Bank AG
- Allianz Lebensversicherungs AG
- Continental AG
- Hapag-Lloyd AG
- Osram GmbH

## PROF. ERNST-LUDWIG WINNACKER

Munich
Professor of Biochemistry at LMU, Munich
Secretary General of the European Research Council

Chairman of Supervisory Board
- MediGene AG

Member of Supervisory Board
- Bayer AG

[1] Mediation Committee Chairman: Dr. Karl Heinz Weiss
[2] Executive Committee Chairman: Dr. Karl Heinz Weiss
[3] Audit Committee Chairman: Dr. Bernd W. Voss

* Employee representative
** Subsidiary

# EXECUTIVE BOARD

## DR. PETER-ALEXANDER WACKER

President & CEO

SILTRONIC
WACKER POLYSILICON

Executive Personnel
Corporate Development
Corporate Communications
Corporate Auditing
Legal Affairs
Investor Relations

Chairman of Supervisory Board
- Siltronic AG*
- Pensionskasse der Wacker Chemie VVaG

Member of Supervisory/Advisory Board
- Giesecke & Devrient GmbH
- INA-Holding Schaeffler KG

Member of Supervisory Board
- Bankhaus Reuschel & Co.

## DR. JOACHIM RAUHUT

Corporate Accounting
Corporate Controlling
Corporate Finance
Information Technology
Tax
Procurement & Logistics

Region: Europe

Member of Supervisory Board/ Advisory Council
- J. Heinrich Kramer Holding GmbH
- Siltronic AG*

## DR. RUDOLF STAUDIGL

WACKER SILICONES

Human Resources (Personnel Director)
Site Management
Environment/Chemicals/Safety
Corporate R&D
Intellectual Property

Region: Asia

Member of Supervisory Board/ Advisory Council
- Groz-Beckert KG
- Siltronic AG*
- Pensionskasse der Wacker Chemie VVaG

Chairman
- German chemical industry association, Bavarian branch

## AUGUSTE WILLEMS

WACKER POLYMERS
WACKER FINE CHEMICALS

Corporate Engineering
Sales & Distribution

Region: The Americas

* Subsidiary

# DIVISIONS

DR. RAINER BAUMANN
Corporate Development

ARNO VON DER ELTZ
WACKER POLYMERS

JÖRG HETTMANN
Corporate Communications

ALFRED HÖF
Sales & Distribution

DR. SIEGFRIED KIESE
Procurement & Logistics

DR. WILLI KLEINE
Burghausen Plant

GOETZ NEUMANN
Legal Affairs

DR. TOBIAS OHLER
Corporate Controlling

FOLKHART OLSCHOWY
Corporate Finance

DR. CHRISTOPH VON PLOTHO
WACKER SILICONES

VOLKER RADIUS
Corporate Engineering

JOACHIM REICHEL
Information Technology

EWALD SCHINDLBECK
WACKER POLYSILICON

DR. GERHARD SCHMID
WACKER FINE CHEMICALS

DR. WILHELM SITTENTHALER
SILTRONIC

DR. FRIDOLIN STARY
Corporate R&D

WALTER VOGG
Human Resources

# REPORT OF THE SUPERVISORY BOARD

## DEAR SHAREHOLDERS,

In 2007, WACKER seamlessly built on the momentum of a successful 2006. Indeed, the Group surpassed its strong 2006 results, to report new sales and EBITDA records. Clearly well positioned, WACKER has the right products in its portfolio for key growth trends. The Supervisory Board supported the Executive Board in its successful work during 2007, discussing issues and approving decisions that offer WACKER additional growth opportunities.

In the year under review, we discharged all the duties incumbent on us by law and under the Group's Articles of Incorporation and Rules of Procedure. We continuously monitored the activities of the Executive Board and extensively advised it on the management of the Group and business operations. The Supervisory Board was involved in every decision of fundamental significance for the Group at an early stage.

In both written and oral reports, the Executive Board regularly provided us with timely and comprehensive information on corporate planning, strategic development, business operations and the current state of Wacker Chemie AG and the Group, including the risk situation. Actual deviations from business plans and targets were explained to us in detail. Where required by statutory provisions and the Articles of Incorporation, the Supervisory Board voted on the reports and proposals of the Executive Board after detailed examination and discussion. Outside the scheduled Supervisory Board meetings, the Supervisory Board chairman remained in regular contact with the Executive Board, especially its president, and was kept informed about the current business situation and key business transactions.

