2011

Wacker Chemie AG
Annual Report

Paths to Innovation

WACKER

WACKER at a Glance

€million	2011	2010	Change in %
Results/Return			
Sales	4,909.7	4,748.4	3.4
EBITDA[1]	1,104.2	1,194.5	–7.6
EBITDA margin[2] (%)	22.5	25.2	–
EBIT[3]	603.2	764.6	–21.1
EBIT margin[2] (%)	12.3	16.1	–
Financial result	–35.8	–32.3	10.8
Income before taxes	567.4	732.3	–22.5
Net income for the year	356.1	497.0	–28.4
Earnings per share (basic/diluted) (€)	7.10	9.88	–28.1
ROCE (%)	18.1	24.8	–
Financial Position/Cash Flows			
Total assets	6,237.0	5,501.2	13.4
Equity	2,629.7	2,446.8	7.5
Equity ratio (%)	42.2	44.5	–
Financial liabilities	777.9	533.4	45.8
Net financial receivables/net financial liabilities[4]	95.7	264.0	–63.8
Capital expenditures (including financial assets)	981.2	695.1	41.2
Of which payments for acquisitions	–	81.2	n. a.
Depreciation (including financial assets)	501.0	429.9	16.5
Net cash flow[5]	6.2	421.6	–98.5
Research and Development			
Research and development expenses	172.9	165.1	4.7
Employees			
Personnel expenses	1,282.5	1,135.7	12.9
Employees (December 31, number)	17,168	16,314	5.2

[1] EBITDA is EBIT before depreciation and amortization
[2] Margins are calculated based on sales
[3] EBIT is the result from continuing operations for the period before interest and other financial results, and income taxes
[4] Sum of cash and cash equivalents, noncurrent and current securities, and noncurrent and current financial liabilities
[5] Sum of cash flow from operating activities and noncurrent investment activities before securities, incl. additions from finance leases

Cover image

GENIOSIL® N

Hybrid compounds for challenging applications as adhesives and sealants

WACKER SILICONES is one of the largest silicone manufacturers worldwide with over 3,000 highly specialized and innovative products. Thanks to WACKER's patented hybrid technology, we manufacture fast-curing one-component adhesives and sealants with a unique spectrum of properties. The applications of GENIOSIL® N range from highly elastic, paintable sealants through to high-strength assembly adhesives.

Milestones 2011

Mar. 29

Expertise at the European Coatings Show

Under the motto "Our ⊕ in Expertise," WACKER presented polymer and silicone products, as well as hybrid technologies, for the coatings, construction, adhesives and sealants industries at the European Coatings Show (ECS) in Nuremberg in March. With durable industrial coatings in mind, WACKER also showcased a new silicone intermediate, coating resins, solid resins and pyrogenic silica. In the construction sector, the focus was on facades, damp-proofing and long-term protection: composite dispersions enable bright colors and liquid hybrid polymers provide for water-impervious surfaces.

Apr. 8

Groundbreaking Ceremony in Tennessee

In April, WACKER began building a fully integrated polysilicon-production site in the USA. During the official ceremony, attended by numerous guests from politics, business and local government, WACKER's CEO Rudolf Staudigl, Supervisory Board Chairman Dr. Peter-Alexander Wacker, and Tennessee Governor Bill Haslam broke ground on the large-scale project. The production complex, with an annual capacity of 15,000 metric tons, is scheduled for completion by late 2013. At about €1.1 billion, this new site is WACKER's single largest investment ever. Around 650 new jobs are expected to be created at the new site in Cleveland.

Jun. 9

WACKER Wins Best Innovator Award

WACKER received Germany's Best Innovator Award in the Chemical category for its sustainable innovation management. A.T. Kearney and German business weekly "WirtschaftsWoche" organized the competition, in which more than 100 companies participated. The Best Innovator jury confirmed that WACKER had introduced systematic processes and operated innovation management as a core area of expertise. Attended by Parliamentary State Secretary Ernst Burgbacher, the award ceremony took place at the Federal Ministry of Economics and Technology in Berlin.

July 5

Production Lines for High-Purity Silicone Elastomers

WACKER started operating several silicone elastomer production lines at its Burghausen site. The new production facility sets standards for the manufacture of high-purity silicones – it meets WACKER's new Clean Operations Standard, thus satisfying quality and purity requirements usually found only in the semiconductor or pharmaceutical industries. The production lines encompass high-purity specialty silicones, encapsulation and coating compounds, as well as UV-activated silicones for medical applications, LED manufacture and electronics. Additional cleanroom capacity has been created at the site to comply with the especially high quality and purity standards for these products.

Sept. 24

Behind the Scenes on Open Day

WACKER held an open day to comemmorate the International Year of Chemistry in 2011. Under the slogan, "A glimpse into our world," visitors to the Burghausen, Freiberg and Cologne sites spent a day at the company looking behind the scenes. Over 20,000 visitors took the opportunity to explore the exciting world of chemistry during plant tours, experiment demonstrations and product presentations. 2011 was proclaimed the International Year of Chemistry by the General Assembly of the United Nations to highlight the accomplishments of chemistry and its contribution to the well-being of humanity.

Oct. 10

Polysilicon Production Launched in Nünchritz

WACKER began producing hyperpure polysilicon at its Nünchritz site in October. Last fall, an initial group of deposition reactors at the new production complex ramped up production of high-quality polysilicon intended for sale. Overall, WACKER has invested some €900 million in these new production facilities – and created more than 500 new jobs as a result. The production complex utilizes highly integrated material cycles. Thus, manufacturing byproducts are reprocessed and then reused as basic materials in the value chain. This cuts costs, while conserving resources.

Oct. 19

Pyrogenic Silica Plant in China

WACKER and Dow Corning Corporation inaugurated the second expansion stage of their joint pyrogenic silica plant in Zhangjiagang (Jiangsu province, China). This expansion stage, together with a siloxane plant, is a key facility of the Dow Corning/WACKER integrated silicone manufacturing site. The products are used, for example, in the construction, cosmetics, personal-care, energy and automotive sectors.

Dec. 8

Closure of Semiconductor Production Facility in Japan

The Siltronic division is streamlining its 200 mm wafer capacities and intends to close its Hikari production site in Japan by mid-2012. Hikari's production volumes are to be transferred to Siltronic's 200 mm wafer plants in Singapore and Portland (Oregon, USA). To provide its Japanese customers with optimum service, Siltronic will continue to employ a local sales force and engineering support unit in Japan. Siltronic has a workforce of about 500 employees at Hikari. The goal is to implement the site closure in as socially responsible a manner as possible.

Dec. 15

Procter & Gamble Honors WACKER Greater China

During an official ceremony in mid-December, WACKER Greater China was presented with the "Best Cooperation Partner Award 2011" by its customer Procter & Gamble. The US consumer-goods giant manufactures beauty, grooming and haircare products containing WACKER silicones at its Xiqing plant in Tianjin (northern China). WACKER Greater China received the award for its outstanding service and successful transfer of BELSIL® DM 300000 production to the Zhangjiagang site. This high-viscosity polydimethylsiloxane had previously been imported into China. Used in haircare products, it enhances the ease of combing dry and wet hair, for example.

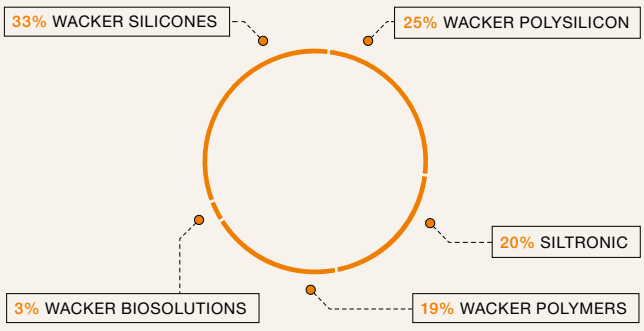
Vision

WACKER, as an innovative chemical company, makes a vital contribution to improving the quality of life around the world. In the future, we want to continue developing and supplying solutions that meet our rigorous demands – creating added value for our customers and shareholders, and growing sustainably.

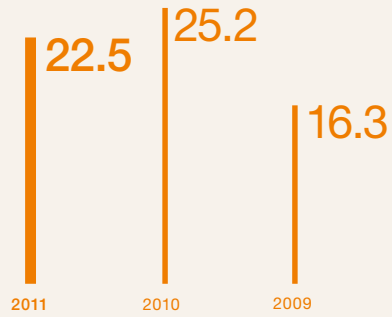
Key Financial Indicators

WACKER Share Performance (€)

Divisional Shares in Group Sales

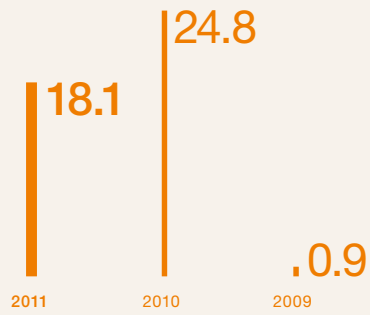


EBITDA Margin (%)



Earnings per Share (€)

Return on Capital Employed (ROCE) (%)



2011

Wacker Chemie AG Annual Report

Paths to Innovation

Innovation Management
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Process Innovation
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Product Innovation
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Focus Innovation
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WACKER is a highly research-intensive, international chemical company. In 2011, we spent over €170 million on research and development. WACKER sees innovation as an important lever for profitable growth. We concentrate on two essential pillars: innovations in processes and innovations in products.

But it is not enough just to develop new ideas; they have to yield a benefit. That is why we place greatest priority on applications for our customers. Before we start a new project, we assess it for customer benefit, sales potential, profitability and technological positioning.

Process innovations are just as important to us. We are convinced that a company can only remain at the top of its game if it reduces costs and continually improves the efficiency of its processes.

This annual report shows how we manage innovations and successfully put them into practice. And it gives a glimpse of the future of electromobility, which is also one of WACKER's fields of work.

Paths to Innovation

Innovation Management

It’s One Thing to Have a Lot of Ideas. But Backing the Right One Is Something Else Entirely.

Process Innovation

Being Able to Think in Detail. And Act on a Big Scale.

Product Innovation

Combining the Advantages of Silicones and Organic Polymers.

Focus Innovation

Creating More Energy for Tomorrow’s Mobility.

It's One Thing to Have a Lot of Ideas. But Backing the Right One Is Something Else Entirely.

Innovation Management Means Backing the Right Idea.

1

1
Dr. Fridolin Stary is head of Corporate Research & Development. A chemist, he is responsible for implementing R&D strategy. He is proud of the creativity and high levels of expertise shown by his staff – many of their developments become success stories within a short time.

2
The new Consortium building in the south of Munich offers its researchers state-of-the-art labs and workplaces.

2

3

4

5

24%

New-Product Rate

3
Researchers not only examine details under the microscope, but also scrutinize economic aspects carefully.

4
A new development only stays in focus if it is found to be marketable.

5
A meeting at the Consortium. The research team is objective and transparent in its decision making.

Creativity can very easily be steered in the right direction. Systematically conducted R&D is an important source of growth for WACKER.

Dr. Stary, can you control creativity?
If you are referring to the creativity of individual researchers – no, you can't control it or steer it. That said, we can certainly direct the collective creativity of our 1,000 researchers. But it's not as if we go around asking: who's got the best idea today? Our employees work on clearly defined projects and, here, creativity can definitely be nudged in the right direction. Systematically conducted R&D is a steady source of growth for WACKER.

Who determines what the researchers in your laboratories work on?
Our everyday work stems from the project portfolio which our innovation strategy has identified. Before we start a new project, we evaluate it in terms of technology position, potential sales and profitability. That also means that all our projects are in competition with each other.

What is your role in all this?
The most important decision is to tackle the right projects with the right resources at the right time. Our innovation budget may be relatively high for a chemical company at 3.5 percent of sales, but it can't be extended indefinitely. We can't do everything. So, if our budget is fixed and we want to translate more of our ideas into market successes, we need to choose well and provide targeted funding.

Does that mean spending plenty of money on just a few projects?
I wouldn't put it like that. But focus certainly takes precedence over diversification. This means that we are concentrating even more on our key strategic projects. The chief goals here are to further improve our existing product platforms and production processes. These key projects consume around one-fourth of our R&D budget. However, we also look to important future trends that we can target with our technological expertise, such as photovoltaics and electricity storage. Focusing also entails drawing a line under old projects that have no prospect of economic success. That's not as easy as it seems. Employees are passionate about their own projects, after all. So, we must exercise maximum objectivity and transparency when making our decisions.

Does that mean frustration is part of being a researcher?
I'd be more inclined to say that we are all at risk of having our projects shelved. It's not a question of failure, it's just life. In fact, for me it's more a sign of strength when someone has the courage to say: I can't go any further with this.

Especially since the speed of research has picked up, too...
That's right. Up until a few years ago, developers were not under as much pressure. But they are now, because when the market sees really good solutions it wants them immediately. What's more, we have to be constantly in tune with the demands both of technologies and customers. Such a situation arises for instance when a leading chip manufacturer dictates when and in what quality a new generation of wafers must be ready. The same goes for electromobility, where we're helping to develop third-generation batteries. An industrially feasible solution must be ready by 2014. If we're not ready by then, no-one will wait for us. There's no point producing the ultimate solution a year later. See Focus Innovation

WACKER has now appointed technology managers to monitor areas that will be crucial in the future, such as electromobility. What is their task?
The technology managers monitor the technologies and markets of the future. They must become thoroughly conversant with all the technical and economic aspects of these technologies and be able to evaluate them. They identify users' requirements and match them with our specific capacity to deliver a solution. They build up partnerships, form networks and also have an overview of all internal projects related to that area. A technology manager is a kind of marketing manager for new technologies. So, even before we invest a single euro in research, we know fairly exactly what our solution must look like and what its potential is.

What are the future technologies that the technology managers oversee?
Aside from electricity storage and electromobility, we are currently focusing on concentrated solar power plants,

or CSP for short. These use, for example, parabolic mirrors to concentrate the rays of the sun. This concentrated heat energy is transferred to a steam circuit to generate electricity, as in conventional power plants. The heat-transfer fluid employed here must remain stable at very high temperatures. Within the last few months, we have developed and are currently testing a silicone-based prototype of one such fluid. The potential is huge. A power plant requires up to 8,000 metric tons of heat-transfer fluid. Without the technology manager, we would never have been so focused and progressed so quickly.

What would have happened in the past?

In the past, we used to develop properties and then search for a market. And then we were sometimes disappointed that customers failed to appreciate our innovation. This was because we ignored the fact that our customers always expect new solutions to benefit them economically.

So should developers preferably also have studied business administration?

Technical or scientific training clearly takes priority, but we want developers to deal with the economic aspects from the start. We need researchers who are creative in searching for new molecules but their objective must always be to devise a solution that is technically and economically superior and can be sold on the market. Except for the area of basic research, we don't draw up plans today for things that we can't sell tomorrow.

See Product Innovation

But that doesn't apply just to new products…

That's right. It's true that one-fourth of our sales come from new products. But we must further expand our existing business. Our goal here is to make processes better and cheaper. And this is an area of collaboration between Corporate R&D, the business divisions and technical service managers.

Can you give a specific example?

Take polysilicon for the solar industry. Every day you read how tough the competition is. We, too, can only do good business if our cost position is better than that of our competitors. How can we achieve that? By having a fully closed loop in the case of silicon, for example. There is still scope for optimizing the yield of material. The goal is zero waste. And we are working on boosting the energy efficiency of silicon deposition. Innovations of this kind can help us to thrive even in this fiercely competitive market.

WACKER operates in global markets. How international does research and development have to be here?

Some 800 of our roughly 1,000 R&D employees work in Germany. Nevertheless, research is swiftly becoming internationalized. In our local technical centers in China, India and Brazil, products are being adapted to the local market. This generates ideas for basic research. In other countries, creativity manifests itself differently. Other nationalities often have a more pragmatic approach, and that is good. In India, for example, a researcher at one of our joint ventures used raw materials from Germany to create a silicone emulsion for hair rinses, which will now be used around the world. This shows that the German solution is not always the best.

See Process Innovation

Is this also a step toward global recruiting?

Naturally, local networks spring up on account of our technical centers. We get to know the local scene and that enables us to be selective in our recruiting. In Germany, our reputation still enables us to choose the very best – experts who know that we live for innovation.

A strong claim. Can you back it up?

Last June, for example, WACKER received the Best-Innovator-Award. The jury highlighted the fact that thinking and acting innovatively are firmly embedded across the company. At WACKER, everyone from the Executive Board right down through all management levels has an understanding of the matter. And that makes a difference, you know, when you not only have a strategy for innovation, but also want to implement it.

Innovation Management

3.5%

of our sales revenue is invested in R&D.

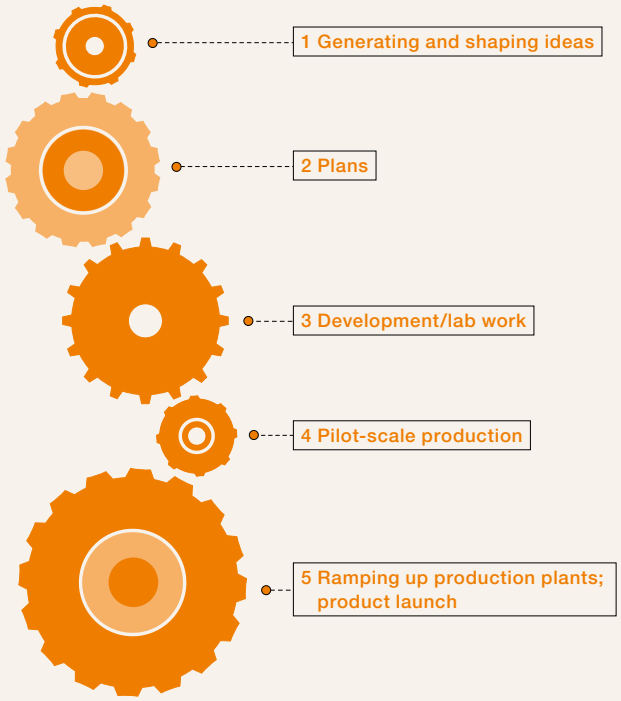
24%

of our sales revenue was achieved with new products in 2011.

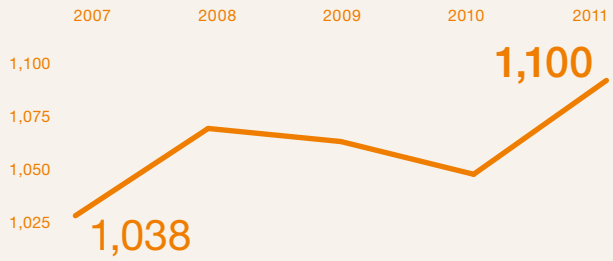
Outstanding Research

- The "Thomson Reuters 2011 Top 100 Global Innovator Award" distinguished WACKER as one of the most innovative companies in the world. WACKER received the award for its outstanding innovation and patents.
- WACKER received Germany's 2011 Best Innovator Award in the Chemical category for its sustainable innovation management. A.T. Kearney and German business weekly "WirtschaftsWoche" organized the competition, in which more than 100 companies participated.

Stages in the Innovation Process



5-Year Comparison of Employees in R&D



179

researchers have entered for the Alexander Wacker Innovation Award since 2006.

In 2011, WACKER worked with more than 25 international research institutes on around 64 research projects. In 2011, we enlisted around 66 students from 33 international universities to write theses. In the 5 years since the Institute of Silicon Chemistry was established at the Technical University of Munich, we have funded a total of 44 scholarships, including 5 post-docs. So far, 25 of our scholarship holders have completed their doctorates. 14 scholarship holders are currently working on their theses.

Being Able to Think in Detail. And Act on a Big Scale.

An innovative analytical method improves production processes.

1

1
Specialists in process optimization: Dr. Thomas Frey (left), head of Process Development and Productivity at Corporate Engineering, and Jochen Groß, silane production manager in Burghausen.

2
The model fluidized-bed gives the engineers an insight into how the reactor works. This is where analyses are performed.

2

A radically new insight into two key processes used in the chemical industry will boost the efficiency of silicone and hyperpure silicon production while reducing raw material consumption.

Jochen Groß knows “his” plant on the WACKER site in Burghausen like the back of his hand. The 3,000-square-meter complex has been the focus of his working life for over 15 years. “Up there,” says the production manager pointing to the walkways at a dizzying height, “you can feel the eddies inside the reactors. Standing there, I can sense whether the reactor is running properly.” Each year, the facility produces several hundred kilotons of methyl chlorosilanes. These serve as feedstock for producing silicones – fluids, rubbers and resins with applications in such industries as construction, automotive, plastics, electrical and textiles.

A Fluid Contact Mass

The principle behind the process is anything but new. It was discovered back in 1940 by Eugene Rochow, an American, and Richard Müller, a German. It starts from solid silicon and gaseous methyl chloride. Copper is also required as a catalyst, to increase the reaction rate and make the process economical.

The silicon and copper, along with co-catalysts, are finely ground and then mixed to make the contact mass. In the Müller-Rochow reactors at WACKER, the methyl chloride flows up through a bed of contact mass particles at high speed. “This causes the particles in the contact mass to behave like a boiling liquid. In this fluidized bed, bubbles are created and the particles constantly rise and sink,” explains Groß.

There is another key production process, well-established at WACKER, that is performed in fluidized-bed reactors, namely the industrial-scale production of trichlorosilane – the precursor of hyperpure silicon in solar cells and semiconductors. Trichlorosilane (TCS) synthesis, too, is the first stage of a value-creation chain but distinct from that of the Müller-Rochow process. TCS synthesis is therefore the responsibility of a different WACKER business division. Yet the two processes are in fact very similar. In TCS synthesis, too, a gas is forced through solid metallurgical grade silicon, where it reacts to form the product.

WACKER performs both of these processes in fluidized-bed reactors because these systems offer optimum thermal and mass transfer. The yield is higher, i.e. more product. And local hotspots are avoided, which could otherwise compromise the product’s composition.

“Up until now, Müller-Rochow and TCS synthesis have been studied empirically,” says Dr. Thomas Frey, WACKER’s head of Process Development and Productivity at Corporate Engineering. This means that records are kept of how changes in the conditions within the reactor affect the quantity and composition of the product. The information and experience accumulated over the years have helped WACKER to make continuous improvements to its processes. “However, there’s limited scope left for making further empirical optimizations ,” admits Frey.

The problem is that there are too many variables. Hundreds of them, he says: starting with desirable and undesirable impurities in the silicon and catalytic additives, then the crystal structures of the solids, and their particle sizes, and finally process engineering variables such as pressure, temperature and flow rate. “Looked at on this scale, the Müller-Rochow and TCS syntheses constitute a black box – very complex systems that can only be examined in terms of their external behavior,” explains Frey. Consequently, attempts to elucidate the process in recent years were limited to the use of computers and ingenious algorithms to explain the interplay of the various factors.

The Reactor Is No Longer a Black Box

“Now, though, a new and highly promising approach has been developed that enables us to simulate the processes inside the reactor realistically using a computer,” adds Frey. Meanwhile, in production, Jochen Groß is also testing the new findings, which could prove to be a milestone in making production more versatile, cheaper and more economical on resources. What has made the two so optimistic is the outcome of some truly cutting edge research. A team led by Dr. Anne Alber from Corporate R&D has refined a special analytical technique to the point

3

5

4

Getting to Grips with a 3,000 m² Plant

3
The control room of a metallurgical-grade silicon production plant in Burghausen. Every detail of the plant is documented in plans and computers.

4
Skyline view with the fluidized-bed reactors and distillation columns at WACKER's Burghausen. site.

5
The process engineers have carefully planned the chemical production facilities down to the minutest detail.

where it can now be used to view individual, fundamental processes occurring on the surface of the solid particles. The graduate chemist was honored with the Alexander Wacker Innovation Prize 2011 for her work.

The Particles Can Now Remain in the Reactor for Analysis

"What makes the technique so special is that we can use it to analyze the solids at the molecular level minute by minute in realistic conditions as the reaction is happening," explains Alber. In the past, analysis entailed removing solid particles from the reactor for examination. The time delay allowed the particles to cool down and also to react with oxygen in the air. As a result, this analysis gave little information about what was really happening inside the reactor. Thanks to this new, innovative technique, WACKER researchers have already gained a very detailed idea of what Alber calls the reaction network of the Müller-Rochow process. The formation of methylchlorosilanes on the surface of the contact mass particles actually proceeds via a complicated process involving scores of intricately interlinked intermediate steps. The catalyst, too, plays a number of active roles, even though it ultimately emerges from the process virtually unchanged.

As Anne Alber has only recently begun to apply her special analytical technique to trichlorosilane synthesis as well, concrete results are not yet available. "Much of what we learned from our pioneering work on the Müller-Rochow process is transferable to the trichlorosilane synthesis. So, progress will be swift," assures Alber.

Armed with the fresh knowledge of the fundamental processes occurring in the Müller-Rochow direct synthesis, the WACKER process engineers have identified ways to further improve it. They are now assessing which of the possible recipes will be particularly effective at lowering silicon consumption in practice and at boosting productivity. For now, they are conducting model trials in fluidized-bed reactors the size of a glass beaker. Then, they will scale this up to reactors capable of converting several kilograms of raw materials. "Many of the new optimization methods have already gone to factory trials at the ton scale and will be phased into regular production," adds Frey, visibly pleased.

6
At the Munich-based Consortium, Dr. Anne Alber researches into the processes taking place in the Burghausen reactors.

7
When an innovation succeeds in this model, it is gradually introduced into production.

6

7

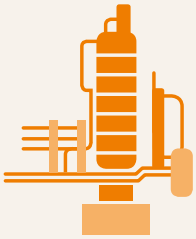
Process Innovation for Silane Production

80%

WACKER's group sales are mainly derived from products whose precursors are produced in fluidized-bed reactors. Here, the fluidized bed of solid particles comes into intimate contact with the fluidizing material (gas or liquid), resulting in a dynamic exchange in all directions. This leads to good thermal transfer within the reactor, which is ideal for an efficient, energetically favorable process.

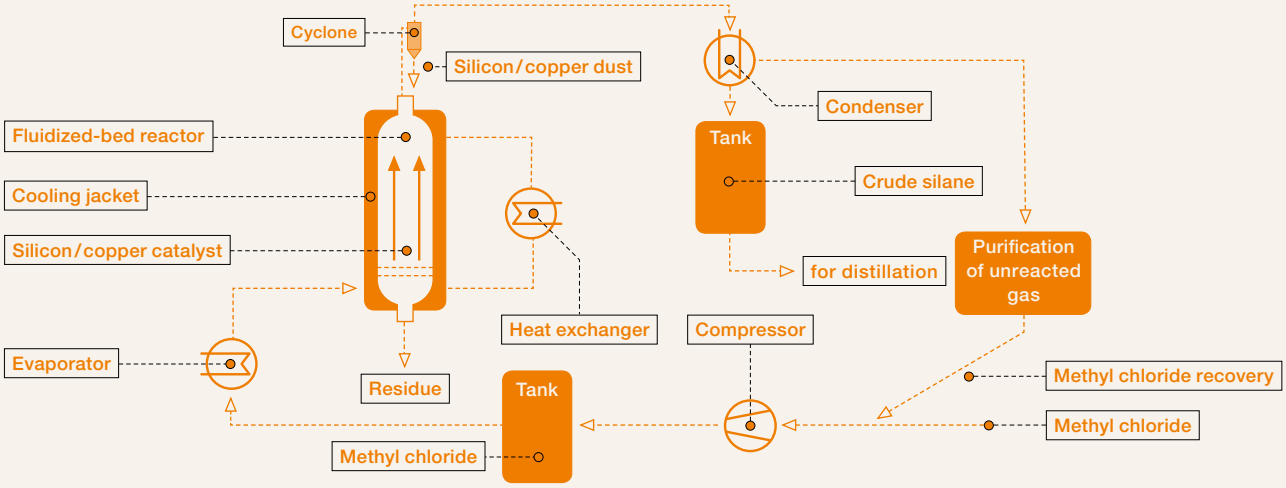
85m

is the height of the distillation columns used to synthesize chlorosilanes at WACKER. Such columns are in use at the Burghausen and Nünchritz sites.



Müller-Rochow Direct Synthesis

The U.S. American Eugene Rochow and the German Richard Müller independently discovered the basic principle for manufacturing silanes – Mülller-Rochow direct synthesis – in 1940. It starts from solid silicon and gaseous methyl chloride. Copper, as a catalyst, speeds up the reaction. In the Müller-Rochow reactors at WACKER, the methyl chloride flows up through a bed of contact mass particles. Then the methylchlorosilanes that are produced are separated from unspent methyl chloride in a condenser.



2,500 Silicone Products

WACKER manufactures silicone products using Müller-Rochow direct synthesis. As feedstocks for producing silicones, methylchlorosilanes make possible many products that are essential to modern life. They can be found, for example, in cars, electrical equipment, plastic products, textiles and buildings.

Process Innovation for Polysilicon Production

1839 was the year that Alexandre Becquerel discovered the photovoltaic effect. The French physicist immersed two platinum electrodes in an acid bath to create a battery. Then he separated the electrodes optically and exposed one to light while shading the other. He found that more current can be obtained from the battery when the electrode is exposed to sunlight.

1904 was when the German physicist Phillipp Lenard discovered that certain metals release electrons from their surface when irradiated with light. He thereby gave the first explanation of the photoelectric effect, obtaining the 1905 Nobel Prize for Physics for his work.

1905 was the year that Albert Einstein, using quantum theory, explained that light can exist either as a wave or a particle. He realized that the energy of a light particle (photon) depends on the wavelength. He, too, proved that bombarding a metal with light beams releases electrons. Using two electrodes, he was able to utilize the electrons as electric current. Einstein was awarded the 1921 Nobel Prize for Physics for these discoveries.

200

megatons

of carbon dioxide can be prevented by the amount of silicon that WACKER produced in 2011 for use in photovoltaic modules. In 2014, the potential saving is estimated at 380 million metric tons.

6

months

is the energy payback time for a photovoltaic cell in the Sahara. This is how long it must operate in order to generate the amount of energy used in its manufacture. In Northern Germany, the energy payback time is 18 months.

30

years

is the lifetime of crystalline solar cells. After 25 years, manufacturers still offer a performance warranty of 80 percent.

Combining the Advantages of Silicones and Organic Polymers

GENIOSIL® Hybrid Polymers Are the Basis of Completely New Product Innovations.

1

1
Dr. Rudolf Hager heads the alpha-silane project at WACKER SILICONES. After training as a chemist, he has worked for WACKER ever since gaining his doctorate in 1990. Silanes have occupied him for ten years. The 51-year-old also shows his stamina and determination in his hobbies – swimming, cycling and jogging.

2
This instrument is used by the researchers in Burghausen to measure the tensile strength of innovative adhesives.

2

3

4

5

10 Years
of Intensive Research

3
A Burghausen staff member tests various adhesives for tensile strength.

4
A close up of the tensile testing instrument used for hybrid polymers.

5
Preparing batches of innovative adhesives to test according to customers' demands.

WACKER is a leading producer of silicones and polymers. Drawing on their expertise in these two areas, its researchers have now created a totally new product class.

Karl Kiermaier, facility manager at the WACKER site in Burghausen, has never bothered to count the many first-aid kits and safety glasses distributed around the site. They probably number in their thousands. As the company's main production site grows, he and his colleagues have to continually anchor more and more plastic boxes to the wall – to hold safety glasses or gauze bandages. This can be troublesome – especially where a wall forms part of an explosion zone harboring, say, flammable solvents. Clearly, an electric drill is out of the question for safety reasons. Now, though, Kiermaier's job has been made quite a bit easier thanks to a recent invention by Corporate R&D. Whenever he leaves his workshop these days, instead of his drill, he simply takes a tube of adhesive along: GENIOSIL® N70-HT. The HT stands for high tack. For Kiermaier that means "just press firmly in place for an instant bond."

Innovation Award for a High Performance Adhesive

Banal though that might sound, it represents a crucial leap forward for modern industries and applications. Adhesives are a great way of joining things together. They eliminate the need for drilling holes, or inserting screws and rivets. Nor must the material be heated, as in the case of welding. Adhesives are unobtrusive and easy to use. Modern automobiles contain the equivalent of a 100-meters of adhesive seams, and shipbuilders and aircraft makers, too, are employing them more and more. Whatever the application, the adhesives and sealants must be easy to use, fast curing and ecologically sound.

GENIOSIL® high-performance adhesives fit the bill exactly, which is why, last September in London, WACKER chemist Dr. Rudolf Hager was presented with the New Product Innovation Award by the management consultant Frost & Sullivan. Hager heads the key Group project which forms the basis for the new product range and goes by the somewhat cumbersome name of "Silane-Curing Organic Polymers." For him, the award is a milestone, "because it shows that market experts and analysts, too, are excited about our technology."

Market experts? Analysts? Surely a chemist should be more interested in garnering praise from his peers and boosting his scientific status. Hager, though, prefers to seek out new solutions for new markets. Take adhesives, for example. Two thirds of the 1.7 million metric tons of adhesives consumed annually contain either silicone or polyurethane. The new hybrid adhesives combine the advantages of both. "We're not re-inventing adhesive bonding, but making it easier to find new solutions," explains Hager. And floorers could hardly fail to be delighted with a wood floor adhesive that does not take days to cure, is elastic, does not present a health or environmental risk and is still easy to use. In these new GENIOSIL® hybrid polymers, WACKER is supplying adhesives manufacturers with the component for an adhesive that is both technically and ecologically optimum.

2,000 metric tons of hybrid polymers are currently in production in Burghausen. It may still be a niche business for WACKER, but it is growing fast. The new polymers will not just wind up as binders in wood floor adhesives. They make prime candidates for all bonding, sealing, coating and foaming tasks. They can be used to customize a wide variety of products to specific tasks: such as all-round assembly adhesives, isocyanate-free construction foams, flexible sealing membranes and scratchproof top coats for the automotive industry.

Developing the hybrid polymers took ten years of intensive research. Yet, it was clear to the basic research scientists in the Consortium from the outset that they had to focus on the intended application. The objective was ambitious: the researchers wanted to create a wholly new class of product combining the advantages of organic polymers with those of silicones. The small team was left alone to focus exclusively on this topic.

Methodically Improving the Success of Innovations

So, it is no coincidence that a successful product is now on the market. WACKER's strategy of innovation ensures that research is focused on market needs. To appreciate how revolutionary this approach is, it is necessary to delve a little into the history of the German chemical industry. It has always involved a lot of experimentation. But all too often, after years in the laboratory, the basic researchers came up with some wondrous inventions

that were not really needed in the outside world. In recent years, WACKER has managed to systematically increase the success of its innovations. With global competition intensifying and production cycles becoming ever shorter, there is no such thing now as a business that is not innovation driven. Hybrid polymers are evidence that a Group like WACKER is not an immovable colossus. WACKER is the only company in the world with industrial-scale production capability for highly reactive alpha-silanes, the precursors for the new polymers.

Back in 2001, the laboratory researchers expended tremendous time and effort on synthesizing the first few milliliters of these specialty silanes. “The amount we made wouldn’t have filled my coffee mug,” recalls Hager. At that time, nobody had a clue about how to set about producing large quantities. Alpha-silanes posed a challenge to all, because they are roughly one-hundred times as reactive as conventional silanes. “This reactivity is a huge advantage, but you must be able to control it,” explains Hager. The technical service managers and engineers had to draw on their experience and creativity to develop the production facilities in Burghausen; as a result, many processes in the complex production method are unique.

Versatile Hybrid Polymers

The first batches of the hybrid polymers to emerge from the pilot plant in 2005 were destined for established markets, primarily the construction industry. However, because the hybrid polymers are so versatile, new solutions are continually being devised in the laboratories in Burghausen. Trials are underway, for example, to seal damp walls with a membrane of hybrid polymers. The chemists are also working on a waterproof wood glue that meets the most stringent of the relevant standards, DIN D4. So far, only adhesives made from polyurethanes meet this standard, “but we’re close to achieving it without polyurethane,” says Hager.