Four Supervisory Board meetings were held in 2007, two in the first half-year and two in the second. Between meetings, the Executive Board informed us in detail by means of written reports about all projects and plans of particular importance to the Group.

## 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 at our plenary meetings. At each meeting, the Supervisory Board evaluated the Executive Board's performance – on the basis of Executive Board reports – and discussed strategic growth opportunities and other key topics with the Executive Board. There was no need for additional monitoring measures, such as inspection of corporate documents or expert counsel. The plenary meetings were prepared by shareholder and employee representatives in their own separate sessions. Every Supervisory Board member attended at least half of the meetings held during the period under review.

The chief issues deliberated on by the Supervisory Board were:

- Setting up a joint venture between Wacker Chemie AG and SCHOTT Solar GmbH for the production of solar wafers

- Acquiring full ownership of WACKER's two joint ventures with Air Products and Chemicals, Inc.
- Expanding our production capacities in Burghausen, Nanjing, Zhangjiagang, Singapore and Jena.

At its meeting of December 12, 2007, the Supervisory Board discussed the WACKER Group's fiscal 2008 planning, as well as medium-term plans until 2011. The Supervisory Board approved both sets of planning data. It also approved the 2008 capital expenditure budget.

## WORK IN THE COMMITTEES

The Supervisory Board is assisted in its work by Supervisory Board committees. WACKER's Supervisory Board has constituted three committees – an Audit Committee, an Executive Committee, and a Mediation Committee (as per the German Co-Determination Act (MitbestG), Section 27, Subsection 3). The Audit Committee is chaired by Dr. Bernd W. Voss. The other two are chaired by the Supervisory Board chairman.

The Audit Committee met four times in 2007. Key aspects of its work included thorough audits of 2006's financial statements for Wacker Chemie AG and for the Group, as well as the consolidated financial statements for the first half-year. The Audit Committee also discussed the consolidated quarterly reports and looked at risk-management and compliance issues. In addition, the Audit Committee was responsible for cooperation with WACKER's independent auditors.

The Executive Committee met three times in 2007. In its meetings, it handled personnel issues relating to the Executive Board.

The Mediation Committee did not need to be convened in the year under review.

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

## CORPORATE GOVERNANCE

In its meeting of December 12, 2007, the Supervisory Board dealt with the Group's implementation of corporate governance principles. At this meeting, the Supervisory and Executive Boards passed the annual Declaration of Conformity – as per Section 161 of Germany's Stock Corporation Act (AktG). The Declaration of Conformity has been published online at www.wacker.com, where it is permanently available to shareholders. More information about corporate governance at WACKER appears on pages 158 of this Annual Report.

At its December meeting, the Supervisory Board also reviewed the efficiency of its own activities – and reached a positive evaluation.

Dr. Karl Heinz Weiss

## AUDIT OF THE ANNUAL FINANCIAL STATEMENTS OF WACKER CHEMIE AG AND THE WACKER GROUP

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (Berlin and Frankfurt am Main) audited the annual financial statements (reporting date: December 31, 2007) and the management reports of Wacker Chemie AG and the WACKER Group (including the accounting system) and approved them without qualification. Said financial statements and management reports had been prepared by the Executive Board as per IFRS regulations. The audit contract had been awarded by the Supervisory Board's Audit Committee in line with the resolution of the Annual Shareholder Meeting of May 29, 2007.

The auditors also examined the Group's risk management system in accordance with Section 91 of Germany's Stock Corporation Act. The audit verified that the risk management system corresponds to legal requirements. No material business risks were identified. Financial-statement documents (including the auditors' report, the management reports and the Executive Board's profit-appropriation proposal) were submitted to all Supervisory Board members in due time.

At its meeting of March 4, 2008, the Audit Committee closely examined the above-mentioned statements and reports, and the reports submitted by the auditing team (of Wacker Chemie AG and the Group). The committee thoroughly discussed said information with the auditors during this meeting, and reported in full to the whole Supervisory Board. At its meeting of March 13, 2008, the entire Supervisory Board intensively discussed and examined the relevant financial statements and reports, giving all due consideration to the reports made by the Audit Committee and 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 whole Supervisory Board to answer questions and provide supplementary information.

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

Accordingly, we concur with the audit's result. The financial statements of both Wacker Chemie AG and the WACKER Group – as submitted by the Executive Board and with December 31, 2007 as reporting day – are hereby approved. Wacker Chemie AG's financial statements are thus finalized. We join the Executive Board in its profit-appropriation proposal.

## CHANGES IN THE COMPOSITION OF THE SUPERVISORY AND EXECUTIVE BOARDS

The term of office for all Supervisory Board members – both employer and employee representatives – lasts until the coming Annual Shareholder Meeting, which decides on their exoneration for fiscal 2007. At the Supervisory Board meeting of December 12, 2007, the Supervisory Board chairman announced that he would no longer be available after the next Annual Shareholder Meeting on May 8, 2008, upon reaching the age limit for Supervisory Board members.

Dr. Peter-Alexander Wacker will step down as President and CEO of Wacker Chemie AG at the next Annual Shareholder Meeting. He will leave the Executive Board and run for the position of Supervisory Board chairman. In the opinion of the Supervisory Board, Dr. Peter-Alexander Wacker is ideally suited to this position because he knows the company and its business extremely well, has many years of experience and can draw on a wealth of expertise. His appointment to the Supervisory Board is clearly in the interests of Wacker Chemie AG.

At the same meeting, the Supervisory Board decided to appoint Dr. Rudolf Staudigl as the new President and CEO after the Annual Shareholder Meeting of May 8, 2008. Dr. Staudigl has been a member of WACKER's Executive Board since 1995. The Supervisory Board has extended his contract for a further five years.

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

Munich, March 13, 2008
The Supervisory Board

Karl-Heinz Weiss

Dr. Karl Heinz Weiss
Chairman

# CORPORATE GOVERNANCE

Wacker Chemie AG attaches great importance to the rules of proper Corporate Governance. With a few exceptions, we comply with the recommendations contained in Germany's Corporate Governance Code. The exceptions are listed in the following Declaration of Conformity (issued December 12, 2007 by the Executive and Supervisory Boards in accordance with Section 161 of the German Stock Corporation Act (AktG)):

## DECLARATION OF CONFORMITY 2007 BY WACKER CHEMIE AG'S EXECUTIVE AND SUPERVISORY BOARDS

### 1. GENERAL DECLARATION PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

Wacker Chemie AG's Executive and Supervisory Boards first issued a Declaration of Conformity (in accordance with Section 161 of the German Stock Corporation Act) in December 2006. Since issuance of this declaration, Wacker Chemie AG has complied with the German Corporate Governance Code recommendations – in its valid version from June 12, 2006 – and will continue to comply with the code in its valid version from June 14, 2007 with the following exceptions:

### 2. EXCEPTIONS

a) D&O Insurance – Deductible

D&O insurance for the Group's board members or employees acting as a management body does not include a deductible for the individual.

b) Corporate Governance Report

A report on the Group's corporate governance by the Executive and Supervisory Boards shall be included in the Annual Report. This report shall also include an explanation of any deviations from the Code's recommendations. Such report is regulated by Section 161 of the German Stock Corporation Act, which partially varies from the Code in regards to content.

The Executive and Supervisory Boards have decided to issue a declaration solely in accordance with the legal provisions. To that effect, we depart from the Code's recommendations in regards to content and form of the Corporate Governance Report.

c) Regular review of the Executive Board's compensation structure by the full Supervisory Board

The Executive Board's compensation structure is reviewed regularly by the Executive Committee. A report detailing the activities of the Supervisory Board committees is presented regularly at the Supervisory Board's plenary meeting. This report includes the activities of the Executive Committee. If, and to the extent that, the recommendation goes beyond the scope of such reports, we shall not comply with it.

d) Information regarding the main features of the Executive Board’s compensation system announced at the Annual Shareholder Meeting

Our Annual Report includes extensive information, including facts about the Executive Board's compensation system, for our shareholders. We regard any further proactive measures as unnecessary.

e) Announcement of proposed candidates for the Supervisory Board chair to the shareholders

This recommendation states that shareholders are to be informed of any candidates for the Supervisory Board chair, even though the Supervisory Board usually still has to be appointed. Under German law, the Supervisory Board chair is to be chosen by, and from among, the Supervisory Board members. There is currently no legal requirement to announce the candidates for the chair from among a group of as-yet unappointed Supervisory Board members. Furthermore, this would, above all, result in a de facto predetermination which is also not provided for under German law. For these reasons, we shall not comply with the recommendation.