Soon, innovative solutions for new, lucrative application areas will become available. WACKER sees itself as a provider of products for innovative solutions, which it creates by working closely together with customers . The rotor blades of wind turbines, for example, are growing larger and larger and must withstand enormous forces. Here, WACKER is developing the optimum adhesive for this purpose. For the automotive industry, WACKER is formulating new adhesives that will increase the economics of carbon fiber processing. And facility manager Karl Kiermaier might never need to use anchors and screws ever again.

6

7

6
The yellow fluid in the glass is one of Dr. Rudolf Hager’s closely guarded secrets.

7
WACKER produces hybrid polymers at this Burghausen plant.

Product Innovation

2011

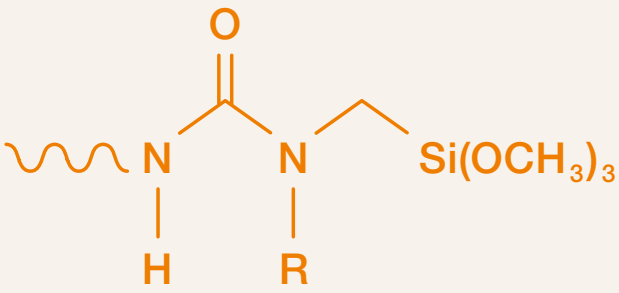
New Product Innovation Award

WACKER was awarded the New Product Innovation Award in 2011 by the management consultant Frost & Sullivan for its GENIOSIL® product class in the construction field.

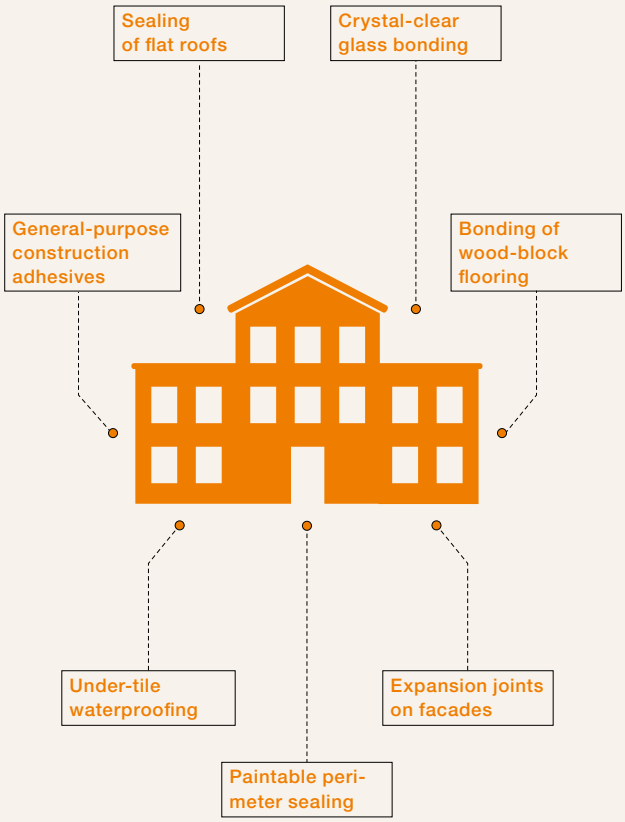
1.7m Tons

of sealants and elastic adhesives are consumed per year. Two thirds of these are based on silicone or polyurethane. The new hybrid adhesives combine the advantages of both.

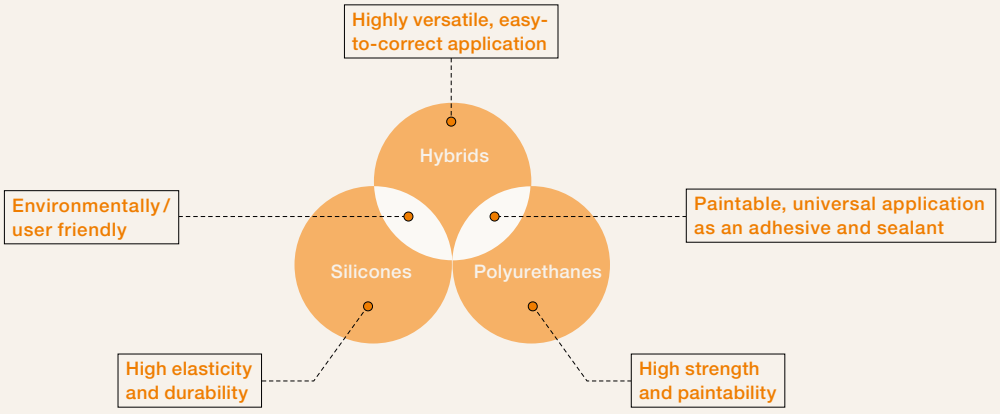
Chemical formula for an alpha-silane



Everyday Applications of Silane-Crosslinking Hybrids



Reactive, moisture-curing adhesives and sealants have been an integral part of construction for decades. Silicones and polyurethanes are the best known, with hybrids increasing in popularity, too.



Creating More Energy for Tomorrow's Mobility.

Silicon Greatly Enhances Battery Efficiency.

1

1
Dr. Jürgen Pfeiffer sees energy storage as one of tomorrow's key technical and economic challenges.

2
A look into the scanning electron microscope used to prepare SEM micrographs for analyses.

2

Silicon is the key to improving the energy density of lithium-ion batteries. WACKER researchers are investigating ways of increasing the range of future electric vehicles up to fourfold.

Mumbai never stands still. Especially not at noon, when the "dabbawalas" in their pristine white caps are swarming around the center of the 35-million metropolis. They deliver lunch in small boxes direct to the offices that make up the Indian commercial center. Barely 20 years ago, this would have been a hazardous undertaking, sprinting in sandals between honking taxis, overcrowded buses and clattering mopeds. Back then, in 2011, the city had a population of 20 million, and was permanently shrouded in a grimy, acrid smog. But now, in 2030, the noise and stench have disappeared. Electromobility dominates the city center as exhaust-free urban vehicles guided by smart vehicle telematics drive silently around the congestion-free city. Hopelessly utopian, perhaps?

In 2011, chemists, solid state chemists and physicists based in WACKER's Corporate R&D facility in Munich were all working intensively on energy-storage technologies that will pave the way for viable, sustainable electromobility. For a year now, Dr. Jürgen Pfeiffer, a chemist, has been in charge of Technology Management in the Energy Storage and Conversion section. He is consolidating the company's expertise in silicon, silicone, silane and polymer chemistry and channeling it into lithium-ion cell research. "You won't find this combination anywhere else in the world," he says, proudly. "That holds big opportunities for WACKER."

Unity amongst Different Industries

Back in 2010, the German government launched the "National Platform for Electromobility" (NPE) aimed at bringing a million electric vehicles onto the streets by 2020 and at making Germany the lead market for electromobility. "WACKER is positioning itself here as an expert manufacturer of active materials," says Pfeiffer, who, along with his colleagues, represents WACKER on the NPE working groups. "Never before have companies and industrial sectors shown such solidarity. From raw-material suppliers to automotive companies, the response has been fantastic, with representatives even getting involved in laying down definitions of requirements and specifications. That has accelerated the pace and efficiency of developments."

The energy storage systems currently employed in electric vehicles cannot match the 600-km range of combustion engines. The average battery pack is only good for 60 to 100 kilometers at the moment. That may not sound like a lot, but "in Europe, more than 70 percent of car trips are shorter than 40 kilometers a day," says Pfeiffer. "If these were made on purely regenerative electric power alone, the bulk of the carbon dioxide emitted by private transport today could be avoided."

It is an opportune moment for WACKER to become involved in car-battery development. "Electricity storage technology is set to become the technology carrier in the electrification of powertrains," says Prof. Ferdinand Dudenhöffer, Director of CAR (the Center for Automotive Research) at the University of Duisburg-Essen. Dudenhöffer expects sales of high-performance vehicle batteries to hit €130 billion by 2025.

Asia has set a blistering pace on the path to realizing these "turbo" batteries. At the forefront are Japan, Korea and China, the most important makers of small electronic devices, who have played a central role in advancing lithium-ion battery technology. The principle is simple: during charging, positively charged lithium ions migrate from the cathode to the anode. During discharging, the process is reversed. The more lithium ions that the anode and cathode can store, the greater is a battery's capacity.

While the cathode usually comprises transition metal oxides, e.g. of cobalt or manganese, or iron phosphate, the anode nowadays is predominantly graphite. The researchers aim to progressively replace it with silicon. This is because silicon can theoretically absorb up to 10 times as many lithium ions as can carbon. The problem is graphite swells by roughly 10 percent when it absorbs lithium ions, compared with up to 300 percent for silicon. "Our work here is focused on designing silicon-based active materials that are firmly attached to the anode, but are still inherently flexible. The goal is to substantially reduce the absolute volume swell accompanying lithium-ion absorption and so significantly extend the lifetime of such materials," explains Pfeiffer.

3

1 Million

Electric Cars by 2020

4

5

3
The Consortium in Munich performs tests for coating the battery electrodes.

4 and 5
When testing silicon for use in battery cells, WACKER researchers work in a cleanroom environment.

But irrespective of what optimization work is performed, the weight must be right: automakers nowadays factor 200 kg for the battery into every 1,000 kg that a vehicle weighs. “Consequently, we have to pack much more energy into those 200 kg.” The electrolytes employed at the moment consist of low-boiling organic compounds that are highly flammable. This means that the casings for protecting the system must be made of a substantial material. “The use of silicon-containing electrolytes, which are more flame resistant, or even form a harmless ash, could make a sizable contribution toward increasing the safety of lithium-ion batteries. They could help reduce weight by eliminating the safety measures that would otherwise be necessary.

Innovations Shift Focus onto What Is Feasible

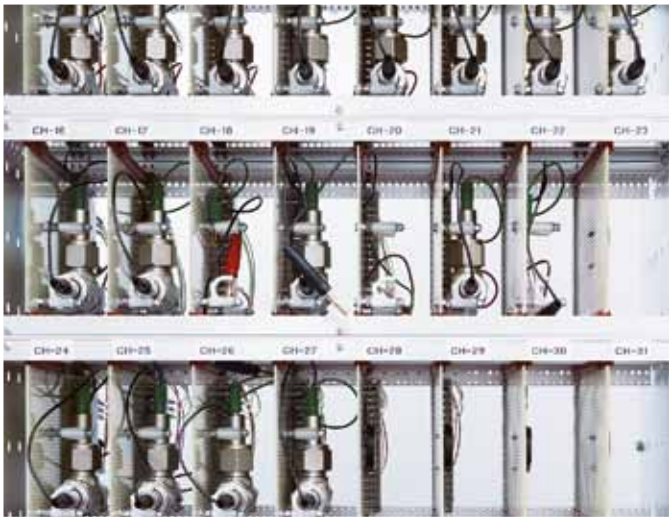
To help them resolve such complex chemical and physical issues, the developers at WACKER have devised a clearly structured innovation schedule called the Stage Gate Process, which spans the range from initial idea to market launch. “Stage Gate requires a strict focus on what is feasible,” stresses Pfeiffer. But there must also be scope left for independent research. The 44-year-old has only praise for the many creative spirits within the various participating teams. “Being innovative requires not only outstanding expertise, but also enthusiasm, targeted action and the ability to think outside the box.” To this end, information exchanges are held at all working group levels. They ensure that communication lines remain open across product and process innovations. These are backed up by a constant exchange of ideas with companies, universities and scientific institutes.

“Step by step gets you to the top,” says Pfeiffer, who is an avid rock climber in his leisure time. He thinks that it will be 2025 or 2030 before the post-lithium-ion technologies of the future, based on lithium-sulfur or lithium-air, come onto the market.

These technologies could possibly quadruple the range of today’s electric vehicles. He is convinced that, here too, WACKER will still be in the vanguard of developments, thanks to its expertise in active materials.

If high-performance energy-storage devices help electromobility to make further inroads around the world, then, during rush hour in 2030, it might well be the dabbawalas who enchant downtown Mumbai with the aroma of steaming curry.

6



7

6 Battery test rig at the Consortium.

7 The researchers use the scanning electron microscope to analyze anode structures.

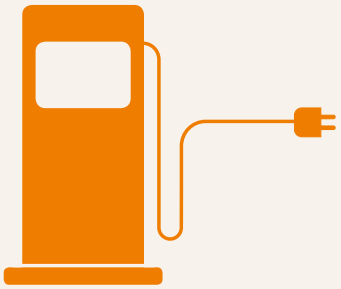
Focus Innovation

66%

of 14 to 29-year-olds in Germany believe that electric vehicles will supersede conventional combustion engines. Younger people are even more certain. Among the over fifties, 55 percent believe that the future lies with the electric car.

Charging Stations

for car batteries have been available in all German cities since 2011.

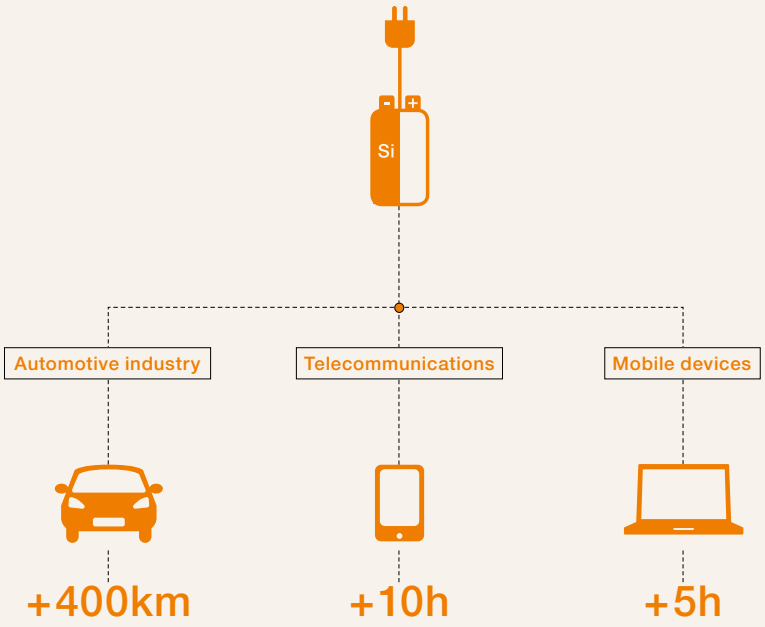


Li

Lithium

named from the Ancient Greek “lithos” (stone) is a chemical element with the symbol Li and the atomic number 3. The element was called “lithium” because, unlike sodium and potassium, it was discovered in stone. It is the alkali metal in the second period of the periodic table of elements. Lithium is a light metal with the lowest density of all solid elements under standard conditions.

Goals for the application of silicon-based lithium-ion batteries and the potential for increasing their power.

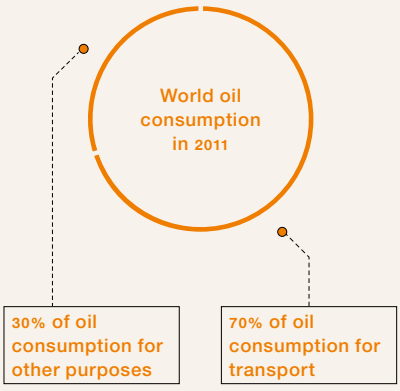


1 Million

electric vehicles, at least, should be running on Germany’s roads by 2020. That is the goal of the National Platform for Electromobility. It is estimated there will be 5 million electric vehicles on China’s roads by 2020.

70%

was the share of world oil reserves consumed by transport in 2011. At the current consumption rate, oil reserves would only last another 40 years.



60–160km

is the current range of battery powered cars. Over 70 percent of all journeys in Europe are less than 40 kilometers.

1899

was the year that, on April 29, the Belgian racing driver Camille Jenatzy became the first person to drive a car at over 100 kilometers per hour. His vehicle was called “La Jamais Contente” (The never satisfied), and was electrically driven.

How is something new created? Through a mix of knowledge, creativity and perse-verance. And the will to make things better. We work at this day in, day out, constantly developing ourselves as well as innovative products.

1

For Our Shareholders

21%

of the R&D Budget for Key Projects

Promising Fields for WACKER

WACKER operates in the highly promising fields of biotechnology, energy, construction and automotive engineering, among others. Further focuses of our R&D work are catalysis and semiconductors. Our researchers devote particular attention to energy storage and renewable energy generation.

1

For Our Shareholders

Dear Shareholders,

In fiscal 2011, WACKER posted a good result again despite having originally set out to achieve even more. The year began well and, through to the end of the third quarter, it still looked as though we would perform even better than in 2010, our most successful year to date. But, during the last three months of the year, severe turbulence on the photovoltaic (PV) market put a significant damper on our sales and earnings, which had been excellent up until then. Weaker demand in our semiconductor business had an additional impact on our performance. All in all, we raised sales by 3.4 percent to €4.91 billion. EBITDA declined by 7.6 percent to €1.1 billion, just short of the previous year's high level.

The debate surrounding subsidies for renewable energies and the costs they entail, along with the consolidation taking place in the international PV market, are leading many to question whether the photovoltaic industry will be able to continue its success in the coming years. As one of the world's leading suppliers of polysilicon, we are well acquainted with the market and can assess its mechanisms.

The year 2011 marked a turning point in the development of this highly dynamic and continuously growing market. On the back of high growth rates and attractive market parameters, many new competitors – especially from China – have entered the market at all points along the supply chain, rapidly building up production capacities. Even a market with average growth rates of sometimes over 50 percent cannot fully absorb all this additional capacity. Initially, fierce price competition arose in the downstream segment of the supply chain – among producers of solar wafers, cells and modules – and some suppliers are unlikely to survive. Today, a solar module costs half of what it did just five years ago. Even though the number of photovoltaic systems installed was again higher in 2011, supply exceeded demand. As a result, our customers built up high inventories in the course of the year. Reduction of these inventories led to both lower polysilicon prices and demand, which is reflected in our fourth-quarter figures. During that period, we approached all our customers and, together with them, worked out individualized solutions here.

We have previously already pointed out that EBITDA margins of 50 percent and above could not be maintained in a chemical business in the long term. Strong market growth combined with a scarcity of the raw material polysilicon produced an exceptional situation, which benefited us to a high degree for several years. Thus, it does not surprise us that the high margins are now declining. What is surprising is the pace of this change.

Polysilicon Business Retains Its Attractiveness

The business of providing polysilicon to the photovoltaic industry is set to remain attractive in the future and will continue delivering high margins. Those margins are necessary, too, if we are going to drive forward the capital-intensive expansion of production capacity and meet further PV-sector growth.

We made very good progress here this year by commissioning expansion stage 9 of our polysilicon production facilities at Nünchritz. The new polysilicon production plant in Tennessee, which is the biggest investment project in WACKER's history, is making very good strides, too. For WACKER, the new U.S. production site is a project of strategic importance as it will enable us to establish an integrated production facility there, from which the Group will profit in the long term.

Our high level of capital expenditures – in 2011 alone we invested approx. €980 million – shows our expectation of continued PV growth as a key energy source and WACKER's intention to remain a leading manufacturer of polysilicon for the PV market. As a cost and quality leader, we even stand to profit in the long run from the necessary consolidation of the market. Indeed, WACKER is excellently positioned to reap the benefits.

In Germany, the decision to switch to renewable energy sources has already been made. It is a venture that harbors many risks, but also promises numerous opportunities. We intend to utilize these opportunities to deliver the products and services required for the transition and successfully market them worldwide.

We must take fast and decisive action when a business consistently does not deliver the returns the company expects. The fact is that the market for 200 mm silicon wafers will continue to decline, which is why we decided to realign our production capacities for this wafer diameter to match market demand. Ultimately, the decision was taken to shut down our Japanese site at Hikari by mid-2012, as painful as that certainly is for our Japanese employees. But it is one of the tasks of the Executive Board to stay in touch with the realities of the market and to adjust the company's strategic direction when necessary. The strategy of lead sites initiated in 2009 will allow us to shift production volumes for 200 mm wafers to Singapore and Portland – a move that will serve to improve both plant utilization and fixed-cost structures at those locations. This measure will lower our costs by €30 million annually.

The year 2011 showed that one of WACKER's strengths lies in the combination, and the risk profile, of our various lines of business. Despite strong headwinds from the raw-material side, our three chemical business divisions performed well. WACKER POLYMERS, in particular, achieved a substantial increase in sales. The replacement of styrene butadiene with our VAE dispersions was one of the main spurs for growth, and we intend to repeat that growth in 2012.

In 2008, we seized the opportunity to acquire full ownership in two joint ventures that we had previously run together with Air Products. This move has strengthened our polymer business. Today, we have access to a complete supply chain for dispersions and dispersible polymer powders in the Americas, Asia and Europe. We have been able to substantially expand our position in North America. Furthermore, the polymers segment is proving to be relatively immune to crises, and regularly generates a healthy cash flow.

WACKER Shows a Solid Financial Position

A strong balance sheet and sound finances have always been WACKER hallmarks, and we will put a special focus on them going forward. As always, our goal is to maintain a sound equity base and sufficient liquidity. All of our capital expenditures, which were again very high in 2011, were financed from our own cash flow and through customers' advance payments. Our cash and cash equivalents exceed our financial liabilities by almost €100 million. This situation will change in the coming years. Our net financial liabilities are set to grow because our capital expenditures will remain high while the level of advance payments received from our customers for future polysilicon deliveries will gradually begin to come down as our deliveries are made. Despite the planned increase in debt, we will continue our sound financial policies.

We set a high benchmark for our balance sheet and finances, and the same goes for our dividend policy. That policy is geared toward offering our shareholders an appropriate and sustainable share in our economic success – one that neither depletes the funds needed for future growth, nor impairs the company's financial foundation. At the Annual Shareholders' Meeting in May, the Supervisory and Executive Boards will propose a dividend of €2.20 per share entitled to dividends for 2011. That equates to a distribution ratio of 31 percent, based on the net income allocable to Wacker Chemie AG's shareholders, and is thus above the minimum distribution ratio of 25 percent.

WACKER's share price performed well until mid-2011, but after hitting a high of €172.80 in May, it underperformed for the rest of the year relative to the MDAX. The combination of high sovereign debt in several eurozone countries and fears of an economic downturn caused share prices to tumble. The capital market's negative forecast for the photovoltaic industry had an additional impact and proved to be a key factor influencing the performance of WACKER shares in the course of 2011. Needless to say, we are not satisfied with our share price performance.

As you are well aware, many of the problems also surrounding the financial and sovereign debt crises remain unsolved and therefore, in large part, the economic climate will remain challenging for us in 2012. Nevertheless, we are optimistic that 2012 can turn out to be a positive fiscal year for WACKER, with rising sales and a good operating result.

Growing through Our Own Resources

The Group's strategic focus is to continue growing through our own resources. That remains evident in our capital expenditures, where we will continue to concentrate on our new polysilicon site in Tennessee, set for completion by the end of 2013. But our expansion projects for WACKER POLYMERS and WACKER BIOSOLUTIONS in Nanjing, too, underscore the opportunities we have to grow in the Chinese market.

As for WACKER SILICONES, we will expand our business in the emerging economies of Brazil, China and India since demand for higher-quality products in these markets is set to increase as living standards rise. Our product portfolio enables us to cater to this demand outstandingly. The focus of the WACKER POLYMERS division is on consolidating its leadership position in the construction industry in our established sales markets and on aspiring to leadership in the growth markets of Brazil, China and India. As far as dispersions are concerned, we will press ahead with the substitution of styrene-butadiene polymers with our products. At WACKER POLYSILICON, we want to firmly defend our position as a quality and cost leader. Siltronic will continue to implement the measures taken to enhance efficiency and increase productivity in this division. We intend to further expand our business with 300 mm silicon wafers, and are focusing our attention here on ramping up capacity at our joint venture Siltronic Samsung Wafer in Singapore.

Our broad portfolio, our strong presence in the world's key economic regions, and our status as a market and technology leader together form a solid foundation for driving forward WACKER's growth in the years ahead.

In all that we undertake, we rely on the high level of commitment and profound expertise of our employees, who have been responsible for WACKER's success to date. That is why my colleagues and I on the Executive Board wish to express our thanks to the entire WACKER workforce.

In the same measure, our thanks go to our customers and suppliers around the world for our successful working relationships, which are based on reliability and mutual trust. I would like to express my gratitude to you, our shareholders, for the open dialog we enjoy with you and for the trust you have placed in our company.

Munich, Germany, March 2012

Dr. Rudolf Staudigl
President & CEO of Wacker Chemie AG

Executive Board

Dr. Rudolf Staudigl
President & CEO

SILTRONIC

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

Dr. Joachim Rauhut

WACKER POLYSILICON

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

Dr. Wilhelm Sittenthaler

WACKER SILICONES

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

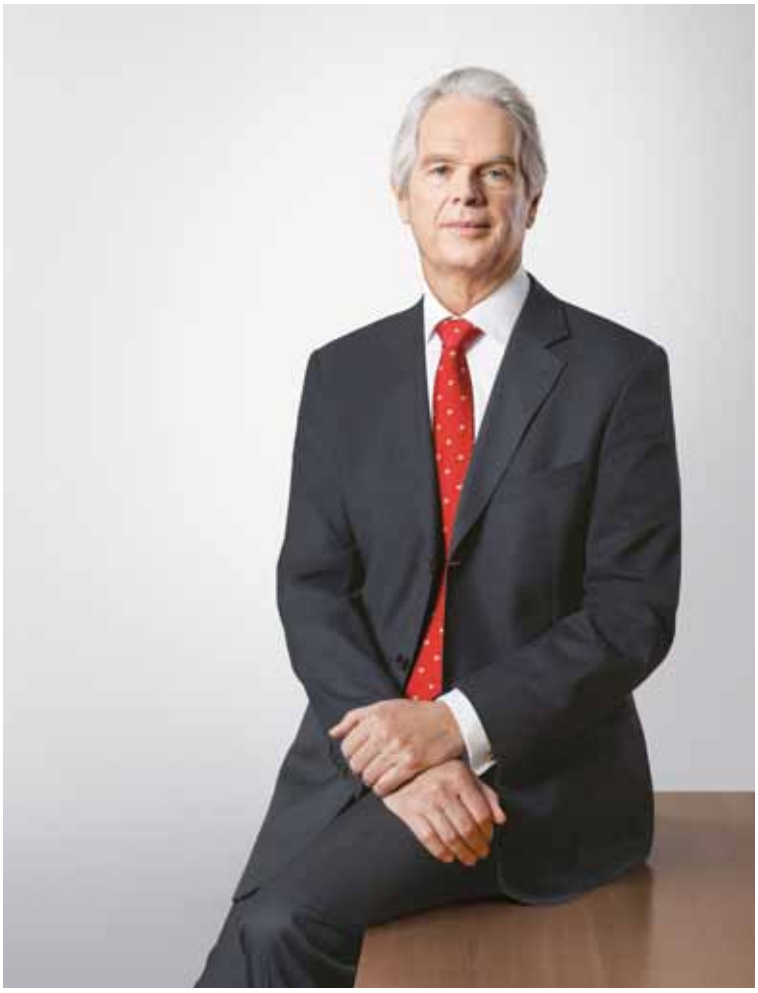
Auguste Willems

WACKER POLYMERS
WACKER BIOSOLUTIONS

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

(From left)
Dr. Joachim Rauhut, Dr. Rudolf Staudigl, Auguste Willems, Dr. Wilhelm Sittenthaler

Report of the Supervisory Board



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

Dear Shareholders,

WACKER succeeded in achieving a good financial result in 2011, though early in the year we had high hopes of even better performance. The first nine months were very successful for us. But then consolidation on the PV market in the last three months slowed our sales and earnings development significantly. Despite our strong standing as a price and quality leader in polysilicon, this sharp market correction left its mark on WACKER.

WACKER's business will continue to be influenced by cyclic swings for the foreseeable future. The important question is whether a company is capable of mastering them successfully. WACKER is a healthy, financially strong and highly innovative company with attractive business fields and a unique pool of expertise. With the exception of the 2009 crisis, our sales have grown steadily. WACKER has expanded its production capacities in line with its growth strategy and the ongoing internationalization of its operations. Since 2006, WACKER has invested over €4.5 billion in the company's future. That has made WACKER not only larger, but also substantially stronger.

This expansion strategy is underscored by the investment project in Tennessee, USA. Despite the high volume, WACKER financed its investment spending last year from its own cash flow, including customer advance payments. The biggest single investment in our corporate history is WACKER's springboard for establishing an integrated production facility in one of the largest chemical and industrial centers in the world. That not only opens up new market perspectives in the US, but also allows us better to balance out fluctuations in the dollar-to-euro exchange rate. With an integrated site in Tennessee, WACKER can now exploit one of its major strengths in the Americas, too, and advance its business further here.

The importance of the US market in WACKER's success is further underscored by the growth of the WACKER POLYMERS business division. We substantially increased sales in the Americas in 2011 by offering VAE dispersions as an alternative to styrene-butadiene polymers. WACKER POLYMERS' growth also shows that we made the right decision in 2008 to take full ownership in our two joint ventures with Air Products. This acquisition is now yielding sustainable benefits.

The investment in Tennessee also puts WACKER on a good long-term footing globally. As a result, the Group will possess modern, integrated production sites in the three key regions of the world.

A considerable part of this success is due to WACKER's employees. Through their hard work, their profound expertise and their commitment, they are an essential guarantor of the company's positive growth. The Supervisory Board of Wacker Chemie AG thanks them for their achievement.

Continuous Dialog with the Executive Board

At WACKER, sound corporate governance and control are built on a relationship of trust between the Executive Board and Supervisory Board as they work closely together in the company's interest. In the 2011 fiscal year, the Supervisory Board performed the duties incumbent upon it under the law, the Articles of Association, and the internal rules of procedure with great diligence. The Supervisory Board was involved in every decision of fundamental significance for the company at an early stage.

In both written and verbal reports, the Executive Board regularly provided us with timely and comprehensive information on corporate planning, strategic development, business operations, and the current state of Wacker Chemie AG and the Group, including the risk situation. Outside of the scheduled Supervisory Board meetings, the Chairman of the Supervisory Board also remained in regular contact with the Executive Board, especially with the CEO, and was kept informed about the current business situation, trends and key business transactions. Any deviations from business plans and targets were explained to us in detail.

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

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

The Supervisory Board held four scheduled meetings in 2011, two in the first half of the year and two in the second. Between meetings, the Executive Board immediately informed us in detail by means of written reports about all projects and plans of particular importance to the Group. At its full meetings and in its committees, the Supervisory Board discussed in detail business transactions important to the company on the basis of the reports submitted by the Executive Board. The full meetings were prepared by shareholder and employee representatives in their own separate sessions. In the period under review, every Supervisory Board member attended at least half of the meetings held during their period in office.

The Supervisory Board's Main Areas of Deliberation

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

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

--- the construction of the new polysilicon facility in Tennessee in the United States
--- expansion of production capacities for polysilicon in Burghausen and Nünchritz
--- restructuring of Siltronic and implementation of the lead site strategy
--- expansion of the joint venture with Samsung in Singapore, and the requisite financing
--- start-up costs for the new siloxane plant in Zhangjiagang
--- the situation on the photovoltaic market and the impact on WACKER
--- performance of the share price
--- ensuring Group financing

The Supervisory Board discussed the WACKER Group's plans for the 2012 fiscal year at its meeting held on December 8, 2011. On this occasion, the Supervisory Board also dealt with medium-term corporate plans up until 2015. It also discussed and approved the capital expenditure budget for 2012.

Work in the Committees

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

The Audit Committee met four times in 2011. Key aspects of its work included the audit of the annual financial statements of Wacker Chemie AG and the Group for 2010 and of the consolidated interim financial statements for the first half-year. It also discussed the consolidated quarterly reports, risk management and compliance issues. Additionally, the Audit Committee awarded the audit assignment to the chosen auditor and submitted a proposal for the choice of auditor for 2011 to the Supervisory Board's full meeting.

The Executive Committee met once in 2011. At this meeting, it dealt with personnel issues relating to the Executive Board.

The Mediation Committee did not need to be convened in 2011.

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

Corporate Governance

In 2011, the Supervisory Board dealt intensively with corporate-governance standards. At its meeting of December 8, 2011, the Supervisory Board discussed the application of the German Corporate Governance Code and adopted the annual Declaration of Conformity that must be submitted jointly by the Executive and Supervisory Boards in accordance with Section 161 of the German Stock Corporation Act (AktG). Shareholders can access the Declaration on the company's website.

In its Corporate Governance Report, the Executive Board reports on corporate governance at WACKER also in the name of the Supervisory Board in accordance with Item 3.10 of the German Corporate Governance Code. For further details, refer to page 247 onward

At its meeting in December 2011, the Supervisory Board also reviewed the efficiency of its own activities – and arrived at a positive conclusion.

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

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements prepared by the Executive Board for 2011, the consolidated financial statement and the combined management report (reporting date: December 31, 2011), including the accounting.

The audit assignment had been awarded by the Supervisory Board's Audit Committee in line with the resolution of the Annual Shareholders' Meeting of May 18, 2011. The auditors issued an unqualified audit report.

The auditors also examined the risk management system in accordance with Section 91 of the German Stock Corporation Act (AktG). The audit verified that the risk management system meets the legal requirements. No risks endangering the continued existence of

the company were identified. The financial statement documents (including the auditors' reports, the management reports, and the Executive Board's proposal for the distribution of profits) were submitted to all the Supervisory Board members in good time.

At its meeting on February 27, 2012, the Audit Committee closely examined the aforementioned financial statements and reports, as well as the audit reports submitted by the auditors of the company and consolidated financial statements, and discussed and examined them in detail with the auditors before reporting to the full Supervisory Board. At its meeting on March 7, 2012, the full Supervisory Board discussed and examined the relevant financial statements and reports intensively, taking account of the reports submitted by the Audit Committee and the auditors. At both meetings, the auditors took part in the deliberations. They reported on the main results of the audit and were available to the Audit Committee and the full Supervisory Board to answer questions and provide supplementary information.

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

We approve the financial statements of both Wacker Chemie AG and the WACKER Group submitted as of December 31, 2011. The annual financial statements of Wacker Chemie AG are hereby adopted. We concur with the Executive Board's proposal for the distribution of retained profits.

Changes in the Composition of the Supervisory and Executive Boards

In the 2011 fiscal year, there were no changes in the composition of the Executive Board.

In the Supervisory Board, the trade-union representative Uwe Fritz resigned his office as of May 31, 2011. Harald Sikorski was officially appointed as his successor as of June 1, 2011. As of December 31, 2011, the middle management representative Dr. Konrad Bachhuber resigned his office. Konrad Kammergruber was elected to replace him with effect from January 1, 2012.

Munich, Germany, March 7, 2012
The Supervisory Board

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

WACKER Stock in 2011

In 2011, stock markets experienced major fluctuations. After a good start to the year, March 2011 saw a significant decline in stock prices. This was triggered by the earthquake in Japan and the Fukushima nuclear disaster that followed. By early July, the markets had recovered from these events. But, then, a combination of high sovereign debt in several eurozone countries, the world economic slowdown and concerns about the fate of Europe's common currency caused a substantial price decline on international stock markets. From October through December 2011, the indices regained some of the ground lost. But the key ones closed well below their prior-year levels on December 31, 2011.

WACKER's stock performed solidly in this market environment until July 2011. Subsequently, though, it showed a much weaker trend than most other MDAX stocks. Photovoltaic-sector turbulence, semiconductor-market weakness and the reduction of our forecast led to a marked drop in WACKER's stock price.

Weaker Semiconductor Business and a Turbulent Photovoltaic Industry Strongly Impact WACKER's Stock

After a slight dip to €125.85 at the start of 2011, WACKER's stock rose to over €140 in response to preliminary figures released on January 31, 2011. When the early-March earthquake in Japan put capital markets under pressure, our stock went in the other direction. Since two major Japanese silicon-wafer manufacturers were forced to halt production, capital markets anticipated that WACKER's order books, sales and EBITDA would benefit from the situation. Semiconductor orders did, in fact, increase. When the definitive figures for 2010 and the outlook for the first quarter of 2011 were released, our stock climbed to €167.70 in March, its highest level in almost three years.

The second quarter saw WACKER's stock rising even further until early May, when it reached its high for the year at €172.80. The share price subsequently moved between €145 and €155 closing the second quarter at €149.10.