f) Transfer of Executive Board members to the Supervisory Board; taking over as chair of the Supervisory Board or of one of its committees

In our opinion, it may very well make sense for former members of the Executive Board to join the Supervisory Board and also to chair the Supervisory Board or various specific committees. In fact, the knowledge of former Executive Board members about the company increases the efficiency of control exercised by the Supervisory Board. We do not see any disadvantages in a Supervisory Board which, in accordance with the Code, is well-balanced with respect to its members. As we do not agree with this recommendation, we shall not comply with it.

g) Formation of a Supervisory Board nominating committee

The Supervisory Board should form a nominating committee that is exclusively composed of shareholder representatives and that proposes appropriate Supervisory Board candidates to the Annual Shareholder Meeting.

We do not comply with this recommendation because we do not find the formation of such a committee necessary.

Munich, December 12, 2007

# COMPENSATION REPORT

## REPORT ON EXECUTIVE BOARD COMPENSATION

The compensation of Wacker Chemie AG's Executive Board is set by the Executive Committee of the Supervisory Board. In fiscal 2007, Executive Board compensation comprised the following key components:

- A fixed annual salary:
  The fixed annual salary is paid in equal monthly installments.

- A performance and results-oriented variable bonus:
  Variable bonuses are paid retroactively once a year. The amounts paid depend on the achievement of goals – i.e. the goals agreed annually for the WACKER Group with regard to ROCE, cash flow and profitability and those agreed for individual Board members. The bonus is set by the Supervisory Board's Executive Committee after the consolidated annual statements have been approved. Executive Board members are entitled to a minimum bonus. Bonuses are limited by a maximum value.

- Company pension:
  Executive Board members earn the right to an annual pension, payable when the insured event occurs (i.e. on reaching the agreed retirement age or in the case of long-term occupational disability). Dr. Wacker, Dr. Rauhut and Dr. Staudigl are entitled to an annual pension prior to the insured event should they leave the Executive Board against their will without due cause or should they terminate their contract voluntarily and, as far as the company is concerned, with good reason. The pension sum is calculated according to the last fixed annual salary received and, typically, according to the length of Executive Board membership.

Executive Board members' fixed annual salaries and variable bonuses were raised effective July 1, 2007.

The company provides Executive Board members with suitable insurance coverage, especially D&O insurance.

In the event of a "change of control," Dr. Wacker (President & CEO) has the right to terminate his employment contract. When exercising said right, Dr. Wacker is entitled to severance pay amounting to the annual income expected for the remaining term of his contract, as applicable at the time of termination.

## EXECUTIVE BOARD COMPENSATION

| in € | Fixed compen-sation[1] | Variable compen-sation | Pension[2] | Total |
|---|---|---|---|---|
| **Dr. Peter-Alexander Wacker** | | | | |
| 2007 | 851,082 | 1,582,500 | 788,703 | 3,222,285 |
| 2006 | 801,285 | 1,370,000 | 774,390 | 2,945,675 |
| **Dr. Joachim Rauhut** | | | | |
| 2007 | 574,086 | 1,055,000 | 196,543 | 1,825,629 |
| 2006 | 537,223 | 915,000 | 193,989 | 1,646,212 |
| **Dr. Rudolf Staudigl** | | | | |
| 2007 | 569,560 | 1,055,000 | 373,375 | 1,997,935 |
| 2006 | 537,374 | 915,000 | 337,559 | 1,789,933 |
| **Auguste Willems** | | | | |
| 2007 | 567,372 | 870,000 | 234,733 | 1,672,105 |
| 2006 | 520,389 | 750,000 | 215,352 | 1,485,741 |
| **Overall total** | | | | |
| 2007 | 2,562,100 | 4,562,500 | 1,593,354 | 8,717,954 |
| 2006 | 2,396,271 | 3,950,000 | 1,521,290 | 7,867,561 |

[1] Fixed compensation includes the use of a company car.
[2] Pension figures include both interest cost and current service cost. The interest cost amounts to €513,791 (2006: €438,218).