In early July, Europe's sovereign-debt and banking crisis worsened considerably. The escalation was triggered by Greece, where the austerity measures already in place were insufficient to deal with the country's combined budget and government crisis. Speculation on an Italian sovereign default, coupled with a hesitant crisis response by EU heads of state and government, led to great uncertainty on capital markets. Although the 17 eurozone countries agreed a second rescue package for Greece on July 21, 2011, the markets remained unsettled. A significant slowdown in the global economy played a role here, too. Germany's two major indices, the DAX and MDAX, lost about 25 percent of their value in the July-through-September quarter – their biggest decline since fall 2002.

WACKER's stock was not immune to this general capital-market downturn. At the same time, our stock was influenced by two further issues. The semiconductor market – including silicon-wafer business – deteriorated and, in the photovoltaic industry, late September brought market distortions. With overcapacity across the entire supply chain, severe price competition and strong consolidation pressures, a number of analysts heavily revised their previously positive forecast for the photovoltaic sector. As one of the world's leading polysilicon manufacturers, WACKER was affected by the revision, which inevitably influenced our stock and diminished its attractiveness in the eyes of analysts and investors. At the end of the third quarter, WACKER's share price closed at €67.25, having lost half of its value in just three months.

Due mainly to the adverse photovoltaic environment, WACKER revised its 2011 forecast downward when releasing its third-quarter figures in late October. Amid continued weak demand for silicon wafers in general, and 200 mm wafers in particular, the Executive Board then resolved to close the plant in Hikari (Japan) in 2012. We released an ad-hoc disclosure about this decision on December 8, 2011. WACKER's stock price fell again, in response, to €57.49. It was quoted at €62.15 at the close of trading on December 30, 2011.

Overall, WACKER stock lost 53 percent of its value in 2011. In the same period, the MDAX lost 13 percent and the DAX was down 16 percent. The WACKER stock's high for the year was €172.80 and its low €57.49.

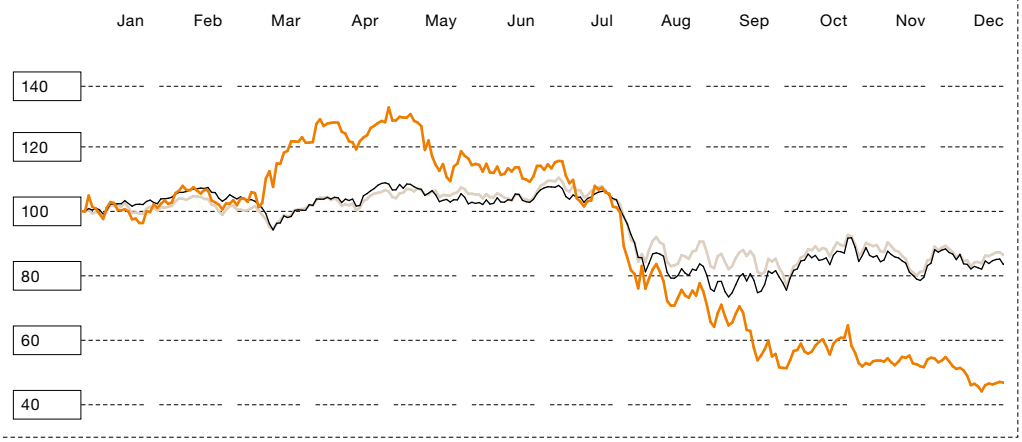
T 1.1 Facts & Figures on Wacker Chemie AG's Stock

€	
Year-high (on May 3, 2011)	172.80
Year-low (on December 19, 2011)	57.49
Closing price at the start of the year (on January 3, 2011)	132.70
Year-end closing price (on December 30, 2011)	62.15
Performance for the year (without dividend) (%)	–53.2
Year-end market capitalization (shares outstanding; 2010: 6.5) (billion)	3.1
Average daily trading volume (2010: 23.3) (million)	29.5
Earnings per share (2010: 9.88)	7.10
Dividend per share (proposal)	2.20
Dividend yield[1] (%)	2.01

[1] Dividend proposal based on an average share-price weighting of € 109.67

All share-related data are based on Xetra trading.

G 1.1 WACKER Share Performance (indexed to 100)[1]



Earnings per Share of €7.10

Earnings per share (EPS) is calculated by dividing net income allocable to Wacker Chemie AG shareholders by the weighted average of all shares in circulation during the year. In 2011, the number of shares in circulation was 49,677,983. On this basis, the EPS is €7.10.

T 1.2 Useful Information on WACKER Stock

ISIN	DE000WCH8881
Ticker, security identification number (WKN)	WCH888
Frankfurt Stock Exchange	WCH
Bloomberg	CHM / WCH:GR
Reuters	CHE / WCHG.DE
Capital stock	€260,763,000
Number of shares (as of December 31, 2011)	52,152,600

Dividend Payment of €3.20 per Share

At the Annual Shareholders' Meeting of May 18, 2011, it was decided to pay out a total dividend sum of €159.0 million (2009: €59.6 million) from the retained profit of €775.3 million posted in 2010 (2009: €533.4 million). The dividend per share entitled to dividends for 2010 was therefore €3.20 (2009: €1.20). The dividend was distributed to shareholders on May 19, 2011.

At a volume-weighted average share price of €114.32 in 2010, this produced a dividend yield of 2.8 percent.

T 1.3 Dividend Trends

€	2010	2009	2008	2007
Dividend	3.20	1.20	1.80	2.25
Plus special bonus per share	–	–	–	+0.75
Dividend yield (%)	2.8	1.3	1.5	2.0
Net result for the year (allocable to WACKER's shareholders) (million)	490.7	–70.8	438.5	422.0
Dividend payout (million)	159.0	59.6	89.4	149.1
Distribution ratio (%)	32.4	n.a.	20.4	35.3

Decrease in Analysts' Coverage

In 2011, the average daily trading volume for WACKER stock was some 269,000 shares (Xetra) – a strong increase over the 2010 figure of around 195,000 shares (Xetra). The number of financial analysts regularly covering and valuing the company decreased to 28 in 2011 (2010: 33).

During the fiscal year, the analysts' consensus price target rose substantially in line with the general market trend. Whereas the average Q1 estimate had WACKER's share at €158.31 (16 estimates)[1], the fair-value price target fell to just €86.16 (19 estimates)[1] by year-end.

T 1.4 The Following Banks and Investment Firms Monitor and Assess WACKER

Bankhaus Lampe KG	Independent Research GmbH
Bank of America Merrill Lynch (UK)	Jefferies & Company, Inc.
Barclays Capital	JPMorgan Cazenove Ltd.
BHF-Bank AG	Landesbank Baden-Württemberg
CA Cheuvreux (Germany)	Macquarie Capital (Europe) Ltd.
Citi Investment Research	MainFirst Bank AG
Commerzbank Corporates & Markets	Metzler Equity Research
Credit Suisse Securities (Europe) Limited	Morgan Stanley & Co. International Ltd.
Deutsche Bank AG	Nomura International Plc.
DZ Bank AG	Norddeutsche Landesbank Girozentrale
equinet Bank AG	Redburn Partners, LLP
fairesearch GmbH & Co. KG (CBS Research)	Silvia Quandt Research GmbH
Goldman Sachs International	UBS Ltd.
HSBC Trinkaus & Burkhardt AG	WestLB Equity Markets

As per the end of December 2011

On our website, we regularly report on the consensus of analysts' expectations for the current year. Moreover, our website offers extensive information on WACKER stock. In addition to financial reports, presentations, publications and a Fact Book (viewable online or downloadable), you'll find all our key financial-market dates, as well as contact information there. You can also view videos of our annual press conference, analysts' conference and other events online or listen to an audio stream. Interested investors can additionally register for an email newsletter to always stay informed about new developments and trends in the Group.

With the publication of our 2011 Online Annual Report, we have maintained our extensive services for analysts and investors. The easy-to-navigate online version of the report facilitates information access – and interactive options, such as key-indicator comparisons and a toolbox, enable readers to work directly with the figures.

[1] Consensus figures from VARA Research (Q1 = February 23, 2011/Q3 = November 17, 2011)

Market Capitalization Down – Still in Second Place in GEX Weightings

(Weighting as per December 30, 2011)

The performance of WACKER stock reduced its year-end market capitalization from €6.5 billion to €3.1 billion (total stock without treasury shares). WACKER's MDAX market capitalization based on the free float, including treasury shares, was €932 million. WACKER thus had an MDAX weighting of 1.38 percent, and it is currently ranked 30th of the 50 companies in the index.

WACKER's GEX weighting was 10.08 percent. Deutsche Börse's GEX mid-cap index (introduced in January 2005) comprises owner-dominated companies listed on the Frankfurt Stock Exchange (Prime Standard) for no more than ten years. In 2011, WACKER continued to rank second in that index.

WACKER in Close Dialog with Capital Markets

Our company's strategic focus on growth and sustainably high margins is reinforced by continual and open communications with institutional and private investors and with analysts. In 2011, we increasingly approached national and international investors and analysts to explain our business strategy, key financial indicators and future outlook. On many occasions, Executive Board members attended in person to answer questions from capital-market participants.

There were 21 roadshows with a total of 32 roadshow days in Germany, Europe, the USA and – for the first time – Asia. We also held about 550 meetings both in person and via telephone, as well as some 25 group discussions, and we participated in various international conferences.

WACKER gave presentations at, for example:

--- DB Advisors Investment Conference in Frankfurt
--- HSBC Small- and Midcap SRI Conference in Frankfurt
--- Jefferies 11th Global Clean Technology Conference in New York
--- UBS Global Renewable Energy Conference in London
--- AXA Investment Conference in Dresden
--- HSBC 2nd Luxembourg Event in Luxembourg
--- Deutsche Bank: German & Austrian Corporate Conference 2011 in Frankfurt
--- Intersolar: Solar Trade Fair in Munich
--- PVSEC in Hamburg
--- UBS Best of Germany Conference in New York
--- Barclays Capital Global Renewables and Clean Technology Conference in Zürich
--- UniCredit: German Investment Conference in Munich
--- Credit Suisse Alternative Energy Day in Frankfurt
--- 4th Macquarie Alternative Energy Conference in London
--- Morgan Stanley Global Chemicals Conference in New York

On May 31, 2011, WACKER held its Capital Markets Day in London. More than 40 analysts and investors from a total of 37 banks and investment firms took part and were able to gain an up-to-date overview of WACKER and the Group's strategies, technologies, products and innovations.

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

Based on our latest shareholder analysis (December 31, 2011), the number of American shareholders continued to fall. The level of US-held shares dropped from 24 percent in December 2010 to just 19 percent in December 2011. The number of shareholders in Switzerland remained unchanged, at about 7 percent in both 2010 and 2011. Share ownership rose slightly in both Germany – accounting for about 23 percent (2010: 22 percent) – and the UK – making up 26 percent (2010: 25 percent). Share ownership in Canada and Europe (excluding Germany, Switzerland and the UK) rose from 20 percent in 2010 to 23 percent in 2011.

Wacker Chemie AG's largest shareholder is still Dr. Alexander Wacker Familiengesellschaft mbH, Munich. It holds over 50 percent of the voting shares in Wacker Chemie AG (2010: over 50 percent).

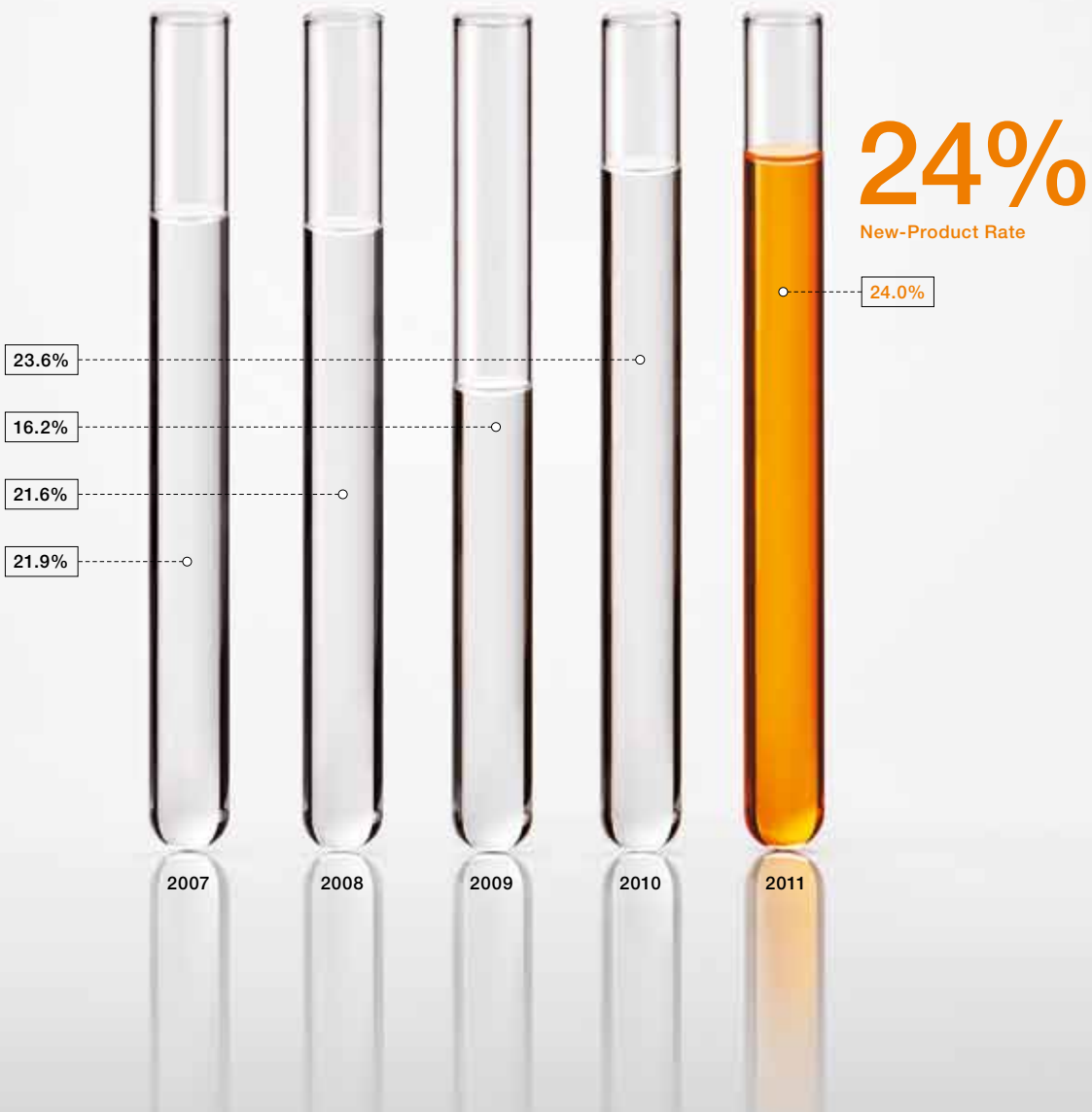
In 2011, Blue Elephant Holding GmbH (Pöcking, Germany) once again did not have any voting-share changes to report, which means it still holds over 10 percent (2010: over 10 percent) of Wacker Chemie AG.

Pursuant to a voting-rights notification in December 2011, BlackRock, Inc., New York, USA, holds just over 3 percent of the voting shares in Wacker Chemie AG.

2

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

Business Environment



New-Product Rate Has Grown Again

The new-product rate is the sales percentage of products launched in the last five years. The increase stemmed mainly from new specifications for silicon, such as new particle sizes, for solar applications and from launching production of 300 mm wafers, which are suitable for 22 nanometer design rules.

2

Combined Management Report

Business Environment

Business Environment

Group Structure and Operations

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

Silicon Is Our Main Starting Material

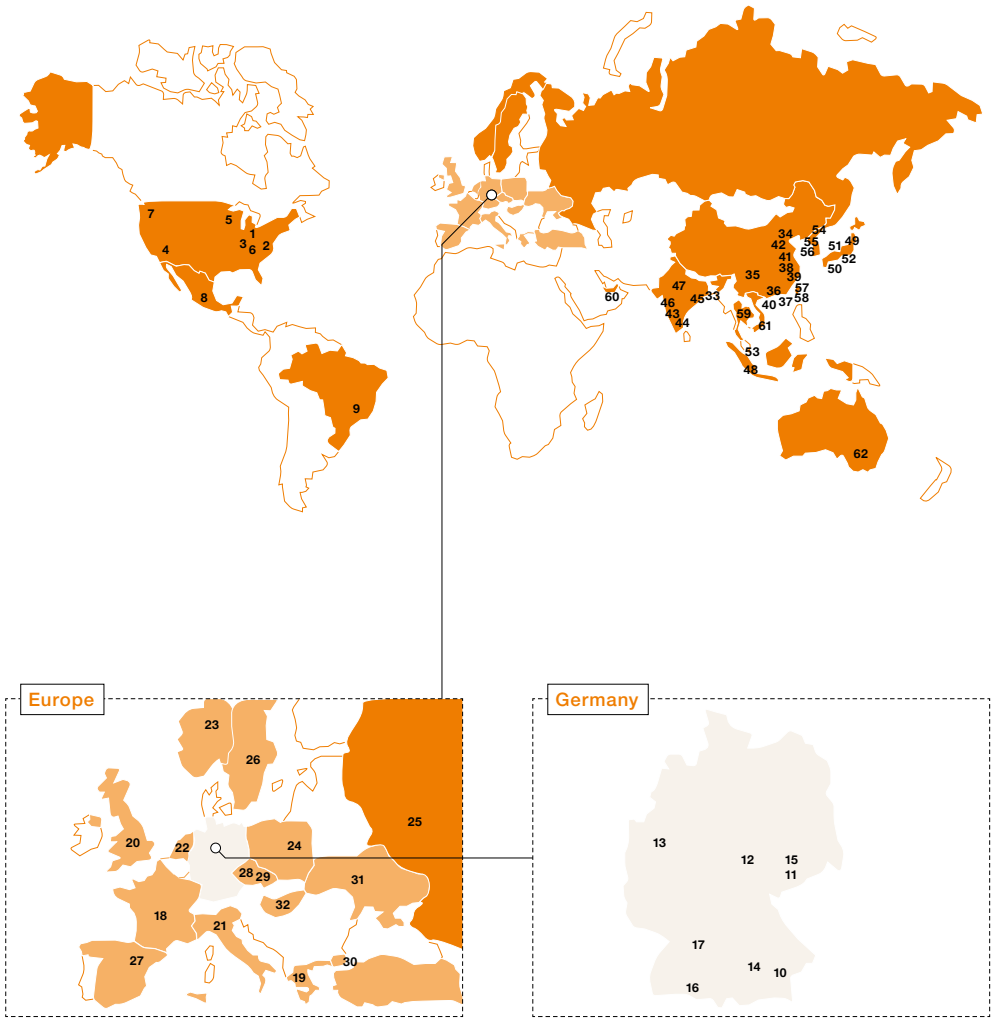
Most of our products are based on inorganic starting materials. Silicon-based products account for 80 percent of WACKER sales, and products that are primarily ethylene-related for 20 percent. Our customers come from virtually every major sector, ranging from consumer goods, food, pharmaceuticals, textiles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

Focus on Growth Markets

WACKER operates around the world and is continuing to expand, particularly in growth regions. We expanded our local sales office in Chennai (India) in 2011, from where our joint venture Wacker Metroark Chemicals Pvt. Ltd. serves our customers in southern India. WACKER maintains 52 sales offices in 29 countries. Our sales organization is supplemented by a network of technical competence centers, where customers learn about WACKER's product portfolio, and the WACKER ACADEMY, where we offer technical training sessions on our products and their application fields.

Chennai (India) Sales Office Expanded

G 2.1 WACKER Production and Sales Sites, Technical Competence Centers[1]



North and South America

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

Europe

10 **Burghausen,** Germany
11 **Freiberg, Saxony,** Germany
12 **Jena,** Germany
13 **Cologne,** Germany
14 **Munich,** Germany
15 **Nünchritz,** Germany
16 **Stetten,** Germany
17 **Stuttgart,** Germany
18 **Lyon,** France
19 **Athens,** Greece
20 **Chertsey,** Great Britain
21 **Milan,** Italy
22 **Krommenie,** Netherlands
23 **Kyrksæterøra, Holla,** Norway
24 **Warsaw,** Poland
25 **Moscow,** Russia
26 **Solna,** Sweden
27 **Barcelona,** Spain
28 **Plzeň,** Czech Republic
29 **Prague,** Czech Republic
30 **Istanbul,** Turkey
31 **Kiev,** Ukraine
32 **Budapest,** Hungary

Asia

33 **Dhaka,** Bangladesh
34 **Beijing,** China
35 **Chengdu,** China
36 **Guangzhou,** China
37 **Hong Kong,** China
38 **Nanjing,** China
39 **Shanghai,** China
40 **Shunde,** China
41 **Wuxi,** China
42 **Zhangjiagang,** China
43 **Bangalore,** India
44 **Chennai,** India
45 **Kolkata,** India
46 **Mumbai,** India
47 **New Delhi,** India
48 **Jakarta,** Indonesia
49 **Akeno,** Japan
50 **Hikari,** Japan
51 **Osaka,** Japan
52 **Tokyo,** Japan
53 **Singapore,** Singapore
54 **Jincheon,** South Korea
55 **Seoul,** South Korea
56 **Ulsan,** South Korea
57 **Hsinchu,** Taiwan
58 **Taipei,** Taiwan
59 **Bangkok,** Thailand
60 **Dubai,** United Arab Emirates
61 **Ho Chi Minh City,** Vietnam

Australia

62 **Melbourne, Victoria,** Australia

Production site
Sales site
Technical competence center

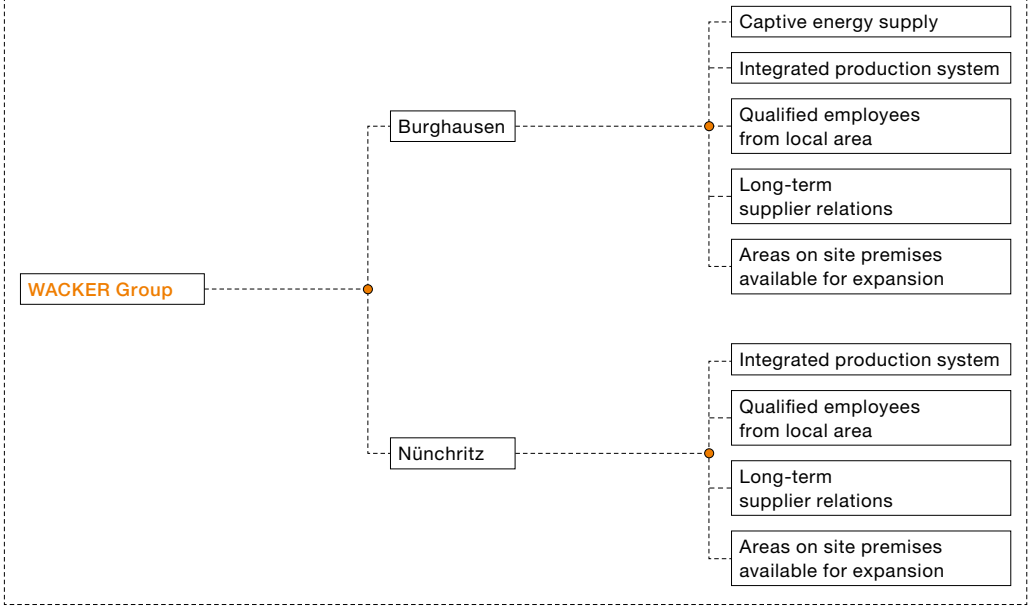
[1] Only majority-owned subsidiaries

Nünchritz: WACKER's Second Multidivisional Site

Burghausen Is Wacker Chemie AG's Key Site

WACKER's global production network consists of 25 production sites – eight are in Europe, seven in the Americas and ten in Asia. The Group's key production site is Burghausen (Germany), with about 9,700 employees. In 2011, Burghausen's manufacturing output reached around 500,000 metric tons. That is about 50 percent of groupwide production volumes. We are expanding our Nünchritz site (Saxony), where our first polysilicon facility outside Burghausen started up in 2011, with a nominal production capacity of 15,000 metric tons per year. Alongside Burghausen, Nünchritz is thus WACKER's second multidivisional site.

G 2.2 Key Factors for Multidivisional Sites



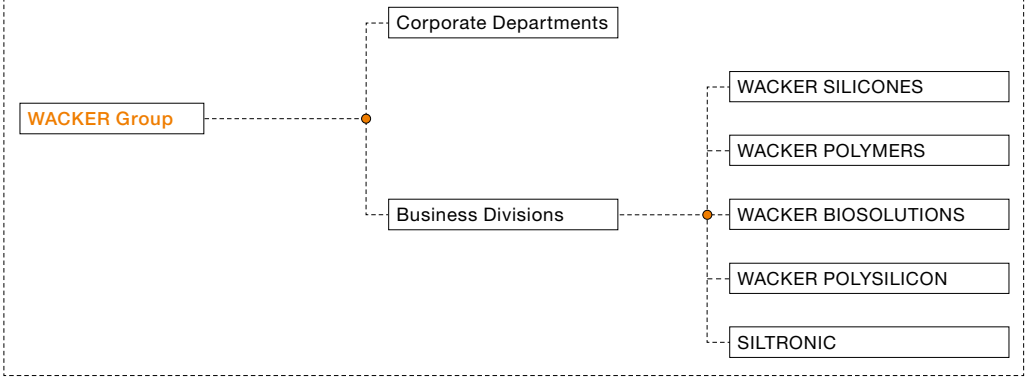
Legal Structure

Our legal structure has not changed compared to the previous year. In November 2005, WACKER became a stock corporation (AG) under German law. Headquartered in Munich, Wacker Chemie AG holds a direct or indirect stake in 56 companies belonging to the WACKER Group. Our financial statements include 50 companies that have been fully consolidated and five accounted for using the equity method. One small company that is not part of our core operations has not been consolidated. Since September 30, 2011, a special-purpose entity – in the shape of a special fund – has been included in the scope of consolidation for the first time. Refer to page 186 of the Notes for further information on this fund

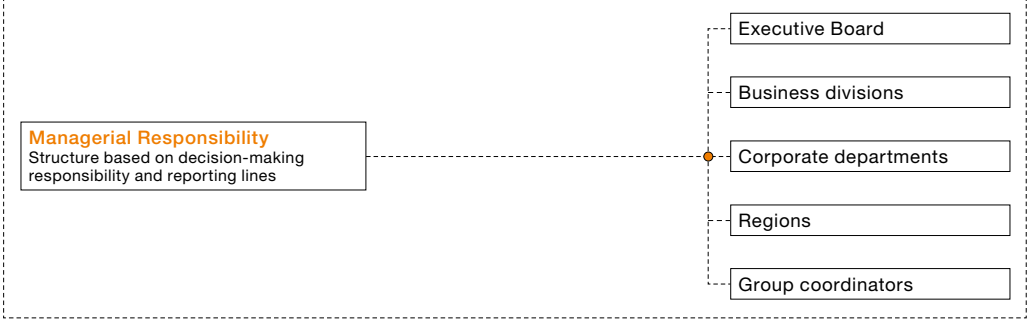
Five Operating Divisions

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

G 2.3 WACKER's Structure



G 2.4 Group Structure in Terms of Managerial Responsibility



Management and Supervision

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

There were no changes to either the composition or responsibilities of the Executive Board members during 2011. A new workers' representative took office on Wacker Chemie AG's Supervisory Board in 2011. Uwe Fritz resigned his office as of May 31, 2011. His successor, Harald Sikorski, assumed his responsibilities as of June 1, 2011. As of December 31, 2011, the middle management representative Dr. Konrad Bachhuber resigned his Supervisory Board position. Konrad Kammergruber was elected to replace him with effect from January 1, 2012.

T 2.1 Executive Board Responsibilities

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

Declaration on Corporate Management

Submitted as per Section 289a of the German Commercial Code (HGB), the declaration on corporate management forms part of the corporate governance report. This declaration is part of the combined management report and is also available online. It contains the Executive and Supervisory Boards' work procedures, the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG), and information on key corporate management practices. www.wacker.com/corporate-governance

Executive and Supervisory Board Compensation

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

Key Products, Services and Business Processes

Our divisions' overall range of products and services remained unchanged. In several application areas, we expanded our product portfolio during 2011. Our WACKER SILICONES division provides customers with our broadest offering of over 3,000 products – ranging from silicone-based fluids, emulsions, resins, elastomers and sealants, to silanes and pyrogenic silica grades. The division manufactures both specialty products tailored to customers' specific needs, and standard products primarily used as starting materials in the production of silicones.

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

WACKER BIOSOLUTIONS, our smallest division, supplies customized biotech and catalog products for the fine-chemicals sector. Products include pharmaceutical proteins, cyclodextrins, cysteine, polyvinyl acetate solid resins (for gumbase), organic intermediates and acetylacetone. The division focuses on customer-specific solutions for growth areas, such as food additives, pharmaceutical actives and agrochemicals.

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

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

Integrated Production System – WACKER's Main Strength

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

Major Markets and Competitive Positions

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

Market Positions of WACKER's Divisions

In the silicones market, WACKER SILICONES ranks number 3, and, in the building-protection silicones segment, we are global number 1. We hold a leading market position in Europe with sales of €54 million in 2011. Due to their wide-ranging product properties, silicones are used in every major industry. The largest growth potential lies in Asia, where ever-higher living standards are boosting demand for silicone products.

WACKER POLYMERS is the world's largest producer of dispersions and dispersible polymer powders based on vinyl acetate-ethylene. Importantly, we are the only company in the market to have a complete supply chain for dispersions and powders in Europe, the Americas and Asia. The largest growth potential lies in Asia, where we maintain an integrated production site for dispersions and polymer powders at Nanjing (annual capacity: 30,000 metric tons). Beside the construction industry, WACKER POLYMERS also supplies the textile, adhesive, paint and surface-coating sectors.

T 2.2 WACKER's Competitive Positions

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

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

Production Capacities of Hyperpure Polysilicon Have Risen

WACKER POLYSILICON operates in an intensely competitive and high-growth environment, chiefly shaped by increasing solar-industry demand for polysilicon and market trends in the global solar sector. Through capacity expansion and substantial productivity gains, we have reinforced our position as the second-largest producer of hyperpure polycrystalline silicon for electronic and solar applications. Thanks to the ramp-up of expansion stage 9 in Nünchritz, production capacities rose in 2011.

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

Economic and Legislative Factors

WACKER sells its products and services to virtually every industry. Although economic fluctuations cannot be avoided in individual business divisions, their impact and onset may vary greatly. We are able, however, to mitigate the impact of these fluctuations thanks to our product range and our broad portfolio of customers.

Early Operational Indicators as Measures for Future Developments

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

T 2.3 Early Operational Indicators

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

Economic Factors Impacting Our Business

Energy and Raw-Material Costs Dominate Production Costs

WACKER's business has remained subject to the same key economic factors. Energy and raw-material costs, at more than 40 percent of production costs, had the largest impact in 2011.

Energy and raw-material costs

As a chemical company, we belong to an energy-intensive industry and require diverse raw materials to manufacture our products. Consequently, higher energy and raw-material costs impact our cost structure. We have taken a variety of steps to increase our independence from this factor. Measures include generating our own energy at the Burghausen and Nünchritz sites. This reduces our energy-procurement needs and costs. Backward integration at WACKER SILICONES in 2010 has enabled us to secure part of our long-term silicon-metal needs, thus gaining us more independence from price fluctuations. At the same time, we enhanced supply reliability during demand peaks.

Exchange-rate fluctuations

Our business is influenced by currency fluctuations against the euro. We have used currency hedging (derivatives) to secure at least half of our dollar exposures for the next year. The hedging ratio for 2012 is currently around 60 percent. Without hedging, a one US-cent increase in the euro-dollar exchange rate lowers EBITDA by some €4 million.

State-regulated incentives and compensation systems for renewable energy sources

As one of the world's leading suppliers of hyperpure polycrystalline silicon, we are affected by regulatory changes to incentives and compensation systems for renewable energy sources. Various countries reduced the incentive for photovoltaic systems during 2011, including Germany (the world's key photovoltaic market), Italy, Belgium, France and Japan. Through continuous productivity improvements, however, we are in a position to maintain our competitiveness amid the altered landscape. Our cost leadership, product quality, international orientation, customer structure and our medium to long-term supplier contracts all offer us competitive advantages over other producers.

Legal Factors Impacting Our Business

Overall, the legislative framework for WACKER did not change substantially in 2011. As a result, no additional conditions were imposed on our business operations.

120 Registration Dossiers Submitted as Part of REACH

Since June 2008, we have been obligated to register all substances on the European market – and classify them by property – if annual quantities exceed one metric ton. The exact conditions of use must be taken into account: Registration is governed by the EU-wide REACH regulation (Registration, Evaluation, Authorization and Restriction of Chemical Substances). By late 2011, WACKER had submitted 120 registration dossiers to the European Chemicals Agency (ECHA).

We registered all relevant substances with the EU's classification and labeling inventory in 2011, as part of the EU Commission's GHS (Globally Harmonized System of Classification and Labeling of Chemicals). By 2015, all mixtures will have been reclassified pursuant to GHS (7,000 mixtures).

T 2.4 GHS Introduction

Country / Economic Region	Change of Material Safety Data Sheets	Change of Labels	Substances/ Mixtures
Brazil	February 2011 June 2015	February 2011 June 2015	Substances Mixtures
China	May 2011	May 2011	Substances and mixtures
Europe	December 2010 June 2015	December 2010 June 2015	Substances Mixtures
EEA states (Iceland, Liechtenstein and Norway)	2011 June 2015	2011 June 2015	Substances Mixtures
Indonesia	September 2010 January 2014	September 2010 January 2014	Substances Mixtures
Japan	January 2011	December 2006	100 special substances
Croatia	December 2011 June 2015	December 2011 June 2015	Substances Mixtures
Malaysia	Expected 2012 Expected 2015	Expected 2012 Expected 2015	Substances Mixtures
Mexico	July 2011	July 2011	Substances and mixtures, so far still voluntary
New Zealand	July 2008	January 2011	Substances and mixtures
Switzerland	December 2012 June 2015	December 2012 June 2015	Substances Mixtures
Serbia	September 2011 June 2015	September 2011 June 2015	Substances Mixtures
Singapore	December 2010 December 2012	December 2010 December 2012	Substances Mixtures
South Korea	July 2010 July 2013	July 2010 July 2013	Substances Mixtures
Taiwan	January 2009	January 2009	Substances and mixtures
Uruguay	July 2010	July 2010	Substances and mixtures

Corporate Decision-Making, Targets and Strategy

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

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

T 2.5 Cost of Capital

	2011	2010
Riskless interest rate (%)	3.8	3.8
Market premium (%)	4.2	4.2
Beta coefficient	1.5	1.5
Post-tax cost of equity (%)	**10.1**	10.1
Tax rate (%)	30.0	30.0
Pre-tax cost of equity (%)	14.4	14.4
Pre-tax borrowing costs (%)	5.0	5.0
Tax shield (30%)	1.5	1.5
Post-tax borrowing costs (%)	**3.5**	3.5
Share of equity (%)	90.0	90.0
Share of borrowed capital (%)	10.0	10.0
Post-tax cost of capital (%)	**9.5**	9.5
Pre-tax cost of capital (%)	**13.6**	13.6

Key Performance Indicators

Three Financial Performance Indicators for Value Management

WACKER's key performance indicators for value management are: BVC (business value contribution), EBITDA (earnings before interest, taxes, depreciation and amortization), and net cash flow.

We call earnings after cost of capital our business value contribution (BVC). Investors expect a minimum rate of return on fixed and current assets that covers the cost of capital. The pre-tax cost of capital employed remained at 13.6 percent in 2011. The aim of BVC is for WACKER to generate a residual profit that is above the cost of capital, thereby creating value within the company. Every year, we review each business division's cost of capital and calculate risk premiums (the beta factor) specific to an individual division. To calculate the BVC, the cost of capital and non-operational factors are deducted from EBIT. Annually, every division is set a BVC target that is calculated during the planning stage. This target is combined at the Group level into one value.

In 2011, we did not fully meet our BVC target, even though it was clearly positive at €183.5 million. Our BVC was particularly impacted by the following: lower polysilicon prices during Q4 2011, Siltronic's lower capacity utilization, and the expenditures associated with the planned closure of Siltronic's Hikari site.

T 2.6 Planned and Actual Figures

€ million	2010	Planned 2011	Actual 2011
BVC	399.4	232.0	183.5
EBITDA margin (%)	25.2	22.5	22.5
Net cash flow	421.6	25.0	6.2

WACKER's second target is high profitability compared to the competition. The benchmark here is EBITDA. Each division is compared with its most profitable competitor. Using this comparison, and historical performance and divisional planning, we calculate a target EBITDA margin. This is defined as a weighted divisional average. In 2011, the target was 25 percent. In 2011, we reached a Group EBITDA margin of 22.5 percent.

Our third target is net cash flow (NCF – defined as the sum of cash flow from operating activities and noncurrent investment activities, before securities, including additions from finance leases). On average, we strive for a slightly positive value here. From year to year, this depends on our earnings situation and planned investments. The goal for 2011 was a slightly positive net cash flow. This was reduced by the level of earnings, which was slightly lower than expected, and by the faster pace of investment activities. Higher advance payments by customers relating to polysilicon agreements had a positive impact on net cash flow. At €6.2 million, net cash flow was on target.

T 2.7 ROCE and BVC

€ million	2011	2010
EBIT	603.2	764.6
Capital employed[1]	3,328.6	3,078.9
ROCE[2] (%)	18.1	24.8
Pre-tax cost of capital (%)	13.6	13.6
BVC	183.5	399.4

[1] Capital employed is made up of average noncurrent fixed assets, inventories, and trade receivables less trade payables and advance payments received. It is a variable used in calculating the cost of capital.
[2] Return on capital employed is the profitability ratio relating to the capital employed.

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

ROCE Clearly Surpasses Cost of Capital

Rather than the originally projected ROCE (return on capital employed) of 19.7 percent, we actually achieved a ROCE of 18.1 percent in 2011. As in the prior year, a considerable premium on our cost of capital was therefore earned. ROCE is reviewed yearly as part of our planning process and is a key criterion for managing our investment budget.

Value Management to Be Enhanced in 2012

Changes to Value Management in 2012

WACKER is to enhance its value management in 2012. In line with the capital markets' assessment of WACKER, we will no longer treat advance payments received as non-interest-bearing debt capital in capital employed, but as interest-bearing borrowed capital. As a result, capital employed and, hence the cost of capital, will rise considerably. At the same time, additions and disposals of advance payments received from polysilicon agreements will no longer be recognized in net cash flow. These advance payments received will instead be regarded as financial liabilities and thus change our target capital structure from the previous 90 percent equity to 80 percent equity and 20 percent borrowed capital. In relation to 2011, the new approach would have produced the following changes to the figures reported: the capital employed would have totaled €4,516 million, with ROCE at 13.3 percent. The net cash flow would have dropped by €163.6 million to €–157.4 million.

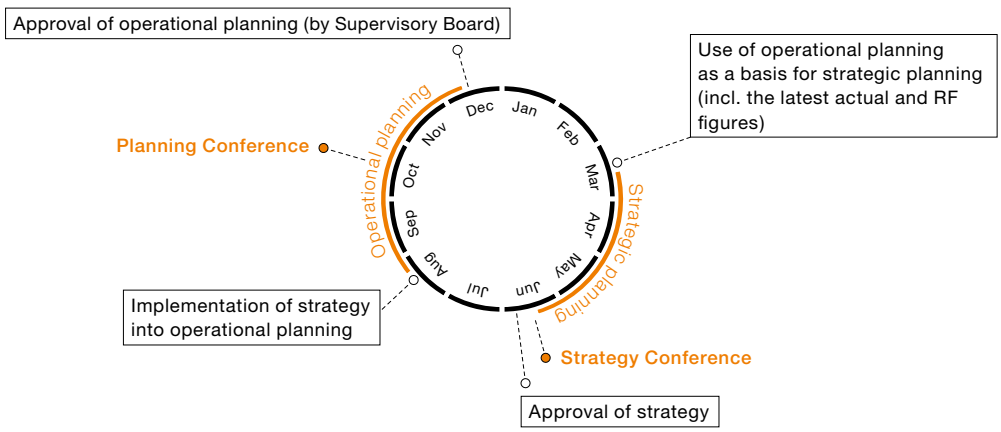
We are checking whether, in 2012, the previous financial performance measurements BVC, NCF and EBITDA margin can be supplemented by the return on capital employed (ROCE). Each year, BVC and NCF are defined at the planning stage. The target EBITDA margin is calculated separately, just as is the case with ROCE. As a second financial performance measurement that is independent of the planning stage, ROCE is intended to represent the company's long-term performance.

Two-Stage Strategic Planning

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

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

G 2.5 Strategic and Operational Planning



Financing Strategy

WACKER's financing strategy follows two equally important goals:

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

We cover our capital requirements from operating cash flow, and from short-term and long-term financing.

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

Financing Measures in 2011

No major financing measures were completed in 2011. We repaid the promissory note taken out in 2009, as scheduled. €10 million was repaid in July 2011, bringing repayments to €161 million of the total €180 million. As regards the €400 million credit line concluded with the European Investment Bank back in 2009, we used the remaining €200 million in December 2011.

Further €200 Million of European Investment Credit Line Used

No collateral exists for financial liabilities. Some of the liabilities to banks are fixed-interest and others have variable interest rates. Thus, as of December 31, 2011, WACKER has unused and used credit lines of around €1.18 billion with terms of over one year. The measures concluded contain standard market credit terms and a net debt-to-EBITDA ratio as the only financial covenants.

WACKER collaborates with a number of banks (core-bank principle). These must have an investment-grade credit rating and a long-term business model. To minimize counterparty and concentration risks, a single bank's share in credit lines promised to WACKER must not exceed 20 percent. The only exception is the European Investment Bank.

Operational Control Instruments

We control operational processes via our integrated management system (IMS). It stipulates uniform standards throughout the Group for issues relating to quality, environmental protection, health and safety. We have our Group management system analyzed by an international certification organization in accordance with uniform standards based on ISO 9001 (quality) and ISO 14001 (environment). In 2011, our Wacker Biotech subsidiary in Jena was included in the Group certification under ISO 14001 (environmental management). All our Siltronic subsidiary's sites are certified to ISO/TS 16949 and to ISO 14001, due to the company's specific processes and customer requirements.

WACKER's Strategy

WACKER refined its vision in 2011 and specified five strategic goals. Together these form our strategy's foundation and express the performance expectations of our Group. Profitable growth and the goal of securing a leading competitive position in most of our business fields are at the center of our strategy. Our actions are thus oriented to sustainable development.

G 2.6 WACKER's Vision

We Develop Intelligent Solutions for Sustainable Growth

WACKER, as an innovative chemical company, makes a vital contribution to improving the quality of life around the world. In the future, we want to continue developing and supplying solutions that meet our rigorous demands – creating added value for our customers and shareholders, and growing sustainably.

G 2.7 WACKER's Goals

Customers

WACKER Products and Solutions Are Our Customers' First Choice

All our activities focus on our customers' needs. Satisfied customers are the basis of our success. We aim to continuously raise our product quality and enhance our services. The better we succeed at this, the more we can grow with our customers, deepen our understanding of their needs and provide them with high added value. To achieve this, WACKER focuses on direct contact and on exchanging information personally. Through our technical competence centers and the WACKER ACADEMY, we work closely with customers to develop tailored solutions. Our strength lies in our long-term relationships, based on trust, with the people in our markets.

Employees

We Want to Be One of the World's Best Employers

Our employees' health and safety is our greatest asset. At WACKER, the success we achieve together is based on a supportive and challenging environment. We ensure that our employees can develop their skills, realize their potential, assume responsibility, act proactively and contribute their own ideas by offering them basic and advanced training opportunities. What we expect is a performance-oriented mindset, coupled with sound professional and social skills. To this end, we want to provide secure jobs, exceptional employee benefits and a work culture that facilitates a positive work-life balance. Clearly focused on commercial success, we value teamwork that is based on mutual reliance, trust and fairness.

Innovations

We Tap New Markets via Product and Process Innovations for Tomorrow's World

We develop products that are vital for tomorrow's world. That's why we invest in research and development. Our innovative strength is reflected in the high sales percentage accounted for by new products. We know how to transfer new production methods from the development environment to globally competitive plants. At WACKER, innovation also means "making what is good even better." Our "Wacker Operating System" (WOS) program aims at systematically optimizing our processes. Employees receive the necessary training at our own WOS academies. As the quality and cost leader in many of our business sectors, we realize that "becoming better is a never-ending process."

Company Value

We Continually Increase Our Company Value

WACKER sees itself as a performance-oriented company, geared toward increasing its long-term value. Economic success is essential for pursuing and achieving our strategic goals. Our annual sales should grow more than world GDP. We want to be among the most profitable companies in our industry. This is why value-based management is fundamental to our corporate policies. We measure our success against clearly defined key parameters and continuously focus on earning more than our cost of capital. We want to be among the top three suppliers in each of our business sectors. To this end, we always strive to strengthen our competitive edge in cost, quality and technology.

Sustainability

Our Responsibility as a Company Extends beyond Our Business Activities

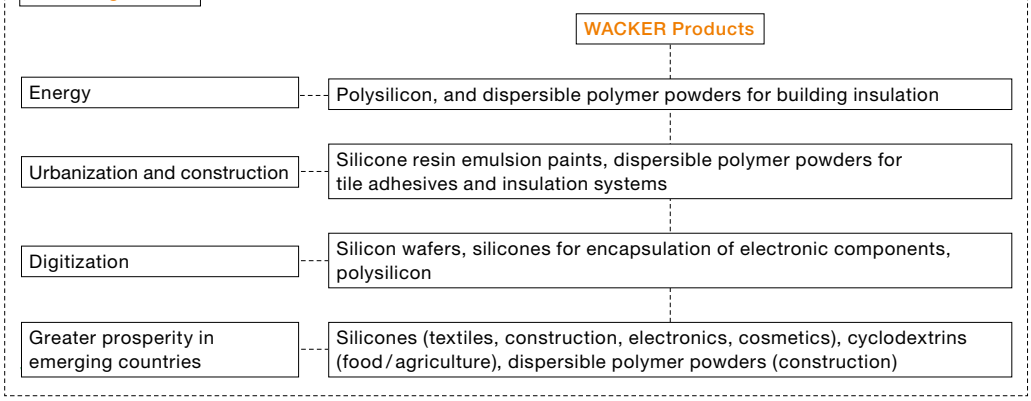
Our commitment to sustainability encompasses ecological, economical and social aspects. Our actions are guided by the underlying principles of the UN's Global Compact and the chemical industry's Responsible Care® initiative. Our products, technologies and processes meet the highest standards. For years, sustainability has been an integral part of WACKER's production and business processes. One of our greatest strengths is our closed material loops, where we use byproducts from one production stage as starting materials for making other products. This reduces our consumption of energy and other resources. Our strong sense of social responsibility is based on deeply rooted values. We pursue this commitment in the vicinity of our sites and wherever people are in distress around the world. Society's trust in our actions is an essential component of our long-term economic success.

We see the paths for attaining these strategic targets in:

- Increasing our presence in emerging markets and regions and investing in growth markets. Here, our priorities are Asia (especially China, India and South Korea) and South America (primarily Brazil).
- Strengthening our operating business through innovations. Above all, we see potential in replacing existing products with new ones that offer better properties, are more environmentally friendly and create added value for the customer.
- Using operational excellence to optimize our productivity and costs. The "Wacker Operating System" (WOS) program bundles, promotes and processes all corporate projects for systematic process improvement.
- Increasing the quality of our products and therefore directly creating value for our customers in their applications.
- Placing the customer even more at the center of our actions through intensive contacts, better service and alliances.
- The contribution made by our employees through their outstanding expertise and their ideas to ensure the success of this strategy.

To help meet our strategic goals, we are focusing on the highly promising fields of energy, urbanization and construction, digitization, and greater prosperity in emerging countries. Here, WACKER offers products that are ideally suited to satisfying these global trends.

G 2.8 Megatrends



3

Combined Management Report
Business Development

45%

of Project Costs for
Key Strategic Projects

Key Projects in Focus

Our scientists are currently working on about 244 projects on over 40 technology platforms. More than a quarter of these topics are key strategic projects, which account for 45 percent of all project costs incurred in 2011.

3

Combined Management Report

Business Development

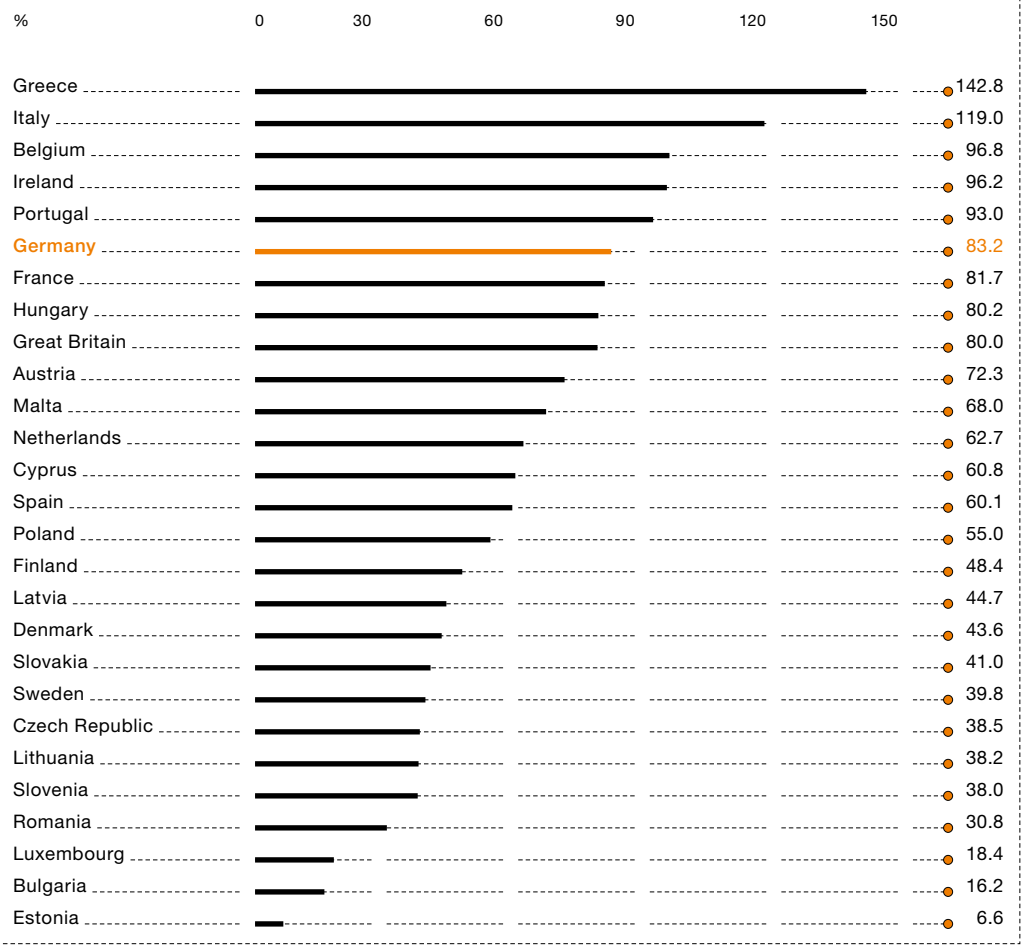
Overview of Business Development

Economic Trends

EU Debt Crisis Impacts Economic Development

The global economy continued to grow during the first half of 2011. Sentiment deteriorated considerably in the second half of the year. Demand declined in important customer sectors and the economic climate cooled substantially. Leading economic research institutes consequently lowered their growth forecasts for 2011. The significant weakening of the economy was due to the continuing debt crisis in the EU, the weakness of the American economy, China's battle against high inflation, and structural risks in the banking sector.

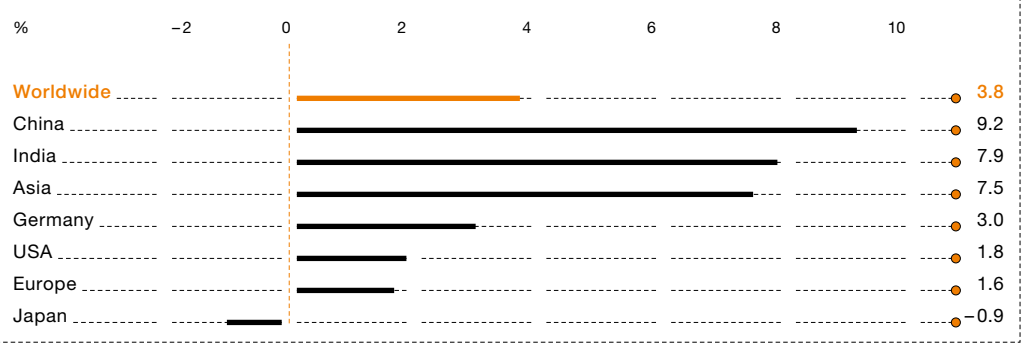
G 3.1 Sovereign-Debt Levels in the EU[1]



[1] When different countries' sovereign debt is compared, it is necessary to bear in mind that national economies vary in size. Total debt is consequently not expressed in absolute monetary terms, but in relation to gross domestic product (GDP). In accordance with Maastricht criteria for the European Monetary Union, total debt is not supposed to exceed 60 percent of GDP.
Source: www.staatsverschuldung.de/ausland.html (German-language link only)

According to International Monetary Fund (IMF) estimates, the global economy grew 3.8 percent in 2011 (2010: 5.1 percent). The IMF had originally expected economic growth of 4.3 percent.

G 3.2 GDP Trends in 2011



Sources – worldwide: IMF; USA: IMF; Asia: ADB; China: Chinese National Bureau of Statistics; India: ADB; Japan: IMF; Europe: IMF; Germany: Federal Statistics Office (Dec. 2011)

Asia Remains a Growth Driver

Growth in Asia was stable and at a high level in 2011. The Asian Development Bank (ADB) expects economic expansion of 7.5 percent (2010: 9.0 percent). The two most important economies, China and India, again showed significant growth. According to the Chinese National Bureau of Statistics, China's economy grew 9.2 percent (2010: 10.3 percent). To get a grip on high inflation, the People's Bank of China raised its base rate several times, resulting in somewhat slower growth. In India, gross domestic product climbed by 7.9 percent (2010: 8.5 percent) according to the ADB. The Japanese economy suffered greatly from the earthquake and tsunami catastrophe. According to the IMF, Japan had to cope with a significant decline in GDP of −0.9 percent in 2011 (2010: 4.0 percent).

Japan's Economy Suffering Due to Earthquake Disaster

US Economy Remains Problematic

The anticipated upturn of the US economy failed to materialize in 2011. According to the IMF, GDP rose by 1.8 percent (2010: 3.0 percent). Private consumption could not be stimulated in spite of the US Federal Reserve Bank's zero interest rate policy. High unemployment, the weak real estate market, low consumer confidence and the negative trade balance slowed the American economy.

Eurozone Gripped by Debt Crisis

While GDP in the eurozone grew moderately, growth was held back by the debt crisis in some European countries (such as Greece, Portugal, Ireland, Spain and Italy) and by the difficult political negotiations on solutions. According to IMF calculations, the GDP of eurozone countries rose 1.6 percent (2010: 1.8 percent).

German Economic Growth Stronger than Other EU Countries

As in 2010, the German economy grew more strongly than the other EU members in 2011. Germany thus reinforced its role as Europe's leading industrial nation. Exports were the primary driver for this positive development. Low unemployment and a high employment level produced additional tax revenues that reduced the debt burden. Data issued by the German Federal Statistics Office show that GDP increased by 3.0 percent (2010: 3.6 percent).

General Sector-Specific Conditions

We supply products to a wide range of industries. Our main customers are in the semiconductor, photovoltaic, chemical, construction, electrical-engineering and electronics sectors.

Semiconductor Market Declining

Sales Volumes of 300 mm Silicon Wafers Rise While Those of 200 mm and Smaller-Diameter Wafers Fall

Expectations for additional semiconductor growth were not met in 2011. During the year under review, Gartner, a market research institute, lowered its original assumption that the market would grow by 4.6 percent. The second half-year in particular saw slow demand for consumer electronics, such as cellphones and computers. Overall, Gartner's experts predict that semiconductor sales will drop by 1.9 percent to around US$10.3 billion in 2011. Demand for silicon wafers is estimated at about 60,923 million cm^2 – a year-over-year decline of 3.4 percent. Substantial delivery bottlenecks – which were forecast due to the earthquake in Japan – were only of short duration. Global demand for 300 mm wafers rose 9 percent compared with the previous year. Demand for <300 mm wafers dropped by some 14 percent. While the sales volume of 300 mm wafers at Siltronic rose by 19 percent year over year, the sales volume of 200 mm and smaller wafers declined by about 20 percent. Siltronic's overall market share remained at about 15 percent. In parallel, Siltronic slightly increased its US-dollar prices for 300 and 200 mm wafers as well as for smaller wafers year over year.

T 3.1 Installation of New PV Capacity in 2010 and 2011

€ million	Installation of New PV Capacity (MW)		CAGR[2] 10–11
	2011	2010	%
Germany	7,500[1]	7,408	1
Italy	9,000	2,321	288
Other European countries	3,850	3,517	9
USA	1,600	878	82
Japan	1,100	990	11
China	2,000	520	285
Other regions	2,600	995	161
Total	27,650	16,629	66

Source: European Photovoltaic Industry Association (EPIA), Global Market Outlook for Photovoltaics until 2015 (April 2011)
[1] German Federal Network Agency
[2] CAGR: Compound annual growth rate

Lower Prices and Excess Capacities in the Photovoltaic Market

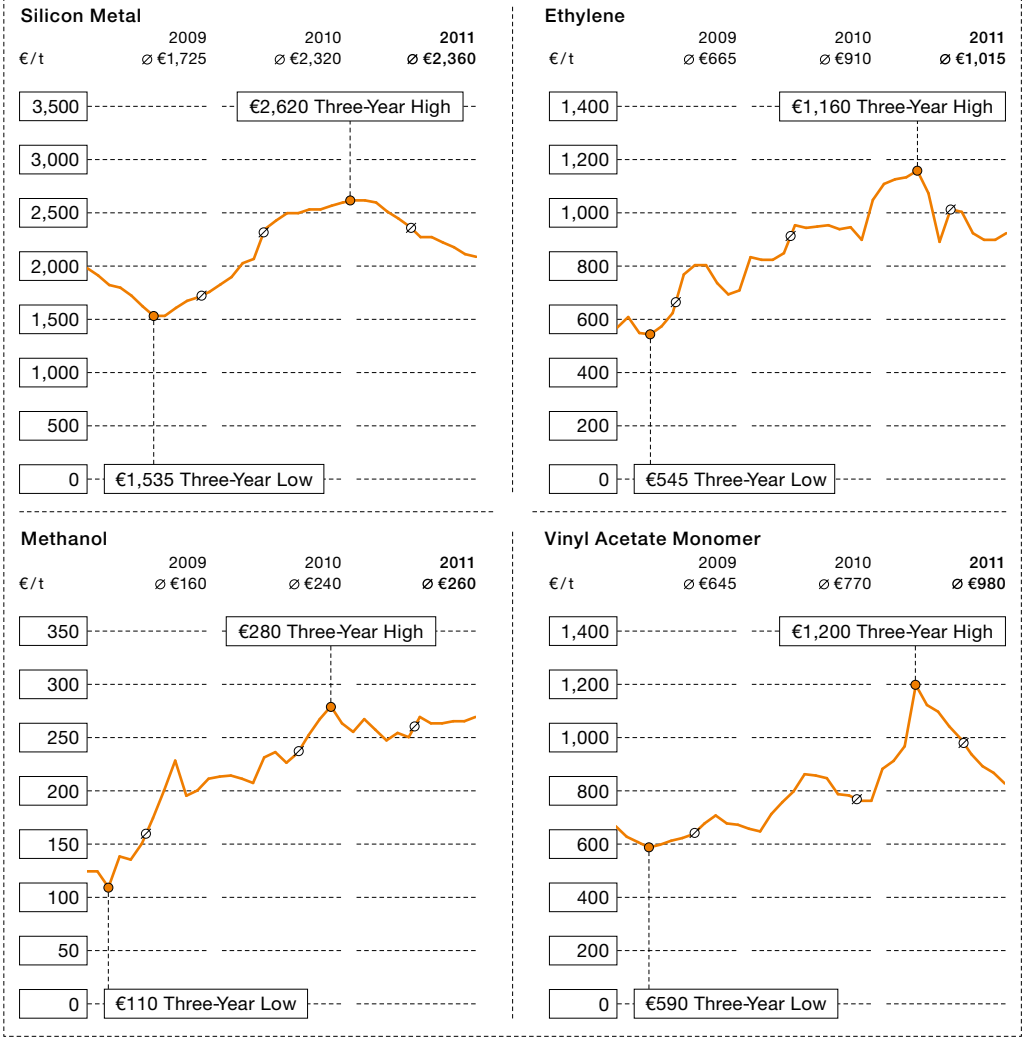
The photovoltaic market expanded further in 2011. According to the EPIA (European Photovoltaic Industry Association), over 27 gigawatts (GW) of capacity were installed worldwide. Germany remains the most important market for photovoltaic systems, despite the cut in feed-in tariffs. According to Germany's Federal Network Agency, the installed output continued to edge up slightly to 7.5 GW (2010: 7.4 GW). Global production capacities, though, exceeded demand, resulting in increased price pressure, tougher competition, and a consolidation phase in the photovoltaic industry. Since the third quarter, polysilicon manufacturers have been among those affected by the price pressure. Despite this difficult market environment, WACKER was able to conclude long-term contracts, mainly during the first half of 2011. Prices on the spot market fell considerably year over year, the decline being particularly noticeable in the fourth quarter of 2011. During the first nine months of 2011, all WACKER's output was sold on the market. In the fourth quarter, shipments weakened appreciably.

Growing Chemical Industry

The chemical industry continued to grow in 2011. Global sales revenue reached another new high in 2011, after climbing to above €3 trillion for the first time in 2010. Production and sales revenue increased, particularly during the first half of 2011. Momentum weakened, however, in the second half. Our chemical divisions' performance reflects this trend. WACKER SILICONES increased its sales revenue slightly compared to the previous year, while WACKER POLYMERS posted substantial sales growth. Higher raw-material costs, though, slowed earnings development in both business divisions. The German Chemical Industry Association (VCI) estimates that Germany's chemical-pharmaceutical sector produced 5 percent more than in 2010. Capacity utilization at German chemical plants was 84 percent. According to the VCI, sales revenue increased to over €180 billion.

Germany's Chemical Industry Produces 5 Percent More Year over Year

G 3.3 Spot-Price Trends for WACKER's Key Raw Materials



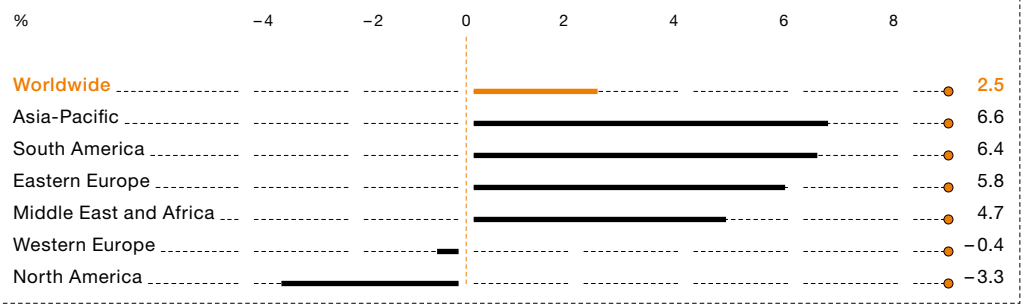
⌀ Annual average in each case

Construction Industry Recovering

The global construction industry recovered in 2011, following two weaker years. Based on data from market research institute Global Insight, construction volume rose to over US$6 trillion.

Regionally, Asia saw the strongest increase at 6.6 percent. South America, Eastern Europe and the Middle East also posted gains. Volume fell slightly in Western Europe, while North America recorded a 3.3-percent decrease.

G 3.4 Global Construction Industry by Region in 2011



Source: Global Insight (Oct. 2011)

WACKER POLYMERS' performance was positive in all regions. The division posted growth of about 12 percent in Germany and the USA, 16 percent in Europe and 20 percent in the Middle East. In Asia, our sales revenue rose by 13 percent. Product sales-volume growth was particularly robust in thermal insulation systems and the renovation of buildings.

WACKER SILICONES – another construction-sector supplier – generated organic growth of 5.1 percent, excluding the Lucky-Silicone brand acquired in 2010. WACKER performed especially well in Asia (over 17-percent growth) and in the Middle East (over 29 percent), thanks to the successful marketing of our products, new product developments, and improved availability of siloxane from newly commissioned facilities in China.

Electrical and Electronics Industries Grow

With sales of €2.8 trillion, the global electrical and electronics industries continued their growth path in 2011. The German Electrical and Electronic Manufacturers' Association (ZVEI) estimates worldwide growth at 7 percent in 2011. The emerging markets, which saw growth of about 10 percent, were the main driving force here, while advanced economies posted an increase of 3 percent. The three WACKER divisions that serve the electrical and electronics sectors benefited from this growth. Siltronic reported a slight sales gain here compared to 2010. WACKER POLYSILICON sold 15 percent of its 2011 polysilicon capacities to the electronics industry.

WACKER SILICONES, which supplies diverse industries, also posted higher sales. The division increased its automotive-electronics sales by over 15 percent compared to 2010. We generated growth of almost 10 percent in low-voltage applications and medium-voltage and high-voltage insulators.

Overall Statement on Underlying Conditions

The development of the global economy in 2011 can be divided into two phases. During the first half of the year, 2010's growth continued. In the second half of 2011, demand fell in important customer sectors and the economic climate cooled substantially. The reasons for the decline lie in the EU's continuing debt crisis, the weakness of the American economy, China's battle against an overheating economy, and structural risks in the banking sector. All these factors contributed to a substantial increase in the risks of a downturn and a negative impact on economic development. This trend continued during the first months of 2012.

The rapid upturn in economic output in 2010 and in the first six months of 2011 was not entirely positive for WACKER. The steep increase in raw-material costs dampened our business and reduced profitability. We were unable to pass on all of the high raw-material costs to our customers. Overall, sales rose in the three chemicals divisions – WACKER SILICONES, WACKER POLYMERS and WACKER BIOSOLUTIONS – while their EBITDA margin edged down. WACKER POLYMERS' sales volumes were especially positive and we benefited primarily from volume gains in our dispersions business. At Siltronic, the additional business expected in the aftermath of the earthquake in Japan largely did not materialize. In the photovoltaic industry, strong competition and price pressure due to excess capacities also affected WACKER POLYSILICON's business, especially in the fourth quarter. The current consolidation will continue into 2012 and lead to a market shakeout. As the quality, technology and cost leader in polysilicon production, we are well equipped to cope with this trend successfully. Overall, WACKER maintained its market position in its four major business divisions.

WACKER increased its sales revenue in all regions by single-digit percentages in 2011. Growth was strongest in Asia. Its share of total Group sales continued to rise and is currently at 37 percent.

Key Events Affecting Business Performance

Investments

Substantial Rise in Investments

In 2011, WACKER's investment activities continued to center on expanding production capacities for polysilicon. Investments in 2011 increased against 2010 to €981.2 million (2010: €695.1 million). The most important investment projects are the Poly 9 expansion stage in Nünchritz and the establishment of a polysilicon site in Tennessee in the USA (Poly 11). In 2011, these two projects involved a total of €500 million in additions to property, plant and equipment.

We commissioned an additional pyrogenic-silica (HDK®) production facility at our Zhangjiagang site in China. The total investment at this site was about €15 million in 2011. WACKER also invested in a production plant for hyperpure silicone elastomers for the medical, LED and electronics industry in Burghausen and in a new compounding plant for silicone elastomers in India. Siltronic expanded its production capacities for epitaxial wafers at Burghausen.

WACKER invested €53.3 million in joint ventures and associates. Funds mainly went into the expansion of the 300 mm wafer joint venture with Samsung Electronics in Singapore.

Divestitures

In early July 2011, WACKER SILICONES sold its business in silicone-based release agents for tire manufacturing to Rhein Chemie Rheinau GmbH. The purchase price was €10.4 million. Rhein Chemie, a subsidiary of Lanxess AG, acquired the rights to the product formulas, and to the existing customer contracts and inventories for this business. The annual revenue from tire release agents in 2010 was in the mid-single-digit million euro range.

Hikari Production Site Scheduled for Closure Mid-2012

In December 2011, Wacker Chemie AG's Executive Board resolved to close Siltronic's Hikari (Japan) production site by mid-2012. Siltronic produced 200 mm silicon wafers for the semiconductor industry there. The site closure incurs expenditures of about €65 million, which were recognized as obligations. Around 500 employees are affected by the closure. The goal is to implement the job cuts in as socially responsible a manner as possible, including severance payments and help in searching for new jobs.

Comparing Actual with Forecast Performance

WACKER did not meet its goal of exceeding its very successful 2010 fiscal year. Sales revenue and EBITDA remained below our March 2011 forecast. The significantly weaker development of the global economy in the second half of the year impacted WACKER, above all in its polysilicon and silicon-wafer businesses. Consistently high raw-material costs throughout 2011 slowed revenue and earnings development, too.

Forecast Reduced in Q3

In its annual report published in March 2011, WACKER forecast that sales would increase to more than €5 billion and EBITDA would exceed 2010's €1.19 billion. Investments would total about €900 million. We planned our R&D costs to be slightly above the prior year (2010: €165.1 million). The number of employees was expected to increase significantly to more than 17,000. The Executive Board confirmed this forecast at the end of July when the half-year figures were published.

Once the Q3 2011 figures had been published, sales and EBITDA estimates were revised downward. At that time, the Executive Board estimated that sales would be approximately €5 billion and EBITDA was expected to come in not over, but rather at, the 2010 level. The weaker-than-expected polysilicon business in the fourth quarter and lower orders in the wafer business were primarily responsible for these developments. The announcement in early December 2011 to shut down wafer production at our Hikari site in 2012 led to a further downward revision of our EBITDA forecast. With reported sales revenue and earnings being much weaker than expected at WACKER POLYSILICON and Siltronic, sales and EBITDA in 2011 came in below consensus.

T 3.2 Comparing Actual with Forecast Performance

€ million	Results in 2010	Forecast: March 2011	Forecast: July 2011	Forcast: October 2011	**Results in 2011**
Sales	4,748.4	> 5,000	> 5,000	Approx. 5,000	**4,909.7**
EBITDA	1,194.5	> prior year	> prior year	Prior-year level	**1,104.2**
Investments (incl. financial assets)	695.1	Approx. 900	Approx. 900	Approx. 950	**981.2**

2011's sales revenue was €4.91 billion, a year-over-year rise of 3.4 percent. Apart from Siltronic, the other four divisions (WACKER POLYMERS, WACKER SILICONES, WACKER BIOSOLUTIONS and WACKER POLYSILICON) saw sales grow. Even so, we did not achieve our original sales target of over €5 billion.

Originally, we had forecast that EBITDA would exceed the prior-year figure of €1.19 billion. 2011's EBITDA came in at €1.10 billion, down 7.6 percent compared to the previous year. Apart from WACKER POLYSILICON, the other divisions generated lower year-over-year EBITDA. Rising raw-material prices and energy costs held back earnings. On average, the prices of our four key raw materials – silicon, ethylene, vinyl acetate monomer and methanol – were 23 percent up against the prior year. As a result of higher prices and volumes, we spent about €240 million more on energy and raw materials in 2011 than in 2010. Several non-recurring effects impacted EBITDA. Due to the termination of supply agreements by customers exiting the photovoltaic business, we collected advance payments and indemnity payments of €66.2 million. The announced closure of the Hikari wafer plant reduced EBITDA by €49.6 million. Moreover, an addition to pension provisions lowered earnings by €29.9 million. WACKER is thus taking account of the higher life expectancy among the Group's pension-fund beneficiaries.