## PENSION OBLIGATIONS FOR EXECUTIVE BOARD MEMBERS

| in € | Total |
|---|---|
| **Pension obligations for active Executive Board members** | |
| 2007 | 12,357,586 |
| 2006 | 11,417,558 |
| **Pension obligations for former members of the Executive Board or their dependants** | |
| 2007 | 8,639,697 |
| 2006 | 8,562,266 |

## REPORT ON SUPERVISORY BOARD COMPENSATION

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

Each Supervisory Board member receives fixed annual compensation of €15,000, payable at the end of a fiscal year. Supervisory Board members who join or leave the Supervisory Board during the year receive a pro rata share of said compensation.

In addition to their fixed compensation, Supervisory Board members receive success-oriented compensation for the previous fiscal year after the consolidated financial statements have been approved. Their success-oriented compensation is calculated as a percentage of return on assets[1]. Success-oriented compensation lies between 0 % and 125 % of fixed annual compensation.

Fixed and success-oriented compensation is multiplied by a factor of 3 for the Chairman of the Supervisory Board, by a factor of 2 for his deputy or a chairman of a committee and by a factor of 1.5 for a committee member. Where a person serves in more than one function, their additional functions are not taken into account.

### SUPERVISORY BOARD COMPENSATION

| in € | Fixed compensation | Variable compensation | Total |
|---|---|---|---|
| 2007 | 507,000 | 393,750 | 900,750 |
| 2006 | 359,924 | 167,924 | 527,848 |

Supervisory Board members receive a lump-sum payment of €12,000 to cover expenses necessary for the performance of their duties.

Additionally, they are reimbursed for value-added tax payable on their compensation.

The company provides Supervisory Board members with suitable insurance cover. In particular, it takes out D&O insurance policies for them.

[1] For this purpose, the return on assets is understood to be the ratio of EBIT to invested capital, pursuant to the Group`s IFRS-compliant consolidated financial statements. Invested capital equals the sum of non-current and current assets minus cash and cash equivalents.

# AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Wacker Chemie AG, Munich, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2007.

The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a, Subsection 1 of the German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and generally accepted, German 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 group management report 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 group management report 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 the 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 as well as with the additional requirements of German commercial law pursuant to Section 315a, Subsection 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 group management report 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, February 22, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Kozikowski | Rohrbach |
| (Wirtschaftsprüfer) | (Wirtschaftsprüfer) |

# 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.

B

### 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: medicinal-pharmaceutical applications. Green biotechnology: agricultural applications. White biotechnology: biotech-based products and industrial processes, e.g. in the chemical, textile and food industries.

C

### CHLOROSILANE
A compound of silicon, chlorine and hydrogen. In the semiconductor industry, mainly trichlorosilane is used to make polysilicon and for the epitaxial deposition of silicon.

C

### CYCLODEXTRINS
Cyclodextrins belong to a family of cyclic oligosaccharides (i.e. ring-shaped sugar molecules). Cyclodextrins are able to encapsulate fragrances or release active ingredients at a controlled rate. WACKER FINE CHEMICALS produces and markets cyclodextrins.

C

### CYSTEINE
Cysteine is a sulfur-containing amino acid. It belongs to the non-essential amino acids because it can be formed in the body. It is used, for example, as an additive in food and cough-syrup mixtures. Cysteine and its derivatives are a business field at WACKER FINE CHEMICALS.

D

### 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.

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.

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.

E

### ETHYLENE
Ethylene is a colorless, highly reactive gas and a key chemical-industry raw material.

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 U.S. Food and Drug Administration (FDA) and the EU.

I

### INGREDIENTS
Constituents or additives (in foodstuffs, pharmaceutical products, etc.).

P

### POLYMER
Polymers are large molecules made up of smaller molecular chains (monomers). A polymer contains between 10,000 and 100,000 monomers. Polymers can be long or ball-shaped.

P

### 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.

P

### PYROGENIC SILICA
White, synthetic, amorphous silicon dioxide ($SiO_2$) 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 whose electrical conductivity is much lower than that of metals but increases dramatically as the temperature rises. Semiconductors can be modified for a particular purpose by doping with foreign atoms.

S

### SILICA
Compounds having the general formula $SiO_2 \cdot nH_2O$ are obtained from their raw material sand. Typical applications for HDK® include: reinforcing fillers for rubber compounds and sealants, matting of paints, and toothpaste additives.

S

### 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.

S

### SILICON
After oxygen, the most common element on the planet. In nature, silicon occurs without exception in the form of compounds, chiefly silicon dioxide and silicates. Silicon is obtained through a high-energy reaction of quartz sand with carbon and is the most important raw material in the electronics industry.