Excluding acquisitions, investments of about €900 million were forecast in 2011. At €981.2 million, investments were slightly above this target. Most capital expenditures flowed into the ongoing expansion of our polysilicon production facilities. As projected in early 2011, R&D expenses – for developing tomorrow's products and solutions – climbed slightly to €172.9 million.

The number of employees increased as planned. As per the reporting date, WACKER had 17,168 employees, 854 more than in 2010. The rise stemmed primarily from expansion projects at WACKER POLYSILICON.

The Executive and Supervisory Boards' 2011 dividend proposal to be announced at the Annual Shareholders' Meeting reflects that year's business trends and the Group's strong financial position. The proposal to the annual shareholders' meeting for the 2011 dividend is €2.20 per share (2010: €3.20).

Deviations from Projected Expenses

Spending Rises on Major Cost Types

Payroll expenses rose clearly as a percentage of sales and are slightly above our expectations. The rise is due to the obligations for the severance packages for staff at the Hikari site and to the one-time expenditures for demographic adjustments. Medium term, we expect payroll expenses (excluding non-recurring effects) to return to below 25 percent of sales.

Raw-material costs, as a percentage of sales, also climbed. As expected, the prices of our key raw materials rose strongly in 2011. Overall, WACKER had to absorb over €150 million in price adjustments, only some of which could be passed on to our customers through higher sales prices. In the medium term, we expect prices of raw materials to increase further, so that the share of raw-material costs in sales will continue to rise.

Energy costs rose as well. Two factors played a role here. The prices of natural gas and electricity went up slightly. The rise in sales volumes from polysilicon production caused our energy consumption to increase. The energy that WACKER needs for its Poly 11 expansion stage in Tennessee can be purchased much more cost-effectively.

At 10.2 percent, depreciation was higher than planned. It rose somewhat because new polysilicon facilities came on stream in 2010 and 2011. Additionally, there were write-downs on fixed assets totaling €41.4 million. In the medium term, we anticipate depreciation to account for more than 10 percent of sales.

T 3.3 Expenses by Cost Types

%	Actual Figure: 2010	Planned: 2011	Actual Figure: 2011
Personnel expenses	23.9	25.7	26.1
Raw-material costs	19.8	22.7	21.2
Energy costs	8.5	9.2	9.9
Depreciation and amortization	9.0	9.2	10.2

Executive Board Review of Business Development

WACKER POLYMERS Has Largest Percentage Rise in Sales of All Business Divisions

2011 was a successful year for WACKER until part-way through the third quarter. Sales increased in all business divisions over the first nine months. The chemical divisions saw high capacity utilization and slightly rising or stable prices, as did WACKER POLYSILICON and Siltronic. Earnings development was slowed by high raw material costs. The economic situation turned at the middle of the third quarter, however. Incoming orders, particularly from the construction industry, declined in the chemical divisions. Siltronic's sales volume and revenue from semiconductor wafers dropped. Excess capacities in the photovoltaic industry's overall supply chain resulted in lower sales revenue and margins at WACKER POLYSILICON. Consolidation of this industry is continuing into 2012. On publishing the Q3 2011 figures, we revised our sales and EBITDA targets slightly downward due to changes in market demand and a noticeably subdued business outlook. The drop in polysilicon sales volumes clearly impacted sales revenues during the fourth quarter. Following the December 2011 decision to close the Siltronic plant in Hikari in 2012, we again revised our EBITDA forecast downward.

Our investments were slightly higher than anticipated. The rise in employee numbers was as expected. Payroll expenses, energy costs and depreciation were higher than planned. Despite a considerable rise, raw-material costs remained below the planned level. R&D costs stayed within our expectations. We finalized an important investment project by commissioning expansion stage 9 of our polysilicon production facilities in Nünchritz.

Earnings

WACKER closed 2011 with sales slightly ahead of last year's figure. EBITDA, however, was 7.6 percent lower than in 2010 because of higher raw-material and energy costs. Although we raised our product prices, this was not enough to fully make up for the increase in raw-material costs. In Q4 2011, falling prices and volumes led to declines in both sales and earnings at WACKER POLYSILICON and Siltronic. As a result, fourth-quarter sales and earnings fell short of our expectations. The Group's net income for the year fell €140.9 million to €356.1 million (2010: €497.0 million).

Sales Up €161.3 Million to €4.91 Billion

At €4.91 billion, WACKER's sales revenues in 2011 were 3.4 percent above the prior-year figure (2010: €4.75 billion), growth being driven by strong customer demand for our products, especially in the first nine months of the year. WACKER POLYMERS saw the biggest year-over-year jump in sales, posting an increase of 14 percent compared to the previous year. This was mainly due to the construction industry's recovery and the substitution of styrene butadiene with VAE dispersions in the carpet and packaging sectors. All regions saw a healthy rise in sales revenues. WACKER POLYSILICON increased its sales slightly compared with the previous year. Higher production and sales volumes helped grow revenues by 5.8 percent to €1.23 billion (2010: €1.18 billion). Substantial overcapacity throughout the photovoltaic sector's supply chain, together with initial consolidation within this sector, had a negative impact on the division's fourth-quarter business. After 2010's strong rise, sales at WACKER SILICONES edged up only slightly in 2011, climbing 0.8 percent to €1.58 billion (2010: €1.56 billion). Siltronic was the only division unable to reach its prior-year sales figure. Sales fell 3.3 percent to €985.1 million (2010: €1.02 billion). In Q4 2011, inventory adjustments by customers and slack demand for silicon wafers impacted our sales volumes.

While higher volumes added €93 million to sales revenue, this was countered by exchange-rate effects of €–69 million. A key contributor here was the US dollar-euro exchange rate. The average rate in 2011 was 1.39 dollars to the euro (2010: 1.33). Higher prices increased Group sales by €137 million.

T 3.4 External Sales by Division

€ million	2011	2010	2009	2008	2007
WACKER SILICONES	1,580.2	1,563.3	1,219.2	1,363.5	1,313.6
WACKER POLYMERS	901.4	788.9	732.7	860.4	623.7
WACKER BIOSOLUTIONS	138.9	138.0	100.5	92.0	100.6
WACKER POLYSILICON	1,234.8	1,177.5	968.1	567.0	243.8
SILTRONIC	985.1	1,018.7	632.6	1,356.2	1,445.1
Other	69.3	62.0	66.2	59.0	54.5
Group	4,909.7	4,748.4	3,719.3	4,298.1	3,781.3

Detailed information on each division's sales figures and earnings before interest, taxes, depreciation and amortization (EBITDA) is contained in the Segments section, starting on page 91.

International Sales Constitute 82 Percent of Total

The WACKER Group generates by far the largest share of its sales outside Germany. In 2011, international sales reached €4.01 billion, or 82 percent of consolidated sales. The prior-year figure was €3.86 billion or 81 percent of the total. Asia remained the Group's biggest market by far in 2011.

T 3.5 **Domestic and International Sales** (by Customer Headquarters)

€ million	2011	2010	2009	2008	2007
External sales	4,909.7	4,748.4	3,719.3	4,298.1	3,781.3
Of which Germany	899.4	887.3	774.6	948.6	723.5
Of which international	4,010.3	3,861.1	2,944.7	3,349.5	3,057.8

Detailed information on domestic and international sales is contained in the Regions section, starting on page 98.

EBITDA Down 7.6 Percent Year Over Year

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to €1.10 billion in 2011, down 7.6 percent from a year earlier (2010: €1.19 billion). The EBITDA margin reached 22.5 percent (2010: 25.2 percent). The decline is attributable to various factors, including higher energy and raw-material costs, and project-specific start-up costs for polysilicon facilities. EBIT for the year amounted to €603.2 million (2010: €764.6 million) – a 21-percent decrease. Depreciation and amortization for full-year 2011 totaled €501.0 million (2010: €429.9 million). This figure includes €41.4 million in impairment losses (2010: €12.7 million). The EBIT margin for 2011 was 12.3 percent (2010: 16.1 percent). Both EBIT and EBITDA were affected by the non-recurring effects shown in the table.

T 3.6 **Non-Recurring Effects in 2011**

€ million	2011
Receipt of advance payments and indemnity payments	**66.2**
Life-expectancy adjustments to provisions for pensions	**–29.9**
Obligations relating to the closure of the Hikari site	**–49.6**
Total non-recurring effects on EBITDA	**–13.3**
Impairments on noncurrent assets (Hikari, granular polysilicon plant)	**–38.4**
Total non-recurring effects on EBIT	**–51.7**

T 3.7 **Non-Recurring Effects in 2010**

€ million	2010
Provision for losses from future purchase obligations in China	–51.8
Disposal of Planar Solutions	18.5
Total non-recurring effects on EBITDA	–33.3
Impairments on noncurrent assets (HDK® China)	–7.5
Total non-recurring effects on EBIT	–40.8

Higher Cost of Sales Weighing on Gross Profit from Sales

Cost-of-Sales Ratio Rises Year on Year

Gross profit from sales fell €183.8 million to €1.16 billion (2010: €1.35 billion) – down 14 percent from a year earlier. The 10-percent increase in the cost of sales resulted in a reduced gross margin of 24 percent (2010: 28 percent). Specific production costs reached €3.75 billion (2010: €3.40 billion) and have thus grown at a disproportionately higher rate than sales. The principal causes are the much higher prices of silicon, ethylene, vinyl acetate monomer and energy, as well as the polysilicon-production start-up costs at Nünchritz. Price increases in energy and raw materials reduced gross profit by approximately €190 million. The cost-of-sales ratio for the full year stood at 76 percent in 2011 (2010: 72 percent). Capacity utilization at most of our production facilities was good on average during the year, which resulted in high fixed-cost coverage. Cost of goods sold include major portions of one-time additions to pension provisions. WACKER is thus taking account of the higher life expectancy of the Group's pension-fund beneficiaries – a process begun in 2009.

Functional Costs Higher

Other functional costs (selling, R&D and general administrative expenses) increased year over year by 5 percent to €577.7 million in 2011 (2010: €548.0 million). The rise is mostly due to higher personnel expenses in all functional areas. These expenses reflected continued growth in business volume throughout the Group during 2011.

Rising R&D Costs

The Group's R&D costs came in at €172.9 million, slightly higher than in 2010 (€165.1 million). Measured as a percentage of sales, this represents an unchanged R&D ratio of 3.5 percent (2010: 3.5 percent).

Other Operating Income and Expenses

In 2011, the balance of other operating income and expenses was €26.1 million (2010: €4.3 million). This amount includes a net exchange-rate gain of €39.8 million, as opposed to a negative balance of exchange-rate gains and losses of €6.2 million for 2010. Other operating income includes €66.2 million in receipts from advance payments and indemnity payments due to customers' terminating individual supply agreements. Other operating expenses contain expenditures relating to obligations recognized as part of the closure of Siltronic's Hikari plant. These amount to €49.6 million. Noncurrent assets were written down by €14.8 million to account for this closure, planned for mid-2012. An impairment loss of €23.6 million was recognized for the partial shutdown of a granular polysilicon production plant at Burghausen.

Operating Result

Due to the effects explained above, the operating result fell to €610.9 million (2010: €802.6 million) – a drop of 24 percent compared with the prior year.

Result from Investments in Joint Ventures and Associates

The investment result – the total income from investments in joint ventures and associates and other income from participations – was negative in 2011, as it had been in 2010. Now that the joint venture with Dow Corning in China is fully on stream, the associated negative result from investments in joint ventures and associates was reduced substantially. This result was €–7.7 million, which amounts to an 80-percent year-over-year improvement (2010: €–38.0 million). The joint venture with Samsung for the production of 300 mm wafers generated investment losses due to high levels of depreciation.

Financial and Interest Result

At €–35.8 million, the financial result edged down compared to the prior year (2010: €–32.3 million) under the influence of divergent effects. While the interest result was slightly positive at €3.4 million, the gross impact of the effects was greater than in 2010. This was due to the high level of available liquidity invested in securities and money market instruments, which generated interest income of €16.9 million. In contrast, the loans we raised for capital expenditures increased interest expenses to €13.5 million. Construction-related borrowing costs capitalized in 2011 and amounting to €11.3 million (2010: €13.5 million) had a positive effect. The other financial result was €–39.2 million (2010: €–30.3 million). This amount consisted primarily of the unwinding of discounted pension and other provisions and of the hedging of financial investments.

Income Taxes

Tax expenses for 2011 amounted to €211.3 million (2010: €235.3 million), representing a tax rate of 37.2 percent (2010: 32.1 percent) for the Group. In particular, the Hikari closure costs, which are not tax deductible, have had a negative effect on the tax rate. The tax expenses reported consist mainly of the Group's current income taxes.

Net Income

In total, net income for 2011 was €356.1 million (2010: €497.0 million).

T 3.8 Combined Statement of Income

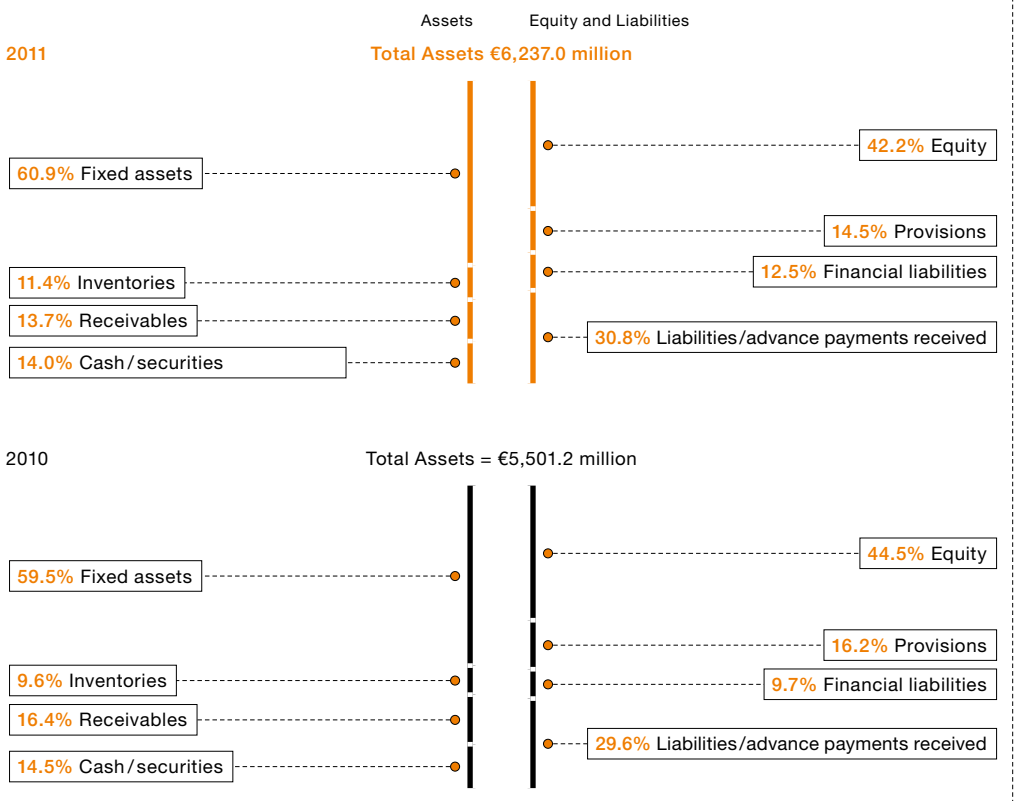
€ million	2011	2010
Sales	4,909.7	4,748.4
Gross profit from sales	1,162.5	1,346.3
Selling, R&D and general administrative expenses	–577.7	–548.0
Other operating income and expenses	26.1	4.3
Operating result	610.9	802.6
Result from investments in joint ventures and associates	–7.7	–38.0
EBIT	603.2	764.6
Financial result	–35.8	–32.3
Income before taxes	567.4	732.3
Income taxes	–211.3	–235.3
Net income for the year	356.1	497.0
Of which attributable to Wacker Chemie AG shareholders	352.6	490.7
Of which attributable to non-controlling interests	3.5	6.3
Earnings per common share (€) (basic / diluted)	7.10	9.88
Average number of shares outstanding (weighted)	49,677,983	49,677,983
Reconciliation to EBITDA		
EBIT	603.2	764.6
Write-downs / write-ups of noncurrent assets	501.0	429.9
EBITDA	1,104.2	1,194.5
ROCE (%)	18.1	24.8

Net Assets

Total Assets Continue to Grow

As per December 31, 2011, WACKER's total assets grew €735.8 million year over year to €6.24 billion (2010: €5.50 billion), an increase of 13 percent. The principal causes were higher inventories and property, plant and equipment on the assets side, balanced by higher equity and financial debt on the liabilities side. Foreign currency translation effects raised total assets by €70.0 million.

G 3.5 Asset and Capital Structure



Financial-Position Trends: Assets

Current and Noncurrent Assets

Noncurrent assets rose to €4.00 billion (2010: €3.55 billion), a gain of €448.4 million or 13 percent. At 64 percent, though, the share of noncurrent assets within total assets remained constant compared with the previous year (2010: 64 percent). Current assets also rose year over year. They total €2.24 billion (2010: €1.95 billion), an increase of 15 percent. In terms of their share of total assets, current assets, at 36 percent, were more or less at the prior-year level (2010: 36 percent). The gain on the assets side of the statement of financial

position is due primarily to increased capital expenditures, higher inventories, and additions to the securities portfolio.

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

Intangible assets, property, plant and equipment, and investment property totaled €3.53 billion as per the reporting date (2010: €3.06 billion). Depreciation and amortization reduced fixed assets by €459.6 million (2010: €417.2 million), while impairments led to a decrease of €41.4 million. In contrast, investment spending increased fixed assets by €981.2 million (2010: €613.9 million). This strong increase is primarily the result of capital expenditures in the new polysilicon facilities at Nünchritz, and in the new polysilicon site in Charleston, Tennessee, scheduled for completion in 2013. Exchange-rate effects of €46.6 million increased fixed assets.

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

The carrying amount of investments in joint ventures and associates accounted for using the equity method changed to €124.5 million (2010: €111.7 million), as a result of capital increases and generated earnings. The net result from investments in joint ventures and associates was €7.7 million (2010: €– 38.0 million).

Noncurrent Financial Assets and Securities

In 2011, WACKER continued to invest part of its liquidity in securities. In the third quarter, some of these funds were invested in long and short-term securities allocated to an institutional investment fund. The funds will be available for future investment activity. Our portfolio additionally includes securities of various bond issuers with terms of over 12 months. The value of these noncurrent securities holdings was €162.5 million as per the reporting date (2010: €210.8 million). The other noncurrent assets amount to €176.8 million (2010: €164.7 million). They include loans to associated companies totaling €130.0 million (2010: €88.8 million) and tax receivables and deferred tax assets of €22.5 million (2010: €26.2 million).

Current Assets

Current assets increased over their 2010 level due to higher inventories and increased liquidity. They rose €287.4 million to €2.24 billion (2010: €1.95 billion), an increase of 15 percent. As of year-end 2011, inventories were much higher than a year earlier, coming in at €713.7 million (2010: €530.7 million). The rise was due to strong business and production volumes, and inventory build-up for silicon metal. At €566.1 million, trade receivables declined year over year (2010: €596.0 million). As in the previous year, inventories and trade receivables together made up about 20 percent of total assets at the reporting date.

Other current assets were also higher than in 2010, rising €134.3 million to €961.2 million (2010: €826.9 million) – a 16-percent increase. The total included current securities of €237.2 million, consisting of the fund investment we undertook in the third quarter and the reclassification of securities from noncurrent to current. These liquid reserves will be available for use in long-term investment projects. Cash and cash equivalents amounted to €473.9 million at year-end 2011 (2010: €545.2 million). Other current assets primarily include derivatives for foreign exchange hedging of €16.9 million (2010: €22.6 million), investment-grant receivables of €38.1 million (2010: €68.9 million) and tax receivables of €117.3 million (2010: €87.1 million).

Financial-Position Trends: Equity and Liabilities

Group Equity Increased

WACKER Maintains High Equity Ratio

Equity rose 7 percent to €2.63 billion as per December 31, 2011 (2010: €2.45 billion). However, because total equity and liabilities were so much higher, the equity ratio has actually fallen slightly year over year, to 42.2 percent (2010: 44.5 percent). Group net income added €356.1 million to equity (2010: €497.0 million). This was offset by dividend payouts and distribution of dividends totaling €160.1 million. Other equity items included uncapitalized currency-conversion effects from non-German subsidiaries' net assets and from changes in the market value of derivative financial instruments. These effects had a negative impact of €12.3 million on equity.

Liabilities

WACKER also posted an increase in liabilities, climbing 18 percent to €3.61 billion (2010: €3.05 billion). At 58 percent, their share of total equity and liabilities edged up compared with 2010 (55 percent).

Noncurrent Liabilities Rise Due to Higher Financial Liabilities and Advance Payments from Customers

Noncurrent liabilities rose 21 percent to €2.49 billion (2010: €2.06 billion). Their share of total assets is 40 percent (2010: 37 percent). Noncurrent provisions climbed 5 percent to €782.3 million (2010: €745.8 million). The increase was marked by higher pension provisions, in particular, which grew €51.7 million to €527.1. Because we upwardly revised our life-expectancy assumptions relating to the Group's pension-fund beneficiaries in 2011, there was a substantial rise in pension provisions. Revised life expectancy accounted for €29.9 million of the €51.7 million increase in these provisions. When the Hikari site is closed in 2012, we will be paying out all pension claims to the employees there. Accordingly, these benefit obligations have been reclassified as current liabilities. Other noncurrent provisions were reduced mainly by reversals of the provisions for phased early retirement.

Noncurrent financial liabilities were up, rising to €662.1 million (2010: €407.1 million). Beside exchange-rate effects, two other items had an influence. In December 2011, we accessed the second €200 million installment of a long-term investment loan from the European Investment Bank. We renegotiated and extended one investment loan in the first quarter, thereby reclassifying it from a current liability to a noncurrent one. Furthermore, additions from finance-lease obligations increased noncurrent financial liabilities.

There also were changes in other noncurrent liabilities, which rose to €1.04 billion (2010: €909.0 million). The increase was primarily due to the signing of long-term polysilicon-supply agreements with customers. In 2011, the value of long-term advance payments received rose €131.0 million to €1.0 billion (2010: €869.9 million), representing 16 percent of total assets.

Current Liabilities Rise amid High Trade Payables

WACKER posted an increase in current liabilities of 13 percent to €1.12 billion (2010: €992.5 million). Their share of total assets was unchanged at 18 percent. Current financial liabilities declined slightly to €115.8 million (2010: €126.3 million).

Trade payables were 20 percent higher than in the previous year, up €67.4 million to €402.6 million (2010: €335.2 million). Their share of total assets was 6 percent. This significant year-over-year increase was the result of increased investment activity for the new polysilicon plant in Tennessee, which increased trade payables by €74.0 million as of the reporting date.

The other current provisions and liabilities rose to €602.9 million (2010: €531.0 million), up €71.9 million on a year earlier. Here, the major components were current provisions for contingent losses from purchase obligations in China relating to long-term contracts between WACKER and the associated company Dow Corning (ZJG) Co., Ltd., and for current advance payments received for polysilicon deliveries. These advance payments climbed €39.4 million to €201.7 million (2010: €162.3 million). Additional items included liabilities from profit-sharing compensation and liabilities relating to the closure of the Hikari site.

Unrecognized Assets and Off-Balance-Sheet Financial Instruments

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

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

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

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

T 3.9 Combined Statement of Financial Position

€ million	2011	2010
Assets		
Intangible assets, property, plant and equipment, and investment property	3,532.2	3,060.4
Investments in associates accounted for using the equity method	124.5	111.7
Other noncurrent assets	339.3	375.5
Noncurrent assets	3,996.0	3,547.6
Inventories	713.7	530.7
Trade receivables	566.1	596.0
Other current assets	961.2	826.9
Current assets	2,241.0	1,953.6
Total assets	6,237.0	5,501.2
Equity and Liabilities		
Equity	2,629.7	2,446.8
Noncurrent provisions	782.3	745.8
Financial liabilities	662.1	407.1
Other noncurrent liabilities	1,041.6	909.0
Of which advance payments received	1,000.9	869.9
Noncurrent liabilities	2,486.0	2,061.9
Financial liabilities	115.8	126.3
Trade payables	402.6	335.2
Other current provisions and liabilities	602.9	531.0
Current liabilities	1,121.3	992.5
Liabilities	3,607.3	3,054.4
Total equity and liabilities	6,237.0	5,501.2
Capital employed	3,328.6	3,078.9

Financial Position

Financial-Management Principles and Goals

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

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

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

Financial Analysis

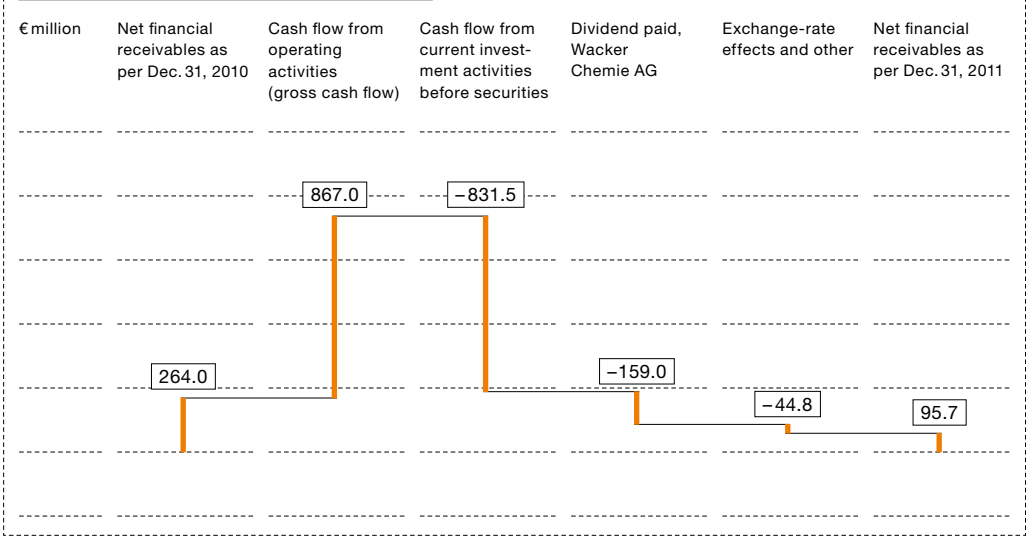
As per December 31, 2011, financial liabilities amounted to €777.9 million, up €244.5 million on 2010. The rise was mainly due to our accessing the second €200 million installment of our long-term investment loan from the European Investment Bank (EIB) to fund Nünchritz's Poly 9 expansion stage. We have also drawn on existing long-term credit facilities in China to finance ongoing investment projects there.

WACKER Posts Net Financial Receivables

WACKER defines net financial liabilities – a key indicator – as the balance of gross financial debt (obligations to banks, including finance-lease obligations) and existing noncurrent and current liquidity, consisting of securities, cash and cash equivalents. Net financial liabilities or receivables provide insights into the Group's liquidity position. WACKER's liquidity situation remains good. As per the reporting date, we had net financial receivables totaling €95.7 million. In 2010, WACKER had reported net financial receivables of €264.0 million.

Aside from the financial liabilities disclosed in the report on net assets, WACKER has at its disposal sufficient unused credit lines of over one year totaling some €720 million as per the reporting date. Thus, we have enough financial leeway to secure the Group's continued growth. The Group does not use any off-balance-sheet financing components.

G 3.6 Net Financial Liabilities / Receivables

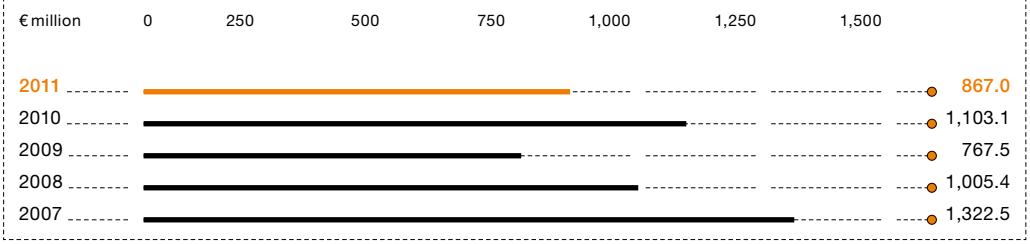


Cash Flow

Investment Payments Funded from Our Own Cash Flow

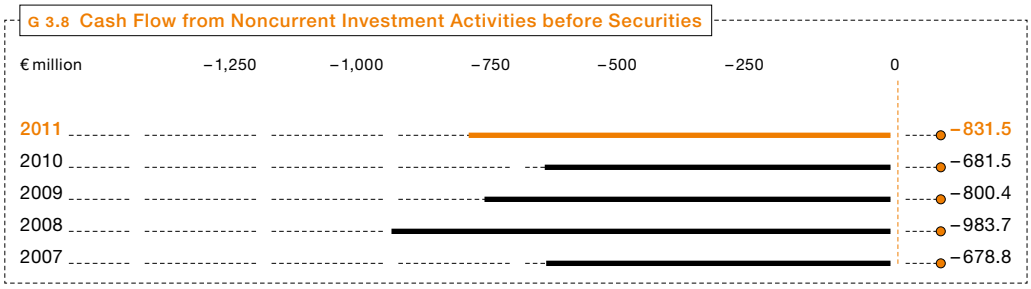
In 2011, WACKER funded its investments entirely out of its own cash flow, despite its high current level of investment spending. At €867.0 million, gross cash inflow from operating activities (gross cash flow) was down 21 percent (2010: €1.1 billion). This was mainly due to our reduced net income of €356.1 million for the year (2010: €497.0 million) and to the marked rise in inventories by year-end 2011. Inventories reduced gross cash flow by €192.1 million (2010: €– 46.7 million). Cash inflow from advance payments received was €154.0 million (2010: €165.2 million).

G 3.7 Cash Flow from Operating Activities (Gross Cash Flow)



The cash flow from noncurrent investment activities shows that we continue to invest sizable amounts in the ongoing expansion of our production facilities. In 2011, capital expenditures of €781.1 million (2010: €617.3 million) mainly focused on buildings, plants, machinery and infrastructure. Most expenditures were used for production-capacity expansion at WACKER POLYSILICON and for further pyrogenic-silica production facilities in China at WACKER SILICONES. Loans to joint ventures and associates resulted in cash payments totaling €34.9 million.

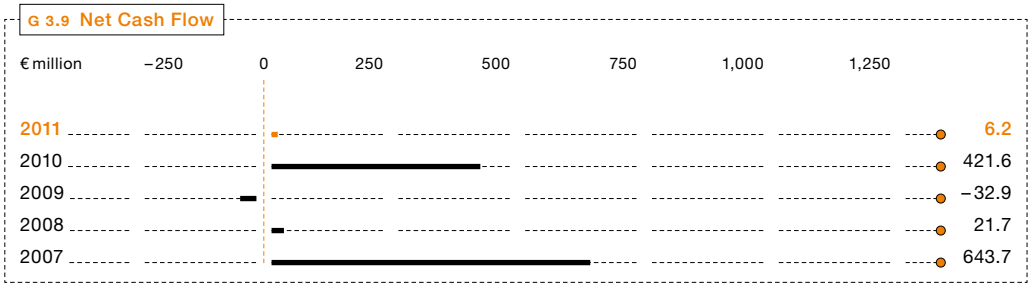
G 3.8 Cash Flow from Noncurrent Investment Activities before Securities



In 2011, WACKER purchased current and noncurrent securities totaling €187.5 million (2010: €252.2 million) that are allocable to cash flow from investment activities.

Net cash flow (the difference between cash inflow from operating activities and cash outflow due to long-term investment activities before securities, including finance-lease obligations) amounted to €6.2 million. In 2010, net cash flow had reached €421.6 million.

G 3.9 Net Cash Flow

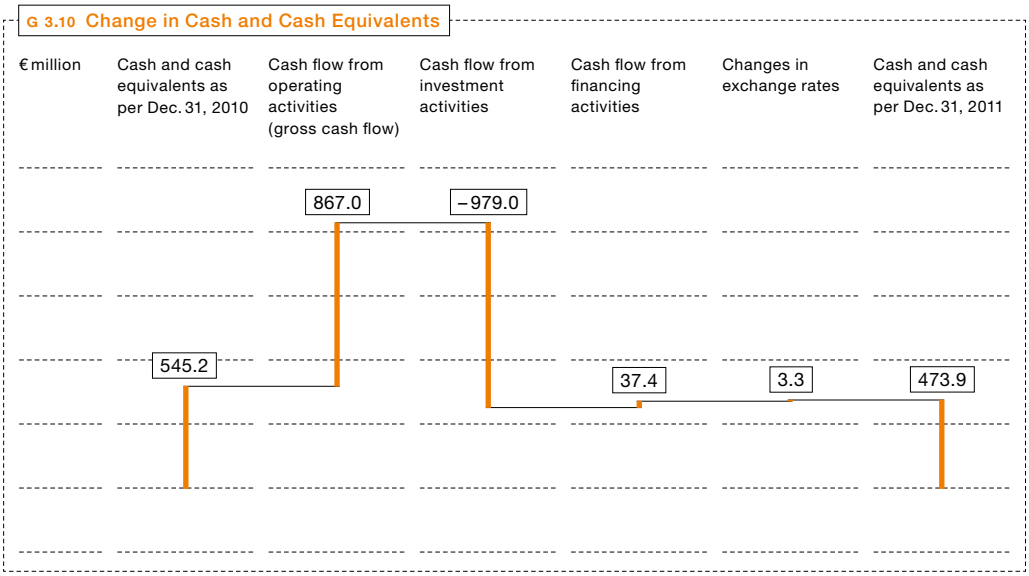


In connection with the refinement of our internal value-management system, net cash flow is to be redefined in 2012. For internal-reporting purposes, noncurrent advance payments received will be regarded as financial liabilities. Based on the new definition, 2011's net cash flow would have been €−157.4 million.

In 2011, cash inflow from financing activities was €37.4 million (2010: €3.7 million). The dividend payments for 2010 reduced cash flow from financing activities by €159.0 million. In contrast, the net effect of entering into bank liabilities was a cash inflow of €207.9 million (2010: €73.2 million).

Cash and cash equivalents resulting from cash flow and adjusted for exchange-rate fluctuations went down by €71.3 million as of the reporting date. They totaled €473.9 million as of year-end 2011.

G 3.10 Change in Cash and Cash Equivalents



Proposal on Appropriation of Profits

In accordance with German Commercial Code accounting rules, Wacker Chemie AG posted a retained profit of €978.7 million in 2011. The Executive and Supervisory Boards will propose a dividend of €2.20 per share at the Annual Shareholders' Meeting. Based on the number of shares entitled to dividends as per December 31, 2011, the cash dividend corresponds to a payout of €109,291,562.60.

Dividend Proposal to the Annual Shareholders' Meeting: €2.20 per Share

Calculated in relation to WACKER's average share price in 2011, the dividend yield is 2.01 percent.

At the Annual Shareholders' Meeting, the Executive and Supervisory Boards will propose treating the remaining amount as profit carried forward.

Rating

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

General Overview of the Business Situation

2011 was a good year for WACKER. We were able to fund our payment outflows for noncurrent investments of €831.5 million using our own operating cash flow. The Group's financial position remains good. Existing liquidity exceeds financial liabilities by €95.7 million. Equity rose by €182.9 million. As a percentage of total assets, the equity ratio, at 42.2 percent, remains at a high level. Long-term financing for future investments and operations was secured in a timely manner.

T 3.10 Supplementary Information as per the Takeover Directive Implementation Act

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

§ 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 Shareholders' 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 the transfer of shares.
§ 315 (4) 3	**Direct or indirect capital stakes** Each of the following holds over 10 percent of the subscribed capital: Dr. Alexander Wacker Familiengesellschaft mbH, based in Munich, Blue Elephant Holding GmbH, based in Pöcking, and Dr. Peter-Alexander Wacker, resident in Starnberg and to whom the voting shares of Blue Elephant Holding GmbH are attributable.
§ 315 (4) 4 § 315 (4) 5	**Owners of shares entailing special rights** **Method of voting-right control in the case of employee participation** Shareholders have not been given any special rights that bestow control powers. Insofar as employees hold shares in Wacker Chemie AG's capital, they exercise their resultant control rights directly.
§ 315 (4) 6	**Legal stipulations and articles of incorporation (or association) 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 Association do not contain any further provisions in this respect. Pursuant to Section 4 of the Articles of Association, the number of Executive Board members is fixed by the Supervisory Board, which also appoints an Executive Board member as President & CEO. Amendments to the Articles of Association are covered by Sections 133 and 179, AktG. In accordance with Section 179, Subsection 1, item 2, AktG, the Supervisory Board has been empowered to amend the Articles of Association if only the wording thereof is affected.
§ 315 (4) 7	**Authority of the executive board to issue or buy back shares** In accordance with a resolution passed at the May 21, 2010 Annual Shareholders' Meeting, Wacker Chemie AG's Executive Board was authorized – in compliance with the legal provisions set out in Section 71, Subsection 1, No. 8 of the German Stock Corporation Act (AktG) – to acquire treasury shares totaling a maximum of 10 percent of capital stock. No capital has been authorized for the issue of new shares.
§ 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. These arrangements comply with the usual standards for such joint-venture agreements. In addition, several loan agreements contain change-of-control clauses. Here, too, the clauses are typical of this type of agreement.
§ 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 (please refer to the compensation report).

Segments

WACKER SILICONES

Strategy

Adhering to its strategy, WACKER SILICONES focuses on growing profitably, achieving cost savings and increasing its flexibility toward customers and markets. Our aim is to maintain our market positions in the established sales regions of Europe and the Americas, and to continue growing in highly promising markets. The division's strategic marketing focuses on Brazil, China and India, where we anticipate the greatest growth opportunities, thanks to our wide range of products and applications.

Sales Edge Up

After 2010's strong rise, sales at WACKER SILICONES edged up only slightly in 2011, climbing 0.8 percent to €1.59 billion (2010: €1.58 billion). Sales growth stemmed from higher volumes and prices, though negative exchange-rate effects hampered business. Regionally, WACKER SILICONES generated sales growth in Asia, primarily China and India, and also in the "Other" regions, especially the Middle East. Sales in the Americas were down slightly on the previous year as a result of the strong euro. Silicone business gained ground in the energy, electronics, medical technology, automotive and construction sectors.

Considerably higher raw-material costs, coupled with exchange-rate losses, prevented EBITDA from matching the previous year's level. At €182.9 million, it was 20.4 percent below the 2010 figure (€229.9 million). Silicon-metal prices alone were 29 percent higher than in 2010, while methanol prices climbed 18 percent. EBITDA was bolstered by the proceeds from selling the silicone-based tire release agents business to Rhein Chemie Rheinau GmbH. The EBITDA margin fell to 11.5 percent (2010: 14.5 percent).

Investments Down on 2010

WACKER SILICONES invested less than in the previous year, with capital expenditures dropping from €174.1 million to €106.3 million. This was primarily because WACKER had spent €81.2 million in 2010 on two strategic acquisitions: the silicon-metal plant in Holla (Norway), and the Lucky-Silicone brand in South Korea. Investments in 2011 returned to a normal level for WACKER SILICONES.

New Production Capacity Completed

WACKER SILICONES completed several new production facilities in 2011. At Zhangjiagang (China), it started up an additional production plant for pyrogenic silica. In July 2011, at Burghausen, the division began manufacturing high-purity silicone elastomers for the medical, LED and electronics sectors on several production lines. Moreover, we are now operating a new compounding plant for ready-to-use silicone elastomers on the premises of Wacker Metroark Chemicals Pvt. Ltd., near Kolkata (India). The plant enables us to supply the Indian market more swiftly and flexibly with high-quality WACKER silicone products. In parallel, the division has increased its presence in India by opening a sales office in Chennai.

The Kempten production location was shut down, as announced. Its pyrogenic silica production volumes have been transferred to existing facilities at Burghausen and Nünchritz.

WACKER SILICONES had 3,956 employees on December 31, 2011 (December 31, 2010: 3,892).

T 3.11 Key Data: WACKER SILICONES

€ million	2011	2010	2009	2008	2007
Total sales	1,593.8	1,580.5	1,238.8	1,408.6	1,361.0
EBITDA	182.9	229.9	157.9	167.9	226.9
EBIT	103.3	150.0	33.5	86.3	144.6
Capital expenditures (asset additions)	106.3	92.9	102.2	107.0	102.2
Acquisitions	–	81.2	–	–	–
R&D costs	25.4	25.3	26.9	31.5	35.9
Employees (December 31, number)	3,956	3,892	3,873	3,927	3,871

WACKER POLYMERS

Strategy

Keeping firmly on its strategic course, WACKER POLYMERS continues to grow its dispersions and dispersible polymer powders business profitably. The key is to develop regional production capacity for dispersions and polymer powders so that local and regional demand can be met both promptly and cost-effectively. We provide customers with intensive local support through our technical competence centers, where we develop tailor-made product solutions hand in hand with our customers. This enables us to apply our decades of expertise to satisfying the specific local needs of customers around the globe. In particular, WACKER POLYMERS aims to promote the substitution of styrene butadiene and styrene acrylate with VAE dispersions.

Double-Digit Sales Growth

Successful Substitution of Other Technologies by WACKER VAE Dispersions

The division posted substantial year-on-year sales growth, thanks mainly to the construction industry's recovery and the substitution of other technologies with VAE dispersions in the carpet and packaging sectors. Sales rose 14.6 percent to €928.1 million (2010: €810.0 million). WACKER POLYMERS' business was lifted by a strong increase in sales volumes for dispersions and dispersible polymer powders, and also by higher product prices. Exchange-rate effects had a minor negative impact on business. Sales volumes for almost all product groups were 12 percent up on the previous year. All regions saw a healthy rise in sales revenues. On the dispersions front, WACKER POLYMERS generated its highest sales growth in North America and China. As for dispersible polymer powders, growth rates were strongest in Europe and South America.

WACKER POLYMERS' performance was particularly robust in the carpet and packaging markets, where customers are increasingly choosing WACKER VAE dispersions over styrene butadiene.

Higher prices for ethylene and vinyl acetate monomer (VAM) held back the division's profitability in 2011. Compared to the previous year, the cost of ethylene rose by almost 20 percent and VAM by more than 30 percent. The division was unable to compensate for the increased cost burden by raising the prices of its own products. Despite the healthy increase in sales, EBITDA of €111.8 fell 8.8 percent short of the 2010 figure (€122.6 million). The EBITDA margin reached 12.0 percent and was down on the prior-year figure (2010: 15.1 percent).

Rise in Investments

Investments rose by €17.3 million to €30.4 million (2010: €13.1 million). Capital spending focused on expanding capacity at existing facilities and on enhancing the productivity of production operations.

WACKER POLYMERS will continue expanding the Nanjing production site until 2013. A new reactor with an annual capacity of 60,000 metric tons will be added to the existing VAE dispersion facilities. It will double capacity for VAE dispersions at Nanjing to 120,000 metric tons per year. The plant complex will then be one of the biggest of its kind in China.

The number of employees at the division rose slightly to 1,412 as of December 31, 2011 (December 31, 2010: 1,377).

T 3.12 Key Data: WACKER POLYMERS

€ million	2011	2010	2009	2008	2007
Total sales	928.1	810.0	743.8	867.9	632.8
EBITDA	111.8	122.6	117.2	108.9	107.0
EBIT	76.2	82.2	77.8	64.9	80.5
Capital expenditures (asset additions)	30.4	13.1	40.0	74.4	41.0
R&D costs	14.1	14.0	14.2	15.0	7.6
Employees (December 31, number)	1,412	1,377	1,362	1,579	1,128

WACKER BIOSOLUTIONS

Strategy

WACKER BIOSOLUTIONS concentrates mainly on the pharmaceutical, agrochemical and food industries. We increasingly draw on chemical-biotech synergies to provide our customers with complete solutions for their specific market needs. To benefit from the high growth offered by biotechnology, we are especially active in the areas of biopharmaceuticals, food supplements, food ingredients and agrochemicals. In our target industries, being highly customer oriented is vital to our products' success. Consequently, the division's organizational structure focuses very strongly on customers and markets.

Sales Slightly Up

Sales at WACKER BIOSOLUTIONS edged up in 2011, rising 1.5 percent to €144.5 million (2010: €142.4 million). Price increases compensated for lower volumes and negative exchange-rate effects. WACKER BIOSOLUTIONS saw a decline in volumes for gumbase and cyclodextrins. In contrast, biopharmaceuticals business grew. The region with the highest growth rate was Asia (18 percent), with China driving this development. Business in Germany also made positive progress, while sales revenues in Europe and the Americas were below the prior-year figures.

EBITDA of €20.4 million (2010: €25.0 million) was lower than in 2010. The decline amounted to 18.4 percent. Higher raw-material costs were the main factor behind this trend. The EBITDA margin reached 14.1 percent (2010: 17.6 percent).

Higher Year-over-Year Investments

Investments increased to €8.6 million, compared with €6.5 million in 2010. Expenditures focused on existing production facilities.

The number of employees at WACKER BIOSOLUTIONS as of December 31, 2011, fell to 354 (December 31, 2010: 363).

T 3.13 Key Data: WACKER BIOSOLUTIONS

€ million	2011	2010	2009	2008	2007
Total sales	144.5	142.4	104.9	97.7	112.4
EBITDA	20.4	25.0	9.9	9.2	9.5
EBIT	13.3	16.6	4.7	6.0	–7.5
Capital expenditures (asset additions)	8.6	6.5	12.7	16.5	7.5
R&D costs	6.2	3.5	4.4	2.3	2.1
Employees (December 31, number)	354	363	344	259	245

WACKER POLYSILICON

Strategy

WACKER POLYSILICON's strategic aims are to maintain its quality and cost leadership as a hyperpure-polysilicon manufacturer, and to expand its production capacities in line with market growth. This strategy is based on long-term supplier relations with customers.

Slight Year-on-Year Rise in Sales and EBITDA

WACKER POLYSILICON increased its sales slightly compared with the previous year. The total rose by 5.8 percent to €1.45 billion (2010: €1.37 billion), fueled by sales volumes growth. Demand for high-quality polysilicon was very strong in the first nine months, with plants running at full capacity. In 2011's fourth quarter, though, there was a marked drop in demand. This reversal was prompted by extreme overcapacity along the photovoltaic industry's supply chain and by initial consolidation within the sector. Due to this situation, the division worked closely with customers to draw up model solutions based on existing agreements.

In 2011, we sold a total of 32,000 metric tons of polysilicon . As in the previous year, Asia, especially China, was the main sales region. Sales volumes grew by a double-digit rate in the Americas, but fell back slightly in Europe.

EBITDA climbed 1.9 percent to €747.3 million (2010: €733.4 million). Earnings were impacted not only by a slack fourth quarter, but also by the start-up costs for ramping up production capacity at Nünchritz's Poly 9 expansion stage. In contrast, EBITDA benefited from advance and indemnity payments totaling some €66.2 million as a result of the termination of agreements with customers withdrawing from solar business. The EBITDA margin reached 51.6 percent (2010: 53.6 percent).

Marked Increase in Investments

Major Investments at Nünchritz and Charleston

WACKER POLYSILICON's investments grew significantly in 2011 – rising 82.8 percent to €566.5 million (2010: €309.9 million). Capital expenditures were mainly for the construction and expansion of the new polysilicon facilities at Nünchritz and Charleston (Tennessee, USA). Construction work on the new integrated production site in Charleston is on schedule. To bring production output in line with anticipated customer demand, WACKER has decided to increase capacity at Charleston to 18,000 metric tons per year, up from a previous 15,000. It is anticipated that this move will raise total capital expenditures for the project from $1.5 billion to $1.8 billion. The facilities are scheduled for completion by the end of 2013.

The workforce grew again, due to new and expanded production capacities. At year-end, the division had 2,251 employees (December 31, 2010: 1,763).

T 3.14 Key Data: WACKER POLYSILICON

€ million	2011	2010	2009	2008	2007
Total sales	1,447.7	1,368.7	1,121.2	828.1	456.9
EBITDA	747.3	733.4	520.8	422.0	182.2
EBIT	545.6	586.7	414.1	349.8	135.0
Capital expenditures (asset additions)	566.5	309.9	400.1	410.3	259.5
R&D costs	14.5	12.8	11.3	5.4	6.3
Employees (December 31, number)	2,251	1,763	1,600	1,289	1,003

Siltronic

Strategy

300 mm Silicon Wafer Business Gains in Importance

Siltronic pursues three strategic priorities: maintaining its role as a technology leader; growing at least as fast as the market; and steadily improving variable and fixed cost structures (through improved processes, procedures and productivity), thereby keeping its competitiveness. To meet the latest design rules, Siltronic will continue to mainly invest in product developments, in measures that enhance quality, and in 300 mm technology. The importance of 300 mm business will increase, and Siltronic is well-positioned to benefit from this development. The regional sales focus is on Asia. At its lead sites, Siltronic concentrates on the production of specific silicon-wafer diameters. This policy is designed to improve plant utilization and cost structures, while also consolidating expertise in the manufacture of individual diameters. Following the decision to close its Hikari site in Japan, Siltronic will be optimizing capacity utilization of 200 mm silicon-wafer facilities. Beside achieving better fixed-cost coverage for the production of these wafers, Siltronic can realize economies of scale and improve its cost position here.

Sales Down on Previous Year

Siltronic posted a year-on-year sales decline, due mainly to 2011's weak fourth quarter. Sales fell 3.2 percent to €992.1 million (2010: €1.02 billion). In Q4 2011, inventory-reduction measures by customers and slack demand for silicon wafers impacted our sales volumes. While 300 mm wafer business grew during full-year 2011, there was a slowdown in the 200 mm market and, above all, in the small-diameter wafer segment. Regionally, sales in Germany advanced by more than 5 percent. Sales revenue in Asia remained at the prior-year level, while the Americas and Europe each saw a drop of over 5 percent.

EBITDA, too, declined against 2010. It was 43.9 percent lower, at €49.2 million (2010: €87.7 million). The figure includes expenses for the closure of the Hikari site, which reduced EBITDA by some €50 million. Without this charge, EBITDA would have shown a year-on-year rise of €11.1 million. The EBITDA margin was 5.0 percent (2010: 8.6 percent).

Substantial Rise in Investments

There was a substantial rise in Siltronic's investments in 2011. They came in at €128.1 million (2010: €75.5 million) – 69.7 percent higher than a year earlier. Investments focused on the continued expansion of our Singapore-based joint venture with Samsung Electronics for 300 mm wafer production, on new manufacturing facilities for epitaxial wafers in Germany, and on improved technologies.

Siltronic's employee total was 4,974 as of December 31, 2011 (December 31, 2010: 5,025).

T 3.15 Key Data: Siltronic

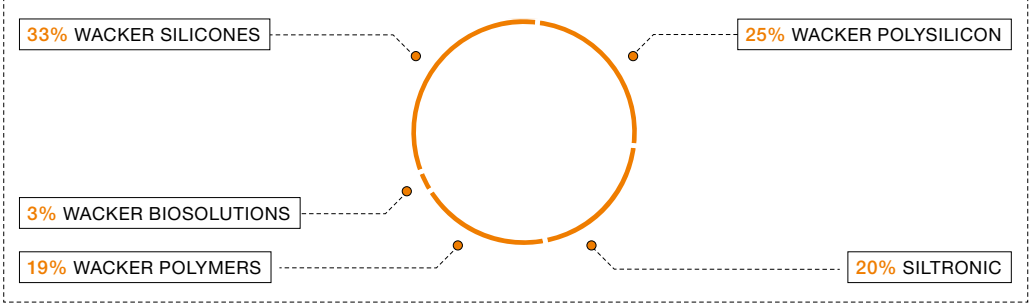
€ million	2011	2010	2009	2008	2007
Total sales	992.1	1,024.8	637.5	1,360.8	1,451.6
EBITDA	49.2	87.7	–162.4	357.3	478.1
EBIT	–56.7	–3.5	–414.7	193.8	337.2
Capital expenditures (asset additions)	128.1	75.5	73.0	199.6	200.0
R&D costs	71.7	72.3	62.9	67.7	63.9
Employees (December 31, number)	4,974	5,025	5,096	5,469	5,634

Other

In 2011, sales reported under “Other” totaled €176.9 million (2010: €157.1 million). “Other” EBITDA came to €–7.8 million in the year under review (2010: €–2.2 million).

As of December 31, 2011, the “Other” segment had 4,221 employees (December 31, 2010: 3,894). WACKER reports, for example, site management and infrastructure-unit employees at Burghausen and Nünchritz under this segment.

G 3.11 Divisional Shares in External Sales



Regions

WACKER's operations are highly international – 81.7 percent of 2011's €4.91 billion in sales was generated by business abroad (2010: €4.75 billion). Germany accounted for 18.3 percent.

Further Growth for Asia

Sales in China Pass €1 Billion Mark for First Time

Regionally, Asia offers us the greatest potential for business and growth. Its emerging economies – with their rising living standards – are spurring demand for the high-quality products that we supply. Accounting for 37 percent of Group sales (2010: 36 percent), Asia remains our principal market. Sales there reached €1.82 billion (2010: €1.72 billion) – a 6.1-percent increase. In Greater China (including Taiwan), WACKER's sales broke the billion-euro barrier for the first time ever, reaching €1.03 billion – a 2.6-percent increase on the 2010's €999.4 million. Our solar-grade polysilicon business remained very robust in this region. As for our silicone and polymer activities, further capacity expansions enabled us to respond even faster and more effectively to our Chinese customers' needs, thus strengthening our market position there. In India, Asia's second-biggest market, WACKER increased its sales revenues by 3.6 percent.

T 3.16 External Sales by Customer Headquarters

€ million	2011	2010	2009	2008	2007
Germany	899.4	887.3	774.6	948.6	723.5
Other European countries	1,186.7	1,175.4	944.1	1,008.2	1,034.7
The Americas	846.4	818.2	636.3	852.9	642.6
Asia	1,822.0	1,717.4	1,252.9	1,362.8	1,267.1
Other regions	155.2	150.1	111.4	125.6	113.4
Group	4,909.7	4,748.4	3,719.3	4,298.1	3,781.3

Slightly Higher Sales in Europe

2011 saw sales edge up slightly in Europe, where we have a very strong market presence. Sales increased by 1.0 percent to €1.19 billion (2010: €1.18 billion). Europe accounted for a 24.2 percent share in Group sales (2010: 24.8 percent). In Germany, sales grew by 1.4 percent to €899.4 million (2010: €887.3 million).

Further Business Growth in the Americas

Business in the Americas continued to develop positively in 2011. We were able to profit from the substitution of styrene butadiene with VAE dispersions in the packaging and carpet industries. Plus, sales of solar-grade polysilicon contributed toward this growth. The region's sales climbed 3.4 percent to €846.4 million (2010: €818.2 million).

Other Regions with Growth Potential

Sales in the "Other" regions continue to grow steadily. In 2011, sales rose 3.4 percent to €155.2 million (2010: €150.1 million). The Middle East is a major driving force behind this growth. Sales volumes of WACKER products there grew by 15.1 percent.

T 3.17 External Sales by Group Company Headquarters

€ million	2011	2010	2009	2008	2007
Germany	4,250.8	4,150.9	3,272.0	3,746.8	3,341.0
Other European countries	138.3	74.3	23.5	29.4	26.6
The Americas	783.0	779.4	599.2	736.4	659.1
Asia	750.4	684.1	491.4	546.3	480.2
Other regions	7.4	6.3	3.5	2.2	1.8
Consolidation	–1,020.2	–946.6	–670.3	–763.0	–727.4
Group	4,909.7	4,748.4	3,719.3	4,298.1	3,781.3

Non-Financial Performance Indicators and Other Information

Research and Development

WACKER's research and development follows three goals. We search for solutions to our customers' needs to contribute to their market success. We continually optimize our processes in order to be the technology leader and to be sustainably profitable. With our third goal, we concentrate on creating innovative products and applications for new markets and on serving future trends, such as increasing energy requirements, urbanization, digitization and demographic change.

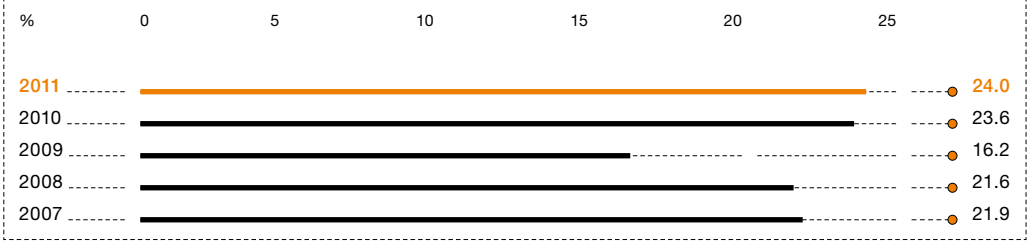
R&D Expenditure Has Increased

WACKER ranks among the world's most research-intensive chemical companies. R&D expenditures in 2011 came in at €172.9 million (2010: €165.1 million). The R&D rate – research and development spending as a percentage of Group sales – was 3.5 percent, thus meeting last year's figure.

New Products Account for Higher Share of Sales

The new-product rate (sales percentage of products launched in the last five years) grew again, at 24.0 percent (2010: 23.6 percent). The increase stemmed mainly from new specifications for silicon, such as new particle sizes for solar applications and from launching production of 300 mm wafers, which are suitable for 22 nanometer design rules.

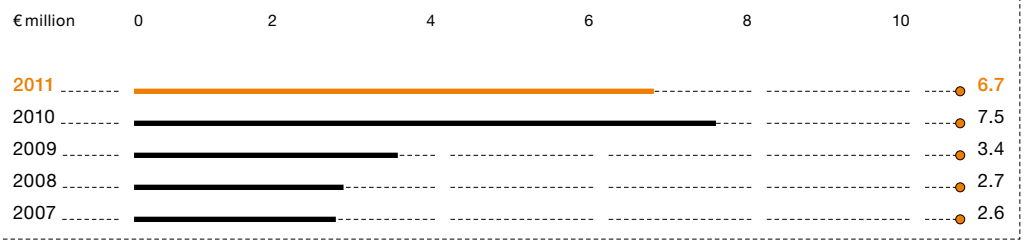
G 3.12 Sales Percentage of New Products[1]



[1] Sales percentage of products launched in the last five years

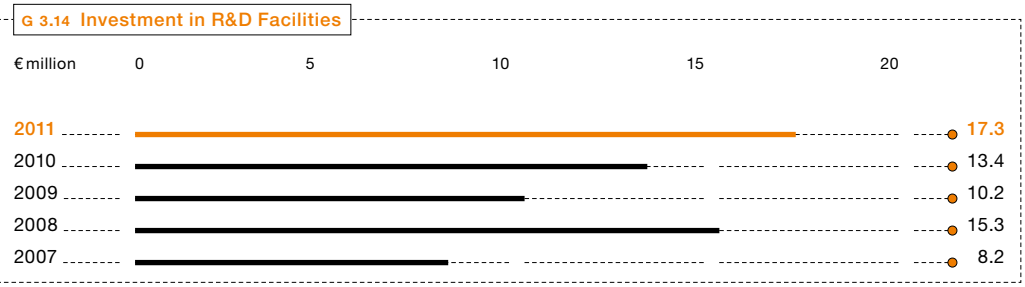
We generated about €6.7 million from licensing agreements in 2011 (2010: €7.5 million). WACKER's innovative strength is reflected in the number of patents held and patent applications submitted. In 2011, we filed 138 patent applications (2010: 121). Our portfolio contains about 5,000 active patents and 2,900 patent applications currently pending.

G 3.13 Licensing Income

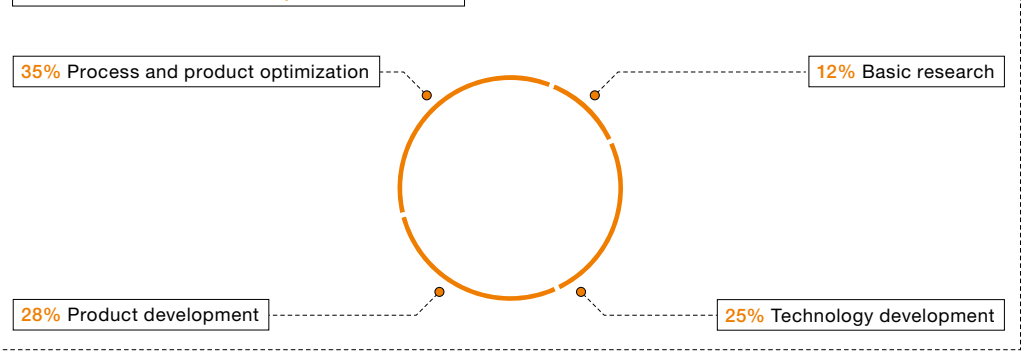


In 2011, WACKER invested €17.3 million in R&D facilities (2010: €13.4 million). As in the prior year, that is 1.8 percent of our total investments. We completed a new laboratory building at our Munich-based corporate research facility, the "Consortium für elektrochemische Industrie." We started construction of a new laboratory building for WACKER SILICONES and Corporate Analytics at our Burghausen site. Additional investments were made in electrochemical test rigs and in pilot plants for new or optimized processes.

G 3.14 Investment in R&D Facilities



G 3.15 Breakdown of R&D Expenditures in 2011



Most of the €172.9 million in R&D costs was spent on the development of new products and production processes. We acquired only a small amount of R&D expertise from third parties in 2011.

Since 2011, externally-funded research projects have been coordinated by our Funding Management unit. The new unit reviews subsidy programs and presents participating options for a decision. Some of our current research projects were subsidized by government grants. Here are a few examples:

- Siltronic AG is a member of the EEMI450 project (European Equipment & Materials Initiative for 450 mm) sponsored by the EU. It will receive funding of about €1 million over a 21-month period until February 2012.

- In Germany's joint SPINEL project (aimed at boosting the energy efficiency of photovoltaic and electronic applications through innovative electronics-grade base material), the Federal Ministry of Education and Research (BMBF) is subsidizing a Siltronic subproject.

- We are researching electrode materials for lithium-sulfur batteries for the Lissi project sponsored by the BMBF. We are developing such fourth-generation high-capacity lithium-ion batteries jointly with project partners for electric mobility applications.

- WACKER is working on two subprojects within the integrated Carbon Capture, Conversion, and Cycling (iC4) project funded by the German Aerospace Center (DLR). The first subproject focuses on the separation and cleaning of CO_2 in order to prepare it for additional use. In the second subproject, we are researching catalysts for converting CO_2 into hydrocarbons.

G 3.16 R&D Costs

Research and Development at Two Levels

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

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

WACKER scientists are currently working on around 244 topics based on more than 40 technology platforms. More than a quarter of these topics are key strategic projects, which account for 45 percent of all project costs (totaling €78.9 million) incurred in 2011. WACKER operates in the highly promising fields of biotechnology, energy, construction and automotive engineering, among others.

Strategic Collaboration with Customers and Research Institutes

WACKER Collaborates with over 25 Research Institutes

Our business divisions conduct application-driven R&D. They focus on product and process innovations relating to semiconductor technology, silicone and polymer chemistry, and biotechnology, as well as on new processes for producing polycrystalline silicon. To achieve successful research results more quickly and efficiently, we collaborate with customers, scientific institutes and universities. In 2011, WACKER worked with more than 25 international research institutes on around 64 research projects.

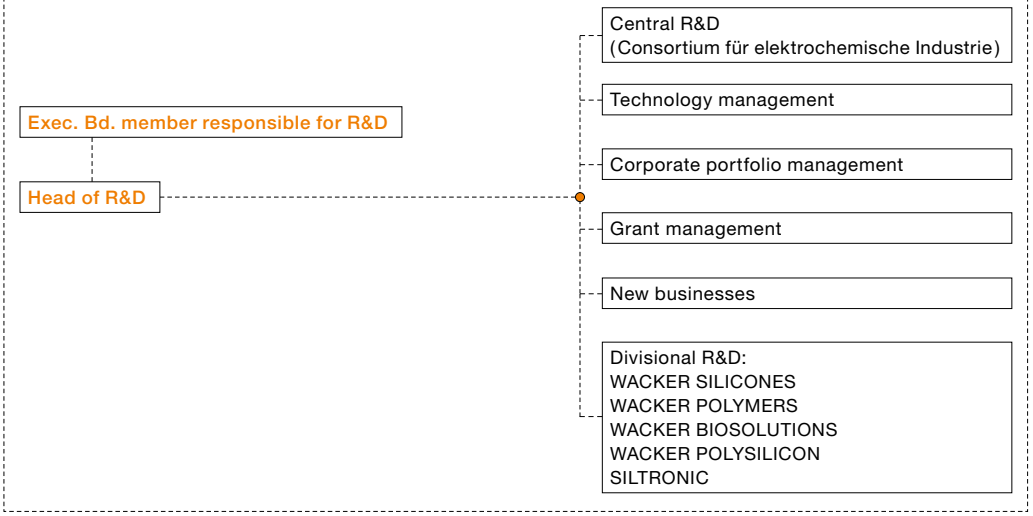
Our research collaborations cover topics such as electricity storage, biotechnology, 450 mm silicon wafers and materials research for use in renewable energy production. One example: Siltronic AG and imec, a Belgian nanoelectronics research institute, signed an agreement in 2011 to collaborate on the development of silicon wafers with a gallium nitride layer (GaN-on-Si). We are thus a partner in the imec Industrial Affiliation Program (IIAP). The endeavor aims to make possible the production of next-generation solid-state illuminants (e.g. LEDs) and power semiconductors on 200 mm silicon wafers.

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

Research Work at WACKER

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

G 3.17 R&D Organization



WACKER had 1,100 research and development employees in 2011, 6.4 percent of its workforce. Our scientists and engineers work on both basic research and developing new products and processes for our customers, as well as on improving existing processes. Our laboratory assistants and technical staff support implementation in our laboratories, production and pilot plants or on-site in the customers' plants. Our other R&D personnel are based in workshops, where they design research equipment, or work in administration, for example, conducting market assessments and analyzing trends.

T 3.18 Employees in R&D as of December 31, 2011

Number	2011	2010	2009	2008	2007
Group R&D employees	**1,100**	1,057	1,072	1,078	1,038
R&D ratio[1] in Group (%)	**6.4**	6.5	6.9	6.8	6.9
R&D employees, Germany	**868**	855	860	836	835
R&D employees, international	**232**	202	212	242	203
Group R&D employees (Germany) by qualification	**868**	855	860	836	835
Scientists and engineers	**346**	337	332	311	302
Lab staff and technicians	**350**	344	349	345	344
Other personnel	**172**	174	179	180	189
Group R&D employees (international) by qualification[2]	**93**	95	90	113	66
Scientists and engineers	**35**	31	30	34	29
Lab staff and technicians	**30**	32	29	34	36
Other personnel	**28**	32	31	45	1

[1] Ratio of R&D employees to total number of Group employees
[2] Excluding R&D employees at Siltronic AG

WACKER Wins Best Innovator Award

WACKER received Germany's 2011 Best Innovator Award in the Chemical category for its sustainable innovation management. A.T. Kearney and German business weekly "WirtschaftsWoche" organized the competition, in which more than 100 companies participated. The Best Innovator jury confirmed that WACKER had introduced systematic processes and operated innovation management as a core area of expertise. An important point in the jury's positive assessment was that WACKER appointed innovation managers who monitor the entire supply chain and align the company's innovation effort in the technology and customer segments.

Selected Corporate R&D Research Topics

Seminal Work on Silane Synthesis Honored with Alexander Wacker Innovation Award

For their seminal work on silane synthesis, WACKER honored two of its Corporate R&D scientists with the 2011 Alexander Wacker Innovation Award. The two researchers have developed a novel analytical method that, for the first time, permits observation of processes which occur during the fluidized-bed synthesis of silicone precursors by the Müller-Rochow method. With this knowledge, WACKER can further improve its production processes and thus save millions in costs. This year's €10,000 innovation award focused on basic research.

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

Our Corporate R&D department developed TECTOSIL® for encapsulating photovoltaic modules. Approved by Germany's TÜV inspection authority, the film comprises a unique silicone elastomer that can be thermoformed, making it fast and easy to process. The film protects solar cells against mechanical and chemical stress and contains no corrosive components. The material absorbs hardly any water at all, poses an effective moisture barrier and stays permanently electrically insulating. TECTOSIL®, which delivered initial market successes in 2011, thus increases the quality of solar modules and lengthens their useful life.

Selected Divisional Research Projects

Our WACKER BIOSOLUTIONS division focuses on the growth areas of food, pharmaceuticals and agrochemicals. We further improved our ESETEC® process for the bacterial production of pharmaceutical proteins. This has led to the production of several such proteins in high yields to cGMP (Current Good Manufacturing Practice) standards. Some of these are already undergoing clinical tests. Using the ESETEC® secretion system, we developed a GMP process for an antibody fragment for the FAB (Fragment Antigen Binding) product class as part of a customer project in 2011. This fragment is now being clinically tested. The antibody fragments are used in therapeutic projects and for diagnostic research purposes.

To improve the energy balance of solar cells and lower our costs, we make every effort to reduce energy consumption in polysilicon production. WACKER POLYSILICON optimized processes in its closed production loop. We have increased the purity of polysilicon through improved production steps and reduced energy consumption during deposition. The energy payback time – the length of time required by a photovoltaic cell to regenerate the energy needed for its production – has become even shorter. It now ranges from between six months (in the Sahara) to 18 months (in Northern Europe), the exact duration depending on the geographical location of the installed solar panels.

The efficiency of semiconductor devices doubles about every two years. Among the key performance-boosting parameters are the design rules achieved on a silicon wafer. They determine how many transistors fit on a device per square centimeter. Today, the semiconductor industry's standard design rules are 45 and 32 nanometers. In the coming years, they are expected to decrease to 22 and eventually 16 nanometers. We are developing processes to produce 300 mm wafers that are used for 16 and 22 nanometer design rules. Our 300 mm sites at Burghausen, Freiberg and Singapore have been capable of producing 300 mm wafers suitable for 22 nanometer design rules since 2011.

GENIOSIL® Product Classes Receive New Product Innovation Award

WACKER's GENIOSIL® product class won Frost & Sullivan's New Product Innovation Award in the Construction category. The alpha-silane technology in GENIOSIL® products allows the production of powerful adhesives and sealants free of plasticizers and solvents, such as joint and cabinet sealants and assembly adhesives. GENIOSIL® is also used in automotive and container construction and for bonding parquet floors.

Research at WACKER POLYMERS is geared toward improving production processes for dispersions and dispersible polymer powders. That saves us raw materials and energy. We enhanced the technology for our vinyl acetate monomer (VAM) production process and optimized the process control for producing dispersions based on vinyl acetate-ethylene (VAE).

In construction, our focus in 2011 was on facades, protection against moisture, and durability. We marketed a composite dispersion from the VINNAPAS® product line that combines inorganic silica particles with organic polymer particles. This gives plasters and facade paints long-lasting colors, reduces dirt pickup and lowers the risk of algal or fungal attack.

We have expanded our range of VAE copolymer dispersions to respond to the needs of the paper and packaging industry: VINNAPAS® XD 05 allows the formulation of adhesives without the use of film-forming agents or plasticizers. The dispersion complies with the latest environmental and safety standards and is suitable for food packaging.

Transferring Knowledge Locally

The WACKER ACADEMY serves as a forum for industry-specific knowledge transfer between customers, distributors and WACKER experts. It concentrates on construction-chemical courses (which now cover construction-sector silicone applications in addition to polymer chemistry) and on training for other industries, such as cosmetics and paints. The training centers' proximity to our development and test laboratories promotes exchanges of views and enables participants to conduct practical on-site tests. We work with company research facilities, universities and institutes to ensure our seminars remain state of the art.