S

### SILICON WAFER
A silicon wafer is a circular 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.

S

### SILICONE
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.

S

### SILOXANE
Systematic name given to compounds comprising silicon atoms linked together via oxygen atoms and with the remaining valences occupied with 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 weighted average cost of capital (WACC x CE). BVC is a profit variable that is adjusted to allow for extraordinary effects (e.g. sale of parts of the company). This makes it an ideal tool for measuring business performance.

## 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 x CE).

## C

### 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.

## E

### EBITDA
Earnings before interest, taxes, depreciation and amortization = EBIT + actual depreciation.

## E

### EQUITY CAPITAL RATIO
The equity capital ratio is calculated from the ratio of equity capital 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 international accounting standards compiled and published by the London-based "International Accounting Standards Board" (IASB). Since 2005, publicly-listed EU-based companies have been required to use the IFRS in accordance with IAS regulations.

## R

### ROCE
Return on capital employed: profitability ratio relating to the capital employed.

# WACKER WORLDWIDE

## WACKER SITES

### EUROPE

**Germany**
- Alzenau
- Burghausen
- Cologne[1]
- Freiberg (Saxony)
- Jena
- Kempten
- Munich
- Nünchritz
- Stetten
- Stuttgart

**France**
- Lyon

**Greece**
- Athens

**Great Britain**
- Chertsey

**Italy**
- Milan

**Croatia**
- Zagreb

**Netherlands**
- Krommenie

**Poland**
- Warsaw

**Russia**
- Moscow

**Sweden**
- Solna

**Switzerland**
- Basel

**Spain**
- Barcelona

**Czech Republic**
- Prague

**Turkey**
- Istanbul

**Hungary**
- Budapest

### THE AMERICAS

**USA**
- Adrian, Michigan
- Allentown, Pennsylvania
- Austin, Texas
- Calvert City, Kentucky
- Chino, Kalifornien
- Duncan, South Carolina
- Eddyville, Iowa
- North Canton, Ohio
- Portland, Oregon
- San José, California
- South Brunswick, New Jersey