WACKER attaches considerable importance to fostering young scientific talent and close contacts with universities. In 2011, we enlisted around 66 students from 33 international universities to write theses. We additionally sponsored 13 students at the Institute of Silicon Chemistry, which was founded at the Technical University of Munich in 2006. Seven of our sponsored students completed their studies in 2011. The first graduates have started their career in R&D at WACKER.

T 3.19 Key Product Launches in 2011

Product	Description	Application	Sector
CAVAMAX® W6	Alpha-cyclodextrin as a purely plant-based, bio-engineered emulsifier for stabilizing oil-in-water emulsions for the food industry	Emulsifier for foodstuffs, such as salad dressings, mayonnaises, cream-based desserts, and margarine	Food industry
CAVAMAX® W6	Alpha-cyclodextrin as water-soluble fiber	Fiber for beverages and foodstuffs, such as dairy products, bakery products and breakfast cereals	Food and beverage industry
ELASTOSIL® LR 3011/50 FR	Flame-retardant liquid silicone rubber	LED sockets for flatscreen monitors, seals in solar installations, insulation in electric cars	Automotive, electronic and solar industries
ELASTOSIL® LR 3066	Food-grade liquid silicone rubber with low surface friction	Dispensing valves for food packaging	Food and packaging industries
ELASTOSIL® LR 3170/40	Self-adhesive, flame-resistant liquid silicone rubber	LED sockets for flatscreen monitors, seals in solar installations, insulation in electric cars	Automotive, electronic and solar industries
ELASTOSIL® Solar 2200	Transparent, pourable, non-corrosive silicone elastomer	Encapsulant for flexible thin-film modules	Solar industry
GENIOSIL® W	Hybrid polymer-based liquid membrane	Waterproofing of surfaces in buildings, such as flat roofs, balconies, patios and basement walls	Construction industry
SEMICOSIL® 971 TC	Addition-curing silicone adhesive	Bonding and fixing of electronic components	Electronics industry
SILPURAN® 4200	Biocompatible silicone adhesive	Adhesive and sealant for medical applications	Medical technology
SILPURAN® 6610/40	Biocompatible, radiation-resistant liquid silicone rubber	Radiation-sterilizable silicone valves for medical devices	Medical technology

Product	Description	Application	Sector
SILRES® BS 168	Silicone additive	Increases wet-scrub resistance of interior paints	Paint and coatings industry
SILRES® BS 300	Silicone additive	Additive for water-repellent interior wall paints	Paint and coatings industry
SILRES® IC 368	Liquid, solvent-free silicone resin intermediate	Enhances properties of industrial coatings for wood, metal and sheet-metal strips	Paint and coatings industry
TECTOSIL® 177	Thermoplastic silicone elastomer	Encapsulant for photovoltaic modules	Solar industry
VENTOTEC®	Impact modifier	Bonding of rotor blades	Wind turbines
VINNAPAS® 828 ND	Dispersion that contains no alkylphenol ethoxylates (APEOs), plasticizers or solvents	Binder in mortars, e.g. for exterior insulation and finish systems or other facade applications	Construction industry
VINNAPAS® composite dispersions	Innovative dispersions with a core of inorganic silica particles (the basis of quartz and glass) enveloped by organic polymer particles	Binder in coatings, paints, plasters, mainly used for facades	Construction and coatings industry
VINNAPAS® EAF 68	Binder for floor-covering adhesives without the addition of alkylphenol ethoxylates (APEOs)	Universal binder for floor coverings, ranging from hard-to-bond floor coverings such as linoleum or polyvinyl chloride (PVC) to easy-to-handle carpeting	Adhesives industry
VINNAPAS® EF8300	Dispersion as a binder for low-emission interior paints	Binder for interior paints	Coatings and construction industries

Product	Description	Application	Sector
VINNAPAS® LL 5048 H and VINNAPAS® LL 4042 H	Binders: hydrophobic dispersible copolymer powder solely based on vinyl acetate and ethylene, for water-repellent applications in the construction sector	Ideal for use in exterior insulation and finish systems	Construction industry
VINNOL® CEN 2752	Dispersion with a high vinyl chloride and reduced formaldehyde content	Binder for coating textiles and nonwovens, particularly to obtain flame-resistant finishes, e.g. in upholstery, flooring coverings (such as PVC and needled felt) and heat-sealable wadding materials	Textile and leather industries
VINNOL® H 30/48 M	New surface-coating resin with excellent solubility in pure ester entirely without the addition of ketones	For packaging required by thermosensitive pharmaceuticals and foodstuffs, such as cheese and yoghurt	Industrial coatings
VINNOL® LL 4311	Surface-coating resin as a binder for printing inks in food packaging	Binder for printing inks in food packaging	Printing inks and coatings for food packaging

Procurement and Logistics

WACKER's procurement volumes increased in 2011, due to gains in both quantities and prices. Volumes are broken down into raw materials and energy, services, materials and equipment, with a high proportion for investments. WACKER spent €3.45 billion (2010: €2.80 billion) on raw materials, other materials and services. 2011's figure includes investment-project-related procurements of €870 million (2010: €575 million). Our procurement rate – the volumes purchased for raw materials, services and other materials in relation to sales revenue – was 70.2 percent (2010: 59 percent). In 2011, we procured some 1,300 different raw materials, and numerous technical goods and services for plant-engineering and maintenance-related purposes. Our suppliers number around 9,900 (about 8,800 in the Technical Procurement & Logistics department and around 1,100 in Raw Materials Procurement).

T 3.20 **Procurement Volumes** (including Procurement for Capital Expenditures)

€million	2011	2010	2009	2008	2007
Procurement volumes	3,418	2,799	2,342	2,660	2,291

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

Procurement volumes for energy and raw materials rose in 2011. About a quarter of the increase stemmed from higher quantities and about three quarters from higher prices. We purchased increased quantities of ethylene, vinyl acetate monomer and polyvinyl alcohol. We bought less silicon metal because our Holla site has provided captive silicon-metal production since 2010. Our energy requirements climbed again with the launch of polysilicon production in Nünchritz, the additional power demand from Holla, and the expansion in Burghausen. Overall, the increase in energy and raw-material prices amounted to some €190 million. Of that amount, most was due to higher raw-material prices.

WACKER concluded new supply contracts in 2011 with terms ranging from one to three years to secure raw-material needs over the mid-term. By staggering the timing of agreements and contractual periods, and by including flexibility clauses in contracts, we are better able to mitigate possible declines in quantities and to use short-term options on the spot market.

WACKER Signs New Multiyear Contracts for Vital Raw Materials

For methanol, we concluded a new three-year agreement (2012-2014) and a new two-year agreement to 2013. We negotiated and concluded several new agreements for silicon and extended a current contract to 2015. We secured the delivery of vinyl acetate monomer (VAM) with a new supply agreement in China and multiyear contracts in the USA. Additionally, existing agreements in China and the USA were extended. For ethylene, we negotiated three new contracts to supply various locations: one new long-term contract for Burghausen and two new agreements for our Calvert City site in the USA. Additionally, a mid-term agreement until 2018 was reached for Nanjing, China.

In energy purchasing, we have, for the first time, concluded several favorable long-term agreements running until 2020 for the supply of electricity in Germany. We have also secured attractively-priced terms on the open market for gas supplies to the Nünchritz site. For the Holla site in Norway, we have negotiated a long-term electricity contract.

As regards future polysilicon production in Tennessee (USA), negotiations and qualification processes for sourcing with raw materials and energy are currently underway to ensure the site's long-term supplies at competitive prices.

Technical Procurement & Logistics

WACKER's Technical Procurement & Logistics department posted an increase in order volume, primarily due to our strong investing activities. The market for technical materials was generally characterized by high demand, with some long delivery times. Materials, equipment and packaging that depend on raw materials saw additional price increases, as did certain services. WACKER – including Siltronic – issued a total of 271,000 orders. At Technical Procurement & Logistics, 10 percent of our suppliers cover 80 percent of our procurement volume.

In 2011, we concluded major framework contracts not only in IT and logistics, but also in engineering (to support our global investment projects) and in the electrical segment (to handle "C" category procurement articles – i.e. ones not allocated to the categories of production materials or raw materials).

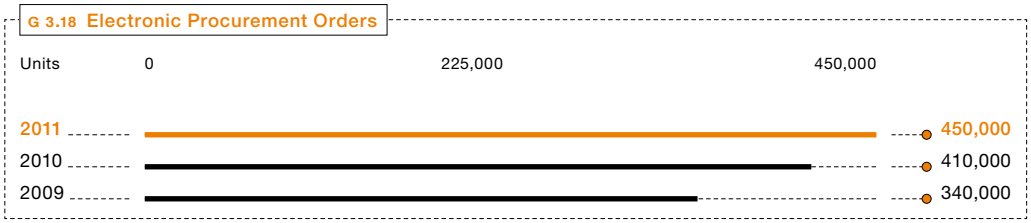
Our Project Procurement unit handled nine projects at various stages of planning in 2011. The two largest were the polysilicon expansion projects in Nünchritz (Germany) and Tennessee (USA). We continue to systematically review supplier risks on a worldwide scale, using analyses from rating agencies, supplier assessments and, increasingly, direct contact with our partners. We ourselves conducted 510 supplier assessments in 2011. In future assessments, we will take a closer look at sustainability, occupational safety and processing using electronic order transactions. We took a major step forward in 2011 with respect to qualifying suppliers. Orders of €25,000/US$50,000 and above are released uniformly worldwide via an electronic approval process.

510 Suppliers Evaluated in 2011

Another Rise in Electronic Procurement Transactions

The number of electronic procurement transactions rose markedly. Out of a total of around 600,000 orders, some 450,000 (75 percent) were processed electronically, compared with 410,000 in 2010. Procurement via e-catalogs also rose, with the number of suppliers using them climbing by 37 to 160. There are over 1.6 million e-catalog articles, and over 180,000 orders were placed using this system (2010: 160,000).

G 3.18 Electronic Procurement Orders



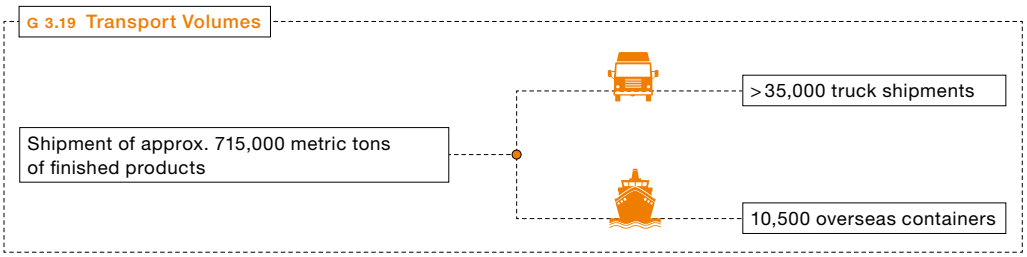
Direct Contact with Our Suppliers

Direct contact with our suppliers is an important building block for successful procurement management. About 200 companies participated in our 16th Supplier Day in Burghausen. The following German suppliers received commendations in the Technical Services category: Leoni (Kerpen), Kraftanlagen München (Munich) and Ruperti Werkstätten. Siltronic presented its Supplier Award to Nitta Haas, a Japanese polishing pad manufacturer. We renamed the event previously known in the German logistics industry as Shipping Day to "Logistics Day." The shippers OOCL Logistics and Leo Prünster, together with the cartridge manufacturer Fischbach, won an award at this Burghausen event. WACKER values its long-term collaboration with suppliers, and at the same time, focuses on reducing its dependency on individual ones. In Germany, which remains our largest procurement market, we cooperate with some 6,600 suppliers. The average length of our business relationship (Technical Procurement & Logistics) is ten years.

Shipping Volume Rises

Shipping volume increased again year on year, especially in the first half of 2011. Our Burghausen logistics hub shipped some 715,000 metric tons (2010: 700,000 metric tons) of finished products to customers. That volume involved about 35,000 truck loads and 10,500 overseas containers.

G 3.19 Transport Volumes



Planning Approval for Public Freight Terminal Received

WACKER continues to work on adjusting its logistics structures to the increasing business volume. At Burghausen, planning approval for a public freight terminal was received. Additionally, there are plans for a new freight gate at our site, which is intended to facilitate incoming and outgoing freight, allow a direct connection to the public terminal, and speed up throughput times at the plant.

At our Nünchritz plant, we revised our site-specific logistics policy with the commissioning of polysilicon expansion stage 9. We investigated the overall flow of goods and materials in procurement logistics, in in-plant transport and in distribution. We drew up a master plan to support logistics at Nünchritz in the coming years.

Production

Production Output Up 24 Percent

Production output in all divisions with the exception of Siltronic rose in 2011 compared with the previous year. Capacity utilization at our chemical divisions was in excess of 80 percent. There were no unplanned facility shutdowns. At Siltronic, we reduced all production lines on a day-by-day basis in the fourth quarter due to weaker demand. Production costs rose 24 percent while production output climbed 10 percent.

T 3.21 Capacity Utilization in 2011

%	Plant Utilization
WACKER SILICONES	84
WACKER POLYMERS	84
WACKER POLYSILICON	96
SILTRONIC	74

Kempten Site Closed as Planned

Investments in new manufacturing plants amounted to €922.7 million in 2011. Most funds flowed into the expansion of our polysilicon facilities. Production ramp-up at Nünchritz started in the third quarter and construction of a new polysilicon site in the US State of Tennessee began in April 2011. WACKER SILICONES opened its second pyrogenic-silica manufacturing facility in Zhangjiagang, China. The Kempten site, where pyrogenic silica had been produced, was closed in mid-August as planned. Production will continue at Burghausen and Nünchritz.

T 3.22 Key Start-Ups

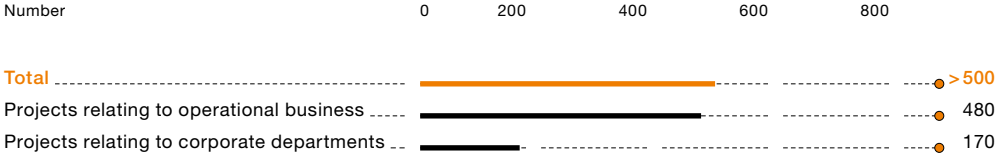
Site	Project	Start-Up
Nünchritz	Poly 9 expansion stage	2011
Zhangjiagang	HDK® plant 2	2011
Zhangjiagang	Expansion of silicone sealants	2011
Nanjing	Merchant dispersions	2011
Burghausen	Expansion of 300 mm epitaxial wafer capacity	2011

Our own Corporate Engineering teams are responsible for running all investment projects. The planning group in the USA was further expanded due to our large-scale project in Tennessee.

More than 500 Productivity Projects Completed

High productivity throughout the supply chain is a key to WACKER's success. WACKER boosts productivity along the entire supply chain via its Wacker Operating System (WOS) program. Our goal is to continue to reduce specific operating costs every year. WACKER carried out more than 500 projects relating to its operations and corporate departments in 2011.

G 3.20 Productivity Projects According to Focus



Our wos Academy (founded in 2009) trained almost 100 employees in the application of new productivity methods such as Six Sigma during the year under review.

The standardization of global engineering processes was advanced. We are standardizing and optimizing core engineering processes using international multidisciplinary teams of specialists (plant, mechanical and I&C engineering, and maintenance).

Sales and Marketing

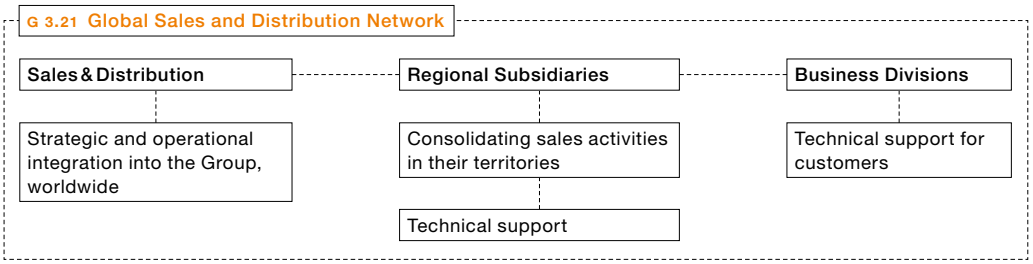
WACKER Products Post Sales-Volume Gains in 2011

Our products' sales volume increased again in 2011, although not as strongly as during 2010. WACKER POLYMERS, in particular, posted significant volume gains in its dispersions and dispersible polymer powders. WACKER POLYSILICON, WACKER SILICONES and WACKER BIOSOLUTIONS also saw volume gains.

New Customer Management System Introduced

As planned, WACKER introduced "SMART" – a new customer management system – in 2011, initially for its three chemical divisions (WACKER SILICONES, WACKER POLYMERS and WACKER BIOSOLUTIONS). WACKER POLYSILICON will follow in 2012. This highly integrated system allows customer data to be recorded, documented and combined from all SAP modules. The decisive advantage of "SMART" is that we have the same information each time we contact a customer, which improves customer service and support. A total of 1,600 employees from the Sales, Customer Service, Marketing and Technical Support units received training in the new system.

G 3.21 Global Sales and Distribution Network



WACKER customers break down into three groups: key accounts, customers, and distributors. Key accounts are high-revenue customers of special significance for WACKER, with corporate key accounts being served by several business divisions. WACKER currently has 39 key accounts with whom we generated around 25 percent of our 2011 revenue in the chemical divisions (WACKER SILICONES, WACKER POLYMERS, WACKER BIOSOLUTIONS) and in WACKER POLYSILICON. About 60 percent of our revenue was from our approximately 8,000 other active customer relationships and around 16 percent with distributors. For its excellent service, successful transfer of production to China, and the product quality provided, WACKER Greater China received the Best Cooperation Award 2011 from Procter & Gamble.

Sales and Distribution Network Optimized

We modified our sales and distribution network to serve our customers even better. The number of our distributors rose year over year. We collaborate with some 280 distributors (2010: 259) and five distributor groups. Since 2011, our African operations have seen us join forces with a new partner who covers the main parts of northern, western, eastern and southern Africa. We are therefore now represented in Egypt, Algeria, Tunisia, Morocco, Ivory Coast, Nigeria, Senegal and Kenya. With new distributors in the USA, Russia, Belarus, Poland, China, India, Australia and New Zealand, WACKER is thus active in 87 countries. Just as had been the case in Brazil, we consolidated the majority of our sili-

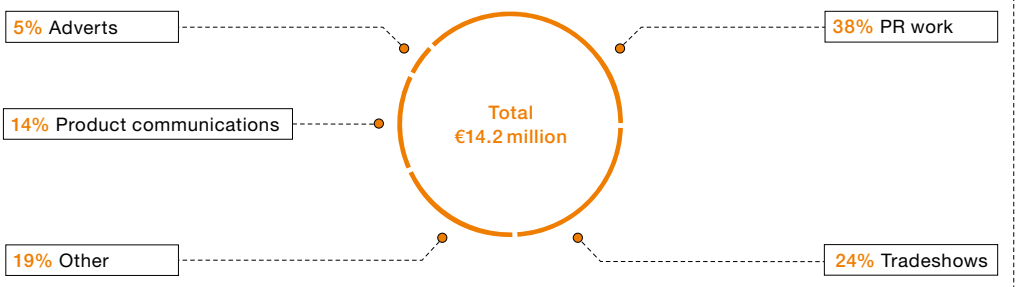
Rise in Number of Distributors

cone and polymer distribution business with one partner in the remainder of our Americas region. In Australia and New Zealand, as well, our trading activities have been run through a new distributor since April 2011.

G 3.22 Distribution Management

Marketing communication is a key element for strengthening WACKER's branding and for supporting product sales effectively. In 2011, we spent €14.2 million (2010: €11.0 million) for marketing communication.

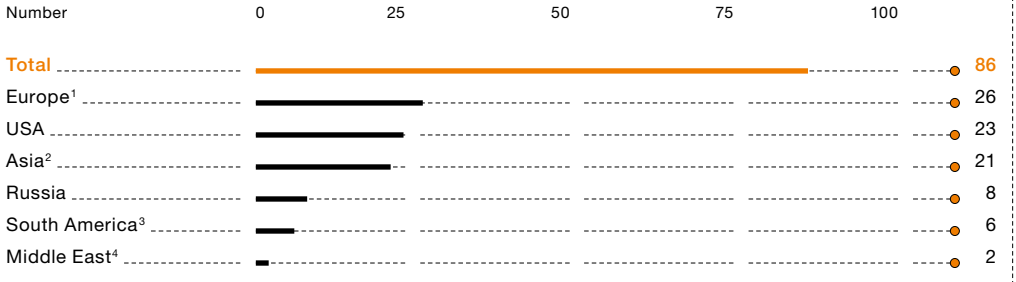
G 3.23 Percentage of Marketing Costs



Attendance at 86 Tradeshows Worldwide

WACKER increased its presence at tradeshows in 2011, having a booth at a total of 86 tradeshows (2010: 75). The number of tradeshows attended rose significantly in Asia (a high-growth region), where we participated in 21 tradeshows (2010: 13). We presented our products at 26 tradeshows (2010: 20) in Europe. WACKER's key tradeshow was the European Coatings Show (ECS), the largest fair of its kind in Europe. At the ECS, we held 862 meetings, almost 60 percent more than two years ago. We analyze our tradeshow success qualitatively and quantitatively.

G 3.24 Tradeshows in 2011



[1] Germany, France, Italy, Belgium, Austria, Switzerland, Turkey
[2] India, Thailand, Malaysia, South Korea, China
[3] Brazil
[4] United Arab Emirates, Saudi Arabia

Employees

Expansion Projects Increase Employee Numbers

WACKER's workforce increased in 2011. We had 17,168 employees worldwide as of December 31, 2011 (December 31, 2010: 16,314), 5.2 percent more than a year earlier. The increase was primarily due to WACKER POLYSILICON's expansion projects at Nünchritz (Germany) and Charleston (Tennessee, USA), and WACKER SILICONES' expansions at Zhangjiagang (China), Jincheon (South Korea) and Holla (Norway). Siltronic introduced short-time work in November 2011 due to lower capacity utilization. In December 2011, 782 employees were on a short-time work schedule.

T 3.23 Number of Employees on December 31, 2011

	2011	2010	2009	2008	2007
Germany	12,813	12,235	11,925	12,110	11,624
International	4,355	4,079	3,693	3,812	3,420
Group	17,168	16,314	15,618	15,922	15,044

12,813 WACKER employees (75 percent) work in Germany and 4,355 (25 percent) at non-German sites. We also have 113 temporary workers.

T 3.24 Number of Temporary Workers on December 31, 2011

	2011	2010	2009	2008	2007
Germany	48	374	247	80	333
International	65	114	53	58	213
Group	113	488	300	138	546

As a manufacturing company, WACKER has a large contingent of industrial employees (56 percent), about a seventh of whom are women (14 percent).

As previously announced, pyrogenic-silica production at the former site in Kempten was closed down in the third quarter of 2011. Production volumes have been transferred to existing facilities at Burghausen and Nünchritz. This structural measure affected 43 employees. WACKER's redundancy plan did not include any involuntary layoffs. We offered all employees jobs at other sites and just under half accepted. Some employees went into phased early retirement or signed a termination agreement and assumed a new job in the local area.

Personnel expenses rose to a total of €1.28 billion (2010: €1.14 billion), up 12.9 percent on the previous year. These expenses included outlays for social benefits and the company pension plan amounting to €257.3 million (2010: €214.2 million).

T 3.25 Personnel Expenses

€ million	2011	2010	2009	2008	2007
Personnel expenses	1,282.5	1,135.7	1,090.3	1,086.1	1,014.9

Employees Receive Profit Share for 2011

In addition to their fixed base salary (which includes vacation and Christmas bonuses), WACKER employees receive variable compensation – a voluntary payment to employees both on the standard and above-standard pay scales. It consists of a profit-sharing amount and a personal-performance component. In 2011, Germany-based employees at WACKER's chemical sectors received a profit share for 2010 amounting to 12.5 percent of their annual salary. The profit share for 2011 is also around 12.5 percent. Variable compensation payments totaled €98.5 million groupwide in 2011.

In 2011, management and employee representatives agreed on how the Demography Fund stipulated in the "Working Life and Demography" collective-bargaining agreement will be used. Accordingly, the annual "demographic sum" of €300 per full-time employee will be paid into the company pension plan. As this amount was first offered in 2010, the company provided €600 per full-time employee in the year under review. All standard and above-standard pay scale employees, excluding members of executive personnel (OFKs), receive the demographic sum. In addition to, and independently of, the demographic sum governed by collective-bargaining agreements, WACKER provided a one-time sum of €16.8 million as start-up financing in 2011.

IG BCE (the German mining, chemicals and energy labor union) and chemical industry employers agreed on a new 15-month collective-bargaining agreement in March 2011. The pay scales increased by 4.1 percent. Training allowances were raised by €35 per month.

A WACKER pension is an important compensation component and is available at most of our German and non-German sites – except for regions where legal provisions are inadequate or the statutory pension appears sufficient. In Germany, we offer employees a company pension via Wacker Chemie VVaG's pension fund (a mutual insurance company). The fund has some 16,800 members and provides pension payments to some 7,300 retirees. The average pension paid was around €630 per month. WACKER pays up to 2.5 times its employees' annual pension contributions, with the exact amount being determined by the type of agreement. In addition, employees have the opportunity to enlist in a private plan that minimizes their tax burden while saving for retirement.

Training – A Key Focus of Our Personnel Development

Vocational training has always been a key focus of personnel development at WACKER. In 2011, 203 young people began their training at WACKER or at the Burghausen Vocational Training Center (BBiW). In total, the company employed 663 trainees, 24 fewer than a year earlier (2010: 687). Of these, 563 are in scientific and technical disciplines and 100 in business-related fields. At 4.9 percent, the percentage of trainees (number of trainees to Group employees in Germany) was slightly below last year's average but still at a high level (2010: 5.3 percent). The decrease was due to the high number of trainees who were able to shorten their training. We offered permanent jobs to most of our suitable and interested trainees in 2011. In total, 176 were kept on. The Burghausen Vocational Training Center (BBiW) also trains young people for some 30 partner companies. The public foundation set up by WACKER thus satisfies an intercompany training mandate – in 2011, partner companies sent 59 trainees to start courses at the BBiW.

Multiple Awards for WACKER Trainees

The BBiW's high quality of training is evidenced by all the awards won by trainees. In the year under review, a WACKER trainee won a German electronics competition. A chemical lab technician and a chemical lab assistant completed their final examinations as the best trainees in their field in Bavaria.

WACKER also trains young management talent, offering a General Management Trainee Program. In 2011, four graduates participated in the 18-month program. Since its launch in 1997, 71 young people have completed the trainee program.

We offer all our employees opportunities for additional training because we want to promote their strengths and provide them with the skills they need to succeed. At least once a year, employees and supervisors agree on development measures during performance reviews. This approach applies to all hierarchy levels. In 2011, about 100,000 e-learning sessions were completed and more than 14,000 participants attended seminars, advanced training courses and conventions, or received tutoring. Siltronic's online courses and seminars were included for the first time.

Developing and Recruiting Managerial Leaders

Identifying and preparing potential leaders is another goal of our personnel management. This is handled at WACKER by a uniform groupwide process. In 2011, 13 above standard-pay scale employees with executive potential completed the 2010/2011 round of the Focus Program. The 2011/2012 round of the OFK Management Circle for recently appointed executives started with 11 participants. Overall, WACKER's 2011 investments in personnel-development measures and advanced training amounted to €7.4 million (2010: €5.8 million).

We reorganized Human Resources and reallocated responsibilities in 2011. The new organization is based on two main components. First, HR support for business divisions and corporate departments and, second, concentrating on service functions and a holistic HR management. The latter includes personnel development, compensation systems, groupwide talent management and the establishment of strategic HR planning. These tasks are now consolidated across the entire Group, and cover Siltronic, which previously handled such issues within its own organization. We established the Corporate Recruiting & HR Marketing department as part of the reorganization. It is tasked with developing a specific employer brand for WACKER. This brand will give us a fresh face on the labor market and make us even more attractive to future employees, above all from engineering and the natural sciences. We surveyed our employees about WACKER's employer characteristics in 2011 and used the results to create our employer profile.

WACKER will launch production of polysilicon at its new Charleston (Tennessee) site in the USA in 2013. The company plans to have hired 500 new production employees by then. We founded a joint training center with the local Chattanooga State Community College to help recruit these qualified employees. The WACKER INSTITUTE will train mechanical, electronics, chemical and lab technicians. WACKER is providing $3 million to support this program.

More Employee Ideas Submitted

WACKER encourages its employees to submit ideas on how we can do things even better. That helps us keep the Group competitive. In 2011, our employees again submitted more suggestions than in the previous year. Overall, we received 8,220 suggestions (2010: 7,702) – roughly 6.7 percent more than in the previous year. That brings us yet another step closer to our goal of every second employee contributing ideas. The participation rate (number of submitters per 100 employees) increased to 34 percent, up from 33 percent in 2010. The calculable benefit amounted to €7.8 million (2010: €10.5 million).

High Level of Participation in WACKER Idea Management

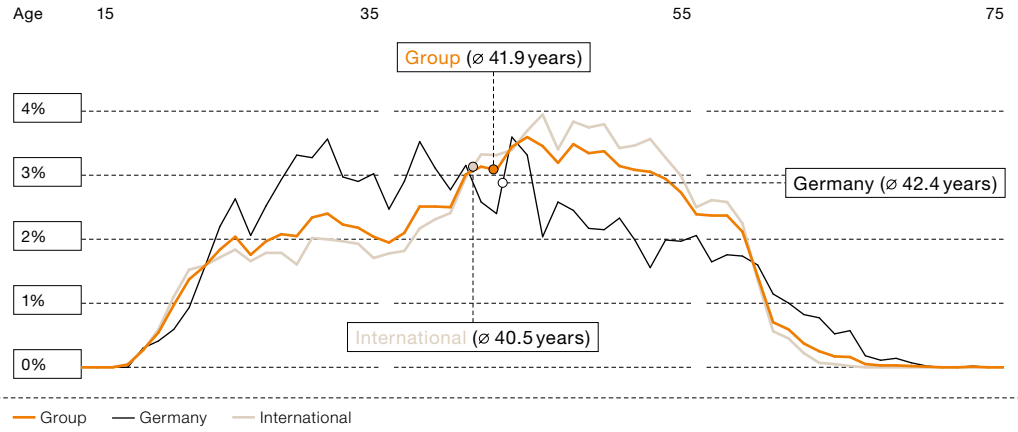
The German Institute of Business Administration ("dib") in Frankfurt ranked WACKER sixth out of 33 chemical companies assessed for idea management. That places us among the most imaginative chemical companies in Germany. The institute analyzed data from 176 enterprises and corporations representing 13 industries for the study.

T 3.26 Idea Management

	2011	2010	2009	2008	2007
Number of improvement suggestions	8,220	7,702	5,724	5,808	4,440
Participation rate (%)	34	33	28	28	24
Calculable benefit (€ million)	7.8	10.5	11.2	13.5	7.6

WACKER has been addressing demographic change intensively for several years. The average age of the Group's workforce at the reporting date was 41.9. Employees at non-German sites are younger (average age: 40.5) than in Germany (42.4). The age structure abroad varies greatly from region to region. Staff at Asian sites are comparatively young (average age: 34.9), while staff at US locations have an average age of 47.8. They reflect each continent's and country's age structure.

G 3.25 Demographic Analysis of German and International Sites in 2011



Award for Integration of Disabled Employees

WACKER wants to maintain its long-term innovative and competitive strength. To that end, we have set ten strategic goals, involving measures ranging from health programs to basic and advanced training aimed at employee flexibility. In health management, we are increasing our efforts in five fields. We are working on avoiding spinal disorders and cardiovascular diseases in our workforce, increasing mental resilience, enabling age-appropriate work and finding suitable jobs for staff with health restrictions.

The Bavarian state government presented WACKER with its 2011 "JobErfolg" (Job Success) Award in 2011, which recognizes companies for outstanding performance in integrating disabled persons. For years, WACKER has always employed more disabled than required by law (percentage of staff: 6.8 percent; legally mandated: 5 percent).

Low Employee Turnover Rate

WACKER's exemplary social benefits, performance-oriented compensation and challenging tasks make us an attractive employer. This is also apparent in the long-term commitment of our employees to our company. The average length of service in Germany (permanent staff) was 16.7 years (2010: 17.2 years). The 2011 employee turnover rate was 2.9 percent groupwide (2010: 2.5 percent) and in Germany only 0.9 percent (2010: 0.6 percent). At non-German sites, it was 8.9 percent (2010: 8.7 percent).

T 3.27 Employee Turnover Rate

%	2011	2010[1]	2009[1]	2008	2007
Germany	0.9	0.6	0.7	0.9	0.9
International	8.9	8.7	8.6	9.3	9.1
Group	2.9	2.5	2.5	2.9	2.8

Managers Rank WACKER as Top Employer

No other German chemical or pharmaceutical company received a better evaluation from its own managers than WACKER. The annual satisfaction survey by Germany's Association of Chemical-Industry Executives (VAA) for the first time ranked WACKER number 1 out of 25 companies surveyed with a score of 2.8 (on a scale of 1 to 5, with 1 being the highest). WACKER was ranked fifth in the 2010 survey and second in 2009. 2011 was the third time that the Corporate Research Foundation (CRF) honored WACKER Greater China as a "Top Employer." CRF is an independent organization that has been rating companies since 1991 for such aspects as management style, personnel development, and corporate goals and strategies.

Sustainability

Managing Sustainability

We take our responsibility to society and the environmental seriously, as our long-term commercial success is based on it. Sustainability has thus been firmly rooted in our business processes for many years.

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

Sustainability Department Established

Our company has been growing worldwide for years. We acquire and set up new sites and expand existing ones. We adjust our sustainability management activities accordingly. In 2011, we established an internal Corporate Sustainability department. It guides the implementation of WACKER's voluntary commitments under Responsible Care® and the Global Compact and coordinates our sustainability activities worldwide.

Our integrated management system (IMS) remains the most important instrument for our operational processes. The IMS regulates workflows and responsibilities, attaching equal importance to productivity, quality, environment, health and safety. In the future, we wish to control additional sustainability-related activities more closely, for example, life cycle analyses for our products.

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

- One focus has been the inclusion of all our sites in our ISO 9001 (quality) and ISO 14001 (environment) Group certification by 2012. Certification ensures that customer-driven specifications and our corporate standards are implemented at all WACKER sites. In addition, this has roughly halved the company's previous annual expense for external audits.
- We are developing an energy management system that meets ISO 50001 requirements. We expect this system to stimulate further reductions in our energy consumption and costs. Certification of our German sites is planned for 2012.
- The occupational health and safety management system at all WACKER sites is to be certified under the globally recognized OHSAS 18001 standard by 2015. Our Siltronic subsidiary and our new site in Jincheon (South Korea) are already certified under this standard.
- WACKER will be preparing a Corporate Carbon Footprint report. This report is an important tool for improving climate protection.
- We will convert our various sustainability-reporting IT systems to a uniform Group system.

Substantial progress was made on these projects in 2011:

- We had our Jena plant certified under ISO 14001 and the new polysilicon facilities in Nünchritz under ISO 9001 and ISO 14001, as part of Group certification. Almost all our production sites are now included in the Group certificate. Measured against the number of employees, 94 percent of the Group is already included in it. Not yet included are the sites in Brazil and India and our new acquisitions in Holla (Norway) and Jincheon (South Korea), which have corresponding individual certificates, however.
- We gave the sites checklists in 2011 for them to measure their degree of compliance with OHSAS and to identify shortfalls.
- To prepare a Corporate Carbon Footprint report, we collected our first data on indirect greenhouse-gas emissions from the acquisition of energy.
- We have examined programs developed for sustainability reporting and chosen a system, which is to be implemented groupwide as of 2012.

New Efficient Policy for Issuing Regulations

WACKER revised the hierarchy of its management documents in 2011 and prepared a new policy for issuing Group regulations. Twenty-one regulations now govern topics of overall material significance for the company. They concern management, organization and collaboration, law and compliance, strategy and business processes as well as financing, controlling, accounting and taxes.