**Mexico**
- Mexico City

**Brazil**
- Jandira (São Paulo)

### ASIA

**China**
- Beijing
- Guangzhou
- Hong Kong
- Nanjing[2]
- Shanghai
- Shunde
- Wuxi
- Zhangjiagang

**India**
- Bangalore
- Kolkata
- Mumbai
- New Delhi

**Indonesia**
- Jakarta

**Japan**
- Akeno
- Hikari
- Osaka
- Tokyo

**Singapore**
- Singapore

**South Korea**
- Seoul
- Ulsan

**Taiwan**
- HsinChu
- Taipeh

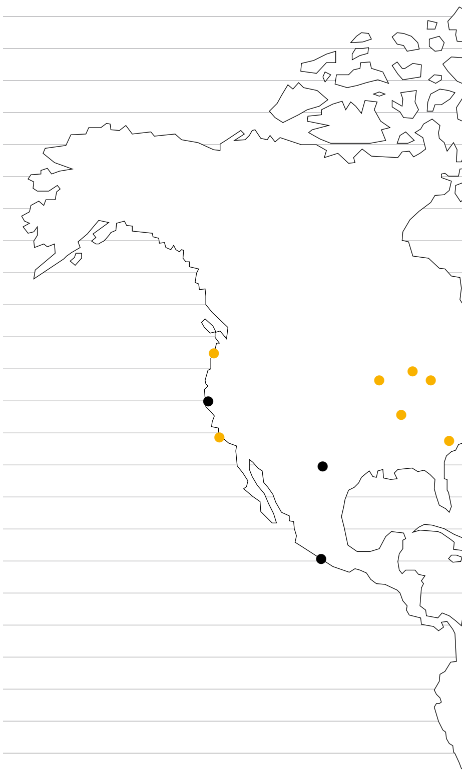
**Thailand**
- Bangkok

**United Arab Emirates**
- Dubai

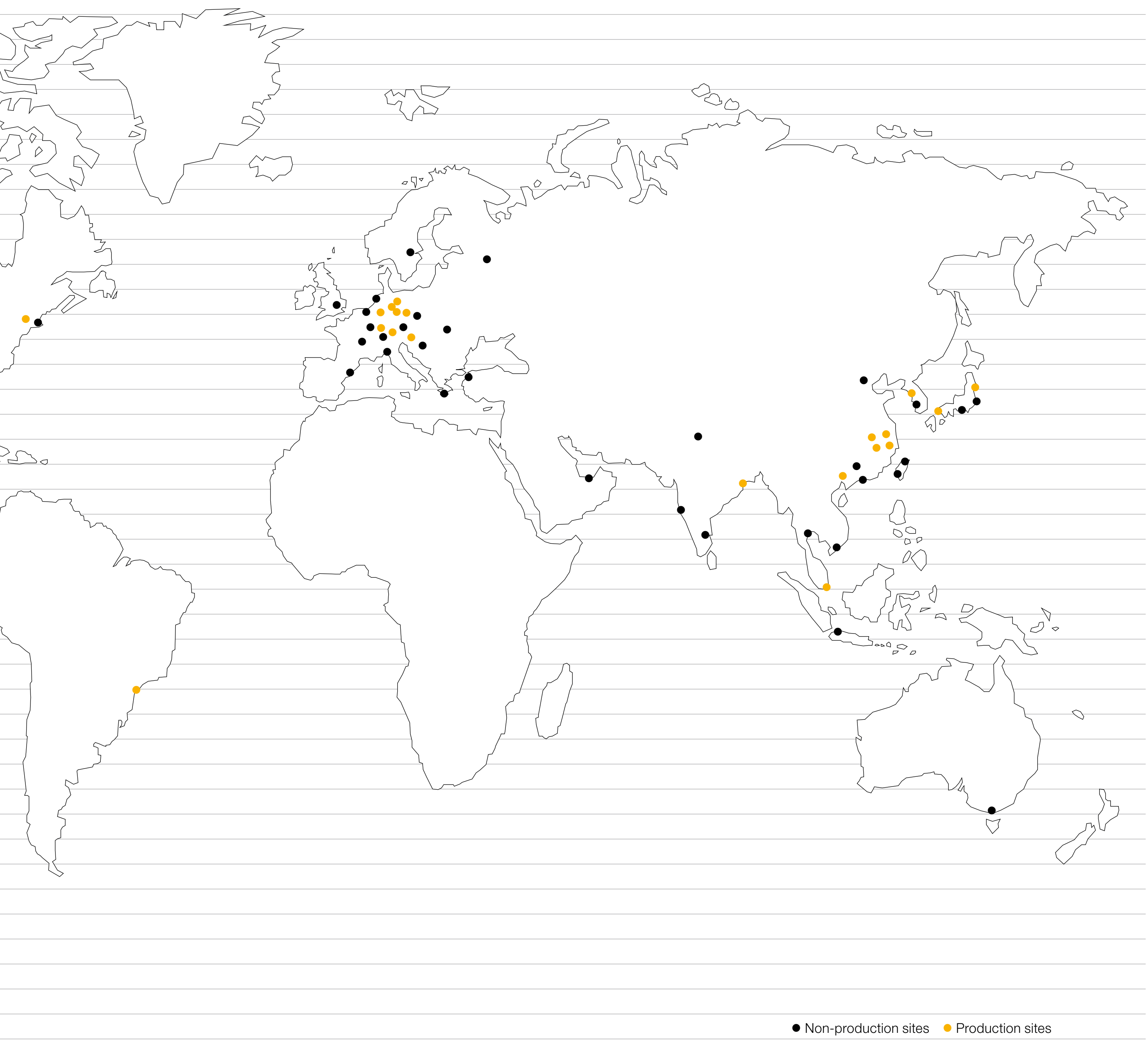
**Vietnam**
- Ho Chi Minh City

### AUSTRALIA

**Australia**
- Melbourne



[1] since Feb. 1, 2008 [2] in development


● Non-production sites ● Production sites

# INDEX A – Z

## ACCOUNTING – RISK MANAGEMENT SYSTEM

This Annual Report is available in English and German. You can download either versions from the www.wacker.com website.

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## CALENDAR 2008

| Apr. 30 | May 08 | Jul. 31 | Nov. 04 |
|---|---|---|---|
| Q1 2008 Report (January – March) | Annual Shareholder Meeting in Munich, Germany | Q2 2008 Report (April – June) | Q3 2008 Report (July – September) |

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