In 2011, WACKER Greater China continued work on having its key, majority-owned production facilities certified as national environmentally-friendly enterprises by the Chinese Environmental Protection Bureau. The production subsidiaries meet certification requirements (e.g. final acceptance by the local environmental bureau and ISO 14001 certification). One production subsidiary has already passed the final audit. The authorities are still conducting their review at the other two.

Sustainability Report Published in 2011

In 2011, WACKER published its new Sustainability Report for 2009/2010. The report adheres completely to the guidelines set by the Global Reporting Initiative (GRI). GRI evaluated the report and accorded it an A, their highest report grade. With its new Sustainability Report, WACKER provides a full and transparent account of its sustainability efforts to customers, business partners, employees, shareholders, analysts, non-governmental organizations, regulatory bodies and the neighbors of its various sites.

Increased Compliance Training at Non-German Sites

WACKER's ethical and legal principles of corporate management exceed legal requirements. Employees in Germany, the USA, China, Japan, India, South Korea, Brazil and Singapore now have access to compliance officers. If employees notice any violations, they have been instructed to inform their supervisors, the employee council, their designated HR contacts or the compliance officers. One focus of our compliance management in 2011 was on non-German sites. More overseas employees were included in both online and classroom-based training.

Environmental Protection

Environmental Operating Costs Have Gone Up

All WACKER's processes focus on the need to protect the environment and to manufacture safely. We attach particular importance to integrated environmental protection. This commences with product development and plant planning. In 2010, WACKER spent €7.9 million on environmental investments (2010: €11.8 million). Environmental operating costs amounted to €73.3 million (2010: €65.2 million).

In 2011, we continued working on our groundwater remediation strategy at Nünchritz. We conducted a field test to determine whether contaminants (solvent residues) in the groundwater there can be degraded using naturally occurring microorganisms. The test results show that effective and economical groundwater remediation is not possible via this route. Therefore, in 2012, we will be conducting hydraulic remediation by pumping the groundwater into a treatment system and returning it after cleaning. We expanded our wastewater treatment plants in the course of building our Nünchritz polysilicon facilities.

For the first time, our environmental indicators reflect the Holla, Norway silicon-metal plant acquired in 2010. The environmental impact of metallurgical production differs greatly from that of WACKER's typical chemical operations. For this reason, the environmental indicators, particularly regarding airborne emissions, rose. Without the consolidation of the Holla site, the environmental indicators for air, water and waste in 2011 are slightly above the prior-year level. The rise in nitrogen oxide emissions is due to the integration of the Holla site, the start-up of polysilicon facilities in Nünchritz, and a further rise in emissions at Burghausen following a maintenance-related shutdown of the gas turbine in 2010. The atmospheric emission of non-methane volatile organic compounds (NMVOCs) fell as a result of process improvements in Burghausen. WACKER continuously strives to close its material loops and recycle byproducts from other areas back to production and thus to prevent or reduce waste.

T 3.28 Emissions into the Air in 2011, Business Divisions/Metallurgy

	2011 Group	2011 Business divisions[1]	2011 Metallurgical production[2]
Air			
CO_2 emissions (t)	**1,347,000**	**1,026,000**	**321,000**
Nitrogen oxides (NO_x) (t)	**2,221**	**1,052**	**1,169**
Non-methane volatile organic compounds (NMVOCs) (t)	**396**	**389**	**7**

[1] WACKER business divisions, without silicon-metal production in Holla, Norway
[2] Holla site, Norway

In 2011, we conducted the first survey of our indirect greenhouse gas emissions from bought-in energy (as per Greenhouse Gas Protocol Scope 2).

T 3.29 **Environmental Indicators from 2008 to 2011**[1]

		2011	2010	2009	2008
Air	CO_2 emissions (t)	**1,347,000**	986,000	969,000	976,041
	Nitrogen oxides (NO_x) (t)	**2,221**	926	963	997
	Non-methane volatile organic compounds (NMVOCs) (t)	**396**	415	383	501
	Greenhouse gases				
	Direct[2] (t CO_2)	**1,347,000**	–	–	–
	Indirect[3] (t CO_2)	**1,072,171**	–	–	–
Water	Water consumption (1,000 m³)	**268,657**	252,151	264,532	241,286
	Chemical oxygen demand (COD) (t)	**1,680**	1,820	2,730	4,782
	Halogenated organic hydrocarbons (AOX) (t)	**5**	6	6	7
Waste	Disposed of (t)	**47,410**	48,520	80,860	87,293
	Recycled (t)	**80,290**	77,030	63,430	74,327
	Hazardous[4] (t)	**68,230**	69,320	100,860	108,458
	Non-hazardous (t)	**59,470**	56,230	43,430	53,161
Energy	Electricity consumption (TWh)	**4.4**	3.8	2.7	2.4
	Primary energy				
	Natural gas (TWh)	**5.8**	5.5	5.4	5.4
	Solid fuels[5] (coal, charcoal, wood) (TWh)	**0.9**	0.4	–	–
	Heat[6] (supplied by third parties) (TWh)	**0.2**	0.2	0.2	0.2
	Heating oil (TWh)	**0.02**	0.01	0.01	0.01

[1] In 2011, the environmental indicators reflect for the first time the silicon-metal production site in Holla (Norway), acquired in 2010
[2] As per Greenhouse Gas Protocol "A Corporate Accounting and Reporting Standard," Scope 1: direct emissions without emissions from consumption of purchased energy, CO_2 only
[3] As per Greenhouse Gas Protocol "A Corporate Accounting and Reporting Standard," Scope 2: indirect emissions from consumption of purchased energy (electricity, heat), CO_2 only; surveyed for the first time in 2011
[4] Reduced by change in waste accounting at Calvert City, USA, starting in 2010
[5] Used in silicon-metal production at Holla, Norway
[6] Steam, district heating

The Bavarian State Ministry of the Environment and Public Health honored WACKER as a founding member of the Bavarian Environmental Pact. The joint public-private initiative was founded in 1995 with the goal of promoting environmental protection beyond that required by laws and regulations.

Product Stewardship

Our life cycle assessments (LCAs) look at the environmental impact caused by a specific product family throughout its life cycle – a "cradle-to-gate" assessment extending from manufacturing to the factory gate. The analyses allow us to assess the sustainability of our products and production processes, and improve them accordingly. During 2011, we introduced life cycle assessments, which we launched at WACKER POLYMERS in 2010, to additional business divisions. We want to establish this tool throughout the Group.

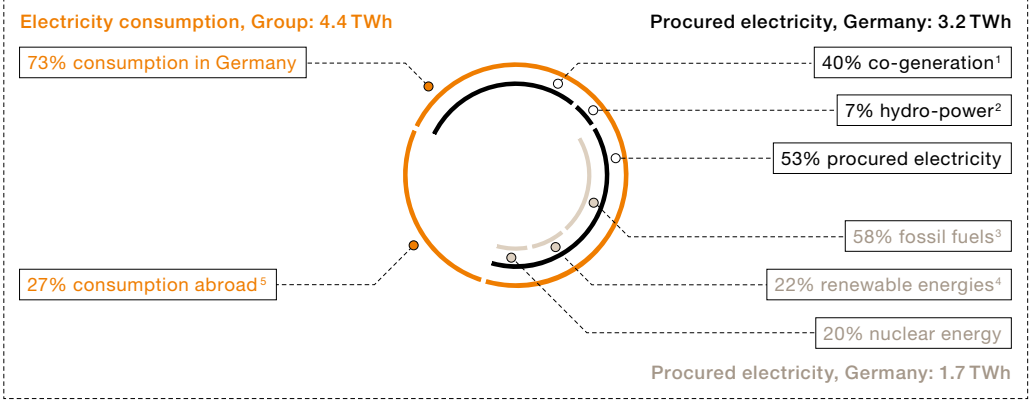
Energy Management

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

In 2011, WACKER's electricity consumption rose to 4.4 million MWh (2010: 3.8 million MWh). This was caused by the high capacity utilization of our production operations and the launch of polysilicon production at Nünchritz. In addition, a full year's consumption of our silicon-metal production plant in Holla, Norway, which was acquired in June 2010, was included for the first time.

The Group's captive power plants – the hydroelectric and CHP (gas and steam turbine) generating stations in Burghausen and the CHP in Nünchritz – produced around 1.5 million MWh in 2011. This means that WACKER covered about a third of its total electricity needs itself. Groupwide, CO_2 emissions totaled 1.3 million metric tons, of which 64 percent resulted from captive power plants that are subject to emissions trading rules.

G 3.26 Electricity Supply



[1]Burghausen and Nünchritz
[2]Burghausen
[3]Coal, lignite, oil, gas
[4]Hydro, wind, solar power
[5]Outside Germany, we purchase electricity from third parties based on the local standard energy mix

WACKER's German production sites account for 73 percent of its electricity needs. In Germany, we purchased enough electricity from utilities to cover 53 percent of our electricity requirements there. In line with the utilities' primary energy sources, 58 percent of this electricity was generated from fossil fuels. 20 percent came from nuclear energy, and 22 percent from renewable energy sources. Heat consumption, which includes the use of solid carbon-based fuels (coal, charcoal, wood) in silicon-metal production, rose across the Group to 3.9 TWh (2010: 3.4 TWh). This increase is due to our new Holla site.

T 3.30 Energy consumption

TWh	2011	2010	2009	2008
Energy consumption	4.4	3.8	2.7	2.4
Heat consumption[1]	3.9	3.4	2.8	2.8
Primary energy				
Natural Gas	5.8	5.5	5.4	5.4
Solid fuels[2] (coal, charcoal, wood)	0.9	0.4	–	–
Heat[3] (supplied by third parties)	0.2	0.2	0.2	0.2
Fuel oil	0.02	0.01	0.01	0.01

[1] Since 2010, heat consumption figures have reflected the use of solid fossil fuels (coal, charcoal and wood) at the silicon-metal plant in Holla, Norway
[2] Used as a reducing agent at the silicon-metal plant in Holla, Norway
[3] Steam, district heating

Workplace, Plant and Transport Safety

WACKER's aim when it designs plants and processes is to ensure that they pose no risk to people or the environment. We consequently make safety management a comprehensive, groupwide undertaking that includes workplace safety and the safety of our plants.

In order to ensure the safety of our plants, we ascertain risks in a systematic way, analyze them, and set forth appropriate safety measures using two primary methods. In a plausibility check, we review a plant's safety plan with regard to how well we control the energy (pressure, heat) existing in the process. In addition, we consider scenarios that could trigger undesirable events (such as blowouts of pipelines). The WACKER analysis starts with possible individual deficiencies and investigates the entire chain of events on to the breakdown or accident.

In the year under review, we completed the "ANSIKO 2010" project launched in 2010. In this project, we reviewed all the Group's safety plans for facilities with a dust-explosion risk. In addition to protection against dust explosions, we examined plants that do not require monitoring. Improvements are now being made and are expected to be completed in 2013.

Safety Day Held at All WACKER's Chinese Sites

WACKER attaches particular importance to providing ongoing training to its safety experts. We hold regular training sessions, for example, on plant safety and explosion protection. Group experts organize safety training at WACKER's non-German sites. In 2011, experts from all Asian production sites met to exchange information and attend training sessions in China. We also conducted safety audits at our sites in South Korea and China. WACKER organized its first Safety Day for all its sites in China. During the event, three-fourths of the targeted employees participated in training sessions, presentations and plant inspections.

At Nünchritz, firefighting capacity was broadened to encompass the Poly 9 facility's expansion stages. 2011 saw the fire department being reinforced with additional full-time fire fighters and technical equipment (including a new, ultramodern turbo-extinguisher).

In 2011, there were 3.9 workplace accidents groupwide (2010: 4.3) per 1 million hours worked. Most accidents are not of a chemical nature. The most common causes are tripping, slipping and falling or inattentiveness during manual activities. At WACKER, the accident rate is fueling our efforts to further enhance occupational safety. We are implementing our new safety program step by step. Called WACKER Safety Plus, it adopts safety elements that Group companies and sites with particularly low accident rates have successfully employed. These include safety patrols, group discussions with the workforce and emergency drills.

T 3.31 Reportable Accidents per 1 Million Hours Worked[1]

Accident Rate	2011	2010	2009	2008	2007
Reportable accidents involving Group employees	3.9	4.3	4.0	3.7	3.8

[1] Accident rate includes accidents leading to days off work

The WACKER plant in Kentucky (USA) was recognized for its commitment to safety in 2011. The Governor's Safety and Health Award, and the Safety Award of the American Coatings Association (ACA) recognize companies for high safety standards and a long-term absence of reportable accidents.

WACKER ensures that its products are safely stored and transported. Before loading vehicles, we carry out stringent checks on them. This applies especially to hazardous materials. If a vehicle fails inspection, we continue sending it back until it passes. The defect rate has been at a low level for years. In 2011, it was 3.6 percent for transporting hazardous goods (2010: 3.0 percent). WACKER audits hazardous goods shippers at least every two years.

We regularly review aspects of transport safety with our logistics providers, e.g. during the annual Logistics Day. If deficiencies are found, we agree on specific improvements and then follow up on their implementation. WACKER uses in-house criteria and internationally recognized systems, such as the Safety and Quality Assessment System (SQAS) operated by the European Chemical Industry Council (CEFIC), to select logistics service providers and evaluate their performance. Our evaluation criteria include driver qualifications and training, vehicle equipment and accident response. Through the use of standards and specifications, WACKER ensures that even the subcontractors working for our logistics providers meet the same requirements.

In 2011, we recorded eight transport accidents (2010: five). This number includes not only accidents involving the distribution of our intermediates and products where we commissioned the transport, but also incidents that do not involve hazardous goods, as well as those that do not adversely impact people or the environment. Such incidents are likewise listed in shipper evaluations.

T 3.32 Transport Accidents

Number of Accidents	2011	2010	2009	2008
Road	6	4	5	11
Rail	1	1	–	4
Sea	1	–	–	2
Inland waterways	–	–	–	–
Air	–	–	–	–

Education Partnerships Founded

We take our social responsibilities seriously, especially toward communities near our sites. We are aware that companies can only be successful if they have society's trust. One emphasis of our social commitment is young people's scientific and technical education. We will need committed scientists and engineers in the future if we are to remain competitive.

We entered into two education partnerships in 2011 near our future US polysilicon site in Charleston, Tennessee. WACKER and Chattanooga State Community College have established a training program for future employees. Graduates of this course will fill a variety of production jobs at the new facility from 2013. The Group is supporting the newly established WACKER INSTITUTE at Chattanooga State University with a donation of $3 million. WACKER is also supporting the nearby Cleveland State Community College by donating $150,000 to its Excellence in Education program. The five-year program is intended to advance the development of curricula in the natural sciences, mathematics and technical faculties. We also again sponsored the Dresden/East Saxony regional heat of the "Young Scientist" competition.

Silicone Award Presented for 14th Time

For the 14th time, we presented the WACKER Silicone Award, one of the world's most significant honors in the field of silicon chemistry. The €10,000 prize went to Prof. Matthias Drieß, from the Technical University of Berlin. The scientist was honored for his pioneering work on low-valent silicon compounds, which – owing to their isolability and reactivity properties – now constitute promising building blocks in organosilicon chemistry and make it possible, for example, to produce catalysts which do not contain precious metals.

Dedicated to Young People and Society

Additionally, projects to help children and young people are a special concern. Since 2007, WACKER has supported a German religious charity, "Die Arche" (The Ark), which aids children and young people from socially disadvantaged families in several German cities. It provides the children with hot meals and extra tutoring, organizes leisure activities and offers counseling. WACKER again donated €100,000 to mark the five-year anniversary of the charity's Munich branch.

WACKER and its Wacker Asahikasei Silicone (AWS) joint venture together donated 7.5 million yen (about €65,000) to the Japanese city of Chikusei. The money was for the repair of the municipal hospital that was heavily damaged by the earthquake on March 11.

WACKER participated in the open house held by the VCI (German Chemical Industry Association) in 2011. Around 20,000 people availed themselves of the opportunity to take a look behind the scenes at WACKER's sites in Burghausen, Freiberg and Cologne on September 24.

WACKER set up a liaison office in Berlin in 2011 to better represent the company's political interests.

Risk Management Report

Description and Statement Relating to WACKER's Internal Control and Risk Management System

Risk Management Is an Integral Part of Corporate Management

All Corporate Areas Integrated into Risk Management System

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

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

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

All corporate areas are integrated into the risk management system. It consists of three intermeshed aspects:

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

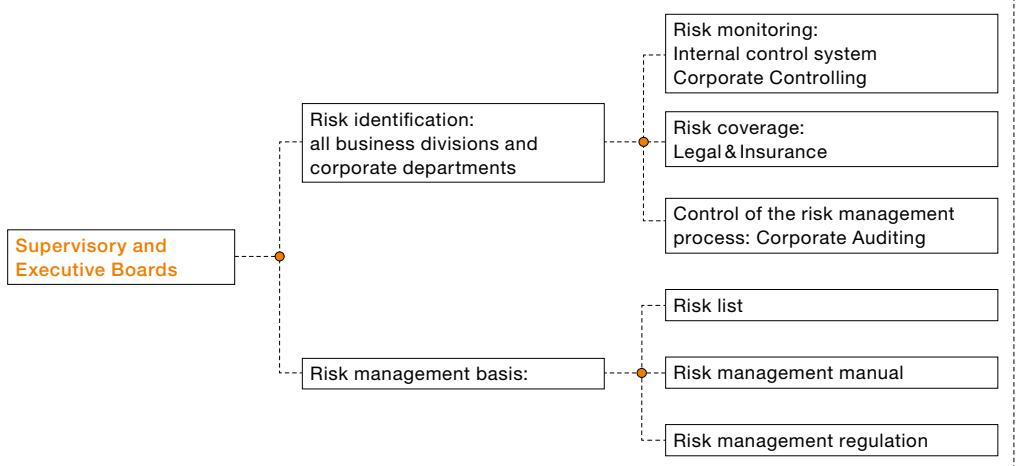
Risk Management Structures and Tools

WACKER's risk management system spans a variety of aspects. This groupwide system draws on existing organizational and reporting structures, supplemented by additional elements:

- The risk management handbook: The handbook contains the risk management system's principles and processes. It explains reportable levels of risks and how risks are to be covered and mapped.

- **The risk management regulation:** It stipulates groupwide reporting requirements, including when a specific committee must be informed.
- **The risk management coordinator:** This coordinator is responsible for the risk management system and is supported by local risk coordinators.
- **The risk list:** In this list, we record each specific risk facing our divisions and other corporate sectors. Reporting is mandatory for individual risks where the effect on earnings would exceed €5 million.

G 3.27 Risk Management System



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

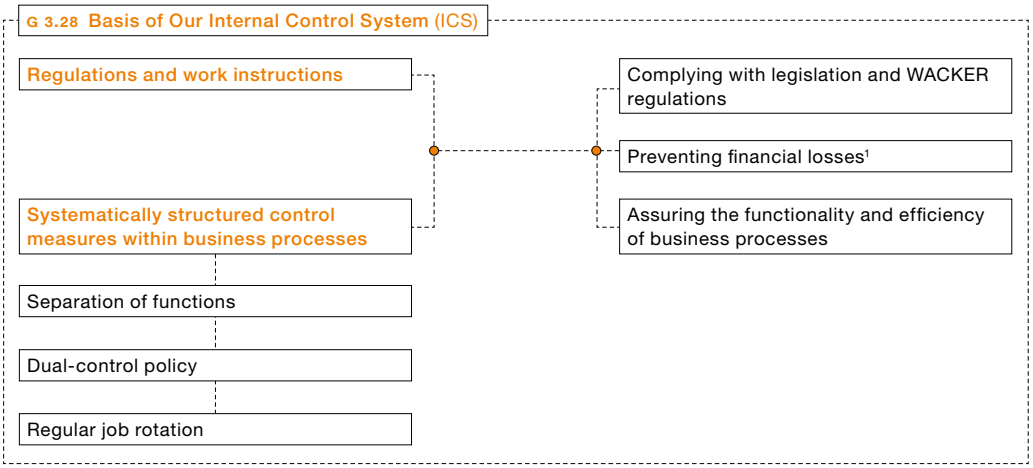
Corporate Controlling ensures that our risk management standards are implemented and that our risk management process is refined. It not only records every substantial risk groupwide, but also evaluates them systematically according to uniform criteria. Major risks and those endangering the continued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

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

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

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

G 3.28 Basis of Our Internal Control System (ICS)



[1] Possible financial losses due to the intentional or inadvertent misconduct of our employees or third parties

Internal Control System Ensures Our Accountants Process All Business Transactions Promptly, Uniformly and Correctly

We use our "internal control system for accounting practices" to implement and comply with legal stipulations and the principles of proper accounting, as well as the rules of the International Financial Reporting Standards (IFRS) and of the internal control system itself. This compliance is essential for providing our stakeholders (such as investors, banks and analysts) with proper and reliable information.

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

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

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

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

Internal Controls

Corporate Auditing rounds out our risk management system. Supported by the auditing manual, this department – on behalf of the Executive Board in consultation with the Audit Committee – checks all corporate entities. The Executive Board adopts a risk-driven approach when choosing audit topics, which, if necessary, are flexibly adjusted during the year to take account of changes in underlying conditions. In 2011, WACKER focused on the following topics:

--- Investment projects and technical maintenance
--- Auditing of cross-functional business processes at twelve subsidiaries
--- Plant safety
--- Accounting processes.

In total, Corporate Auditing conducted 37 audits in 2011 (2010: 37 audits). The proposed audit plan was largely implemented, with two topics or items for review to be completed in the course of 2012. No major complaints came to light. Audit recommendations to optimize processes are being implemented.

Corporate Auditing Conducted 37 Audits in 2011

External Controls

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

Central Risk Areas

Overall Economic Risks

Scenario

A marked slowdown in the pace of economic recovery.

Impact on WACKER

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

Measures

We counter this risk by continuously observing economic trends in our key sales markets. If we detect economic weakness, we take early precautions to flexibly realign production capacities, resources and inventories in line with customer demand. In such cases, we focus on production locations with the best cost position and temporarily shut down some production facilities. To counter an economic slowdown, we also use the instrument of short-time work and do not extend temporary employment contracts.

Assessment
We expect to see the global economy weaken in the first half of 2012, followed by a mild recovery in the second half of the year. This economic weakness is due to the sovereign-debt crisis in various European countries and the USA, as well as to low growth in the US economy combined with high unemployment. Asia, too, will grow more slowly. In China, the Purchasing Managers' Index, for instance, points to more sluggish economic growth. Compared with 2011, there is a significantly elevated risk of a marked slowdown in the global economy.

Sales-Market Risks
Scenario 1
Chemical-segment overcapacity.

Impact on WACKER
Price and volume pressure on our products.

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

Assessment
We expect overcapacity-related risks for our products to increase in 2012. At WACKER POLYMERS, we anticipate overcapacity for dispersible polymer powders in Europe and Asia. Nevertheless, we expect plant utilization to be strong despite this overcapacity. WACKER SILICONES faces overcapacity for siloxane production in China and for certain segments (such as liquid silicone rubber) – this could reduce plant utilization. Price pressure on some of our chemical divisions' products will increase in 2012.

Scenario 2
Cyclical fluctuations and intense competition on the semiconductor market.

Impact on WACKER
Volume and price declines.

Measures
Siltronic tries to reduce these risks through systematic cost management and through flexible structures and production operations.

Assessment
2012 will be a challenging year for the semiconductor industry. The first quarter of 2012 is likely to see volumes increase compared with Q4 2011, accompanied by price pressure on all wafer diameters. Overall, we expect that demand for 300 mm silicon wafers will climb, while demand for 200 mm wafers will remain stable and that for smaller-diameter wafers will decline. Siltronic's capacity utilization will broadly remain at 2011's level. With the Hikari site's closure, 200 mm silicon-wafer capacity utilization at other sites will increase as of the second half of 2012.

Scenario 3
Polysilicon price and volume risks, greater competition among producers, and harsher market conditions due to lower state incentives.

Impact on WACKER
Potential volume risks – plus stronger, competitive price pressure on margins – could hold back sales and earnings, as could lower state incentives for photovoltaic systems in certain countries.

Measures
We counter this risk by continually improving our productivity, cost positions and quality. If demand should dip, we will adjust production flexibly in line with the market trend. Through long-term contracts with customers, we secure loading for our production capacities. In response to market developments in the final three months of 2011, we have negotiated additional individual arrangements with our customers to adjust to the situation. Our capacity expansion program is targeted to meeting market growth.

Assessment
The photovoltaic industry is currently suffering from production overcapacity and deteriorating prices at all stages of the value chain. Consequently, 2012 will see the industry experience a consolidation phase that will be relevant to its future development. We also expect to see further cuts in state incentives for photovoltaics. High stock levels at customers have elevated the risk of output remaining unsold. On the other hand, the marked fall in prices for polysilicon, wafers, cells and modules makes photovoltaics more competitive. The levelized cost of solar systems will therefore be lower than for other renewable energies. This trend will make it easier to access new markets and will promote further growth in the global market for photovoltaic applications. Overall, as a cost and quality leader, we expect to emerge from this consolidation process with renewed strength.

Procurement-Market Risks
Scenario
Higher raw-material prices, and bottlenecks in the supply of certain raw materials.

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

Measures
We regularly perform risk monitoring (“raw-material matrix”) for strategic raw materials and energy. This process is a clear, quick way of pinpointing existing risks and is the starting point for developing strategies and measures. We minimize risks through long-term supply contracts with highly creditworthy partners, through centrally negotiated procurement agreements and by having multiple suppliers for any one product. With the acquisition of the silicon-metal production site in Holla (Norway), we have achieved backward integration for one of our key raw materials, greatly reducing our dependency on external suppliers. We are now in a position to produce just under one-third of the quantities we need ourselves – to a high quality standard. On the electricity market, we practice structured procurement. We purchase electricity at different moments in time while simultaneously covering our remaining needs on the spot market. This reduces our price risk. In 2011, we also introduced structured procurement for the Nünchritz plant’s gas supplies.

Assessment

Our good position for energy and raw-material procurement means we are now better able to manage the risks inherent in both economic upturns and downturns. If the global economy should weaken markedly, our contracts for key raw materials allow us to adjust purchase volumes flexibly and to benefit – wherever possible – from price decreases through escalator clauses. If the global economy grows, we have volume and price guarantees such that we do not see any major risks affecting the supply of raw materials. We expect energy prices to remain relatively stable in 2012. The risk of rising energy prices is low in the short term. Silicon prices are falling slightly. Prices for methanol and ethylene (petrochemical raw materials) are likely to climb further. However, that will largely depend on how the world economy performs. A recession would prompt raw-material prices to fall.

Market-Trend Risks

Scenario

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

Impact on WACKER

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

Measures

WACKER works closely with its customers and, therefore, has reliable information for developing new products and applications. At the same time, we monitor the market and our competitors very closely (all the way down to a business-field level), hold customer and supplier interviews and regularly attend tradeshows that are important to WACKER. In individual cases, we commission market research. We minimize risks relating to product developments by collaborating on specific projects with customers. WACKER also cooperates with universities and scientific institutions on R&D projects to stay abreast of state-of-the-art technological and product-development trends.

Assessment

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

Investment Risks

Scenario

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

Impact on WACKER

Bad investments lead to idle-capacity expenses and/or impairments on assets. Higher investment costs will lead to higher depreciation expenses in our operating result. Postponed start-ups pose the risk of being unable to fulfill supply agreements and, thus, of posting sales-revenue and earnings declines.

Measures

As with many competitors, WACKER has its own Corporate Engineering department with some 400 employees. This department ensures that projects are implemented as timely and on-budget as possible, thanks to its many years of experience in planning new production facilities, in monitoring assembly work and construction sites, in project-budget management, and in plant start-ups.

WACKER has numerous measures in place for countering investment risks. We check the completeness and plausibility of plans for all new projects with an investment volume exceeding €1.5 million. Economic feasibility is assessed using comparative studies that look at other plant projects, including those of competitors. We only approve investments in stages. Intensive project-budget management helps prevent or minimize delays.

Capacity expansion at our polysilicon facilities is backed up by customer contracts, some of which involve advance payments. By establishing partnerships with companies such as Samsung or Dow Corning, we have reduced our own investment risk. In this regard, however, there are long-term purchasing commitments with the respective associated companies or joint ventures.

Assessment

Over the past few years, WACKER has proven that it can complete complex technical investment projects on schedule, or even earlier than planned, without exceeding budgeted costs. WACKER's Corporate Engineering department plays a major role here by providing engineering expertise. For 2012, we currently see no major risks due to investment activity.

Production Risks

Scenario

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

Impact on WACKER

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

Measures

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

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

Financial Risks
WACKER is exposed to financial risks from ongoing operations and financing. Such risks include credit, market-price, financing and liquidity risks. They are managed by the individual WACKER departments responsible for them. We employ primary and derivative financial instruments to cover and control the financial needs and risks necessitated by our operations. Such financial instruments are not to be used unless they are based on actual or planned operational business. The Notes to the consolidated financial statements provide extensive information about risk hedging using derivative financial instruments.

T 3.33 Controlling Financial Risks

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

Credit Risks
Scenario
Customers or business partners fail to meet their payment obligations.

Impact on WACKER
Loss of receivables due to trade receivables, bank failures due to the banking crisis.

Measures
We use a variety of instruments to reduce the risk of any loss on receivables. Depending on the nature and scope of what we provide, we may demand collateral, including retention of title. Other preventive measures range from references and credit checks, to the evaluation of historical data from our business relationship to date (particularly payment behavior). We take out credit insurance to minimize the risk of default. We prevent counterparty risk vis-à-vis banks and contractual partners by carefully selecting these partners. We strictly limit cash investments and derivative dealings to banks with a minimum rating of A- from Standard & Poor's or a comparable rating agency. Investment activities are additionally subject to maximum investment and term limits. In exceptional cases, investments or derivative dealings may be conducted with banks of lower creditworthiness within tight limits and terms. The same criteria apply to the acquisition of government and corporate bonds.

Assessment
The risks stemming from credit business are manageable and we consider the probability of their occurrence to be low. Credit risks from other contractual obligations are posed by "other" financial assets, current banking assets, and derivative financial instruments. Our Corporate Finance department centrally handles global dealings with currency-exchange and interest derivatives, as well as liquidity management. We consider that this approach to counterparty risk minimizes our risk concentration in relation to bank failures.

Market-Price Risks and Risks of Fluctuating Payment Flows

Scenario

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

Impact on WACKER

Effect on earnings, liquidity and financial investments.

Measures

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

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

Assessment

We hedge part of our US dollar, yen and Singapore dollar business. We assume that the euro will stay at the same level as in 2011 against the main foreign currencies relating to WACKER. The possible impact of a stronger euro will be partially cushioned by hedging measures. Consequently, we do not expect any significant effects from exchange-rate shifts in 2012. Currently, we consider the influence of interest-rate risks to be low.

Liquidity Risk

Scenario

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

Impact on WACKER

Higher financing costs, and modifications to further expansion plans.

Measures

Liquidity risk is managed centrally at WACKER. Our Corporate Finance department employs efficient systems to control both cash management and rolling liquidity planning. To counter financing risks, WACKER holds sufficient longer-term and firm credit-line commitments, and has set aside enough liquidity. As part of cash pooling, liquid funds are passed on internally within the Group, as required.

Assessment

WACKER's liquidity did not change significantly in 2011 compared with the previous year. As per the reporting date, it totaled €873.6 million. At that time, liquidity (consisting of current and noncurrent securities, and cash and cash equivalents) exceeded financial liabilities by €95.7 million. Concurrently, there were used and unused credit lines of some

€1.18 billion. We invest liquid funds only in issuers or banks that have a credit rating in the sound investment-grade range. The investment of liquid funds is, moreover, subject to limits that we have defined. We consider the probability of financing and liquidity risks actually occurring to be low. At the moment, we see no risks relating to financial-covenant infringements.

Pensions

Scenario

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

Impact on WACKER

Increase in pension provisions, possible addition of payments to the pension fund or to plan assets affect Group net income.

Measures

The majority of WACKER's pension guarantees are covered by the Wacker Chemie VVaG pension fund, by pension-related funds and special-purpose assets, and by insurance plans. The largest contribution comes from the pension fund. It manages the pension insurance of our German-based employees in accordance with its Articles of Association and General Terms and Conditions of Insurance. To ensure a sufficient rate of return and to limit investment risks, the fund diversifies its investment portfolio among various asset classes and regions. As part of its asset-liability management, the pension fund controls and optimizes all asset items to attain the required return within specified risk limits. As one of the fund's sponsoring entities, WACKER makes payments to it (when necessary) to enable sufficient coverage for pension obligations. In fiscal 2011, we made an extraordinary allocation of €29.9 million to pension provisions to take account of the rising life expectancy of beneficiaries.

Assessment

Pension-fund beneficiaries are getting ever older. The rate of return is insufficient to fulfill long-term pension obligations. The contribution for Wacker Chemie AG's defined-benefit pension commitments thus rose from 250 to 350 percent of the employee contribution. This applies from January 1, 2012.

Other Risks

Emission Allowances

Scenario

From 2013, WACKER's CO_2 emissions exceed the expected number of allotted emission certificates.

Impact on WACKER

Acquisition of emission certificates, and higher specific production costs.

Measures

So far, WACKER had a surplus of emissions certificates and the only effects we have experienced to date relate to electricity price rises. From 2013, according to EU and national decisions, we will need to include individual production facilities in the trading system, in addition to our power plants that are already subject to emissions trading. WACKER has installed an early-warning system so that we can respond quickly if our carbon credits are insufficient to cover the emissions produced. We limit the costs for the emissions required by constantly working to improve our facilities' energy efficiency.

Assessment
The necessary emissions certificates have been allotted to us free of charge for the 2008-2012 period. We assume that we will have to contend with additional, medium-term charges due to the purchase of emissions certificates.

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

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

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

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

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

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

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

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

Measures
We continually monitor our use of information technology and do everything we can to ensure that IT-supported business processes function reliably. Our IT security and risk management specialists are responsible for handling hazards in a cost-efficient way. Their work is based on ISO 27001. Using risk analyses, we define the requirements for WACKER's central systems – in terms of availability and data integrity/confidentiality. We anchor these requirements in service level agreements at our business divisions and corporate departments. To ensure that corrective action can be taken at any time should malfunctions occur, we continually monitor the SLAs. For our central ERP systems (Enterprise Resource Planning), we set – and exceeded – an availability goal of 99.5 percent for 2011. We achieved this primarily by designing our systems for maximum availability and by installing an associated backup and recovery procedure. We have taken appropriate precautions to cover emergency situations (business continuity management).

We minimize project-related IT risks with the help of a uniform project and quality-management method. It ensures that changes are integrated into our system landscape in a controlled manner. Systematic enterprise architecture management reduces complexity and risks.

As part of risk management, we log and evaluate operations-related risks and initiate countermeasures. We use state-of-the-art hardware and software solutions to counter network downtime, data loss or manipulation, and unauthorized access to our network. We use efficient software security programs to protect ourselves against malware. Worldwide, we have set up a security team that addresses problems involving the confidentiality, integrity and availability of data and systems by introducing organizational and technical measures, and by holding awareness programs. We regularly conduct audits and penetration tests at domestic and international sites to prevent the risk of hacker attacks.

Assessment
We can never completely rule out interference with, and attacks on, our IT systems and networks. Thanks to our precautionary measures, we classify the possible occurrence of such events and the associated risks as being not high.

Personnel-Related Risks

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

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

Measures
To counter these risks, we have a series of personnel-policy measures in place. For example, we offer exemplary benefits, performance-oriented compensation and attractive training programs. We also offer a wide range of working-time models and arrangements, and opportunities to achieve a positive work-life balance.

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

Assessment
Demographic change and the related lack of qualified technical and managerial employees will increase the medium-term risk of being unable to find enough appropriate personnel. For 2012, we only see minor risks to our personnel needs.

External Risks
Scenario
Pandemic, natural disaster, war or civil war.

Impact on WACKER
Impairment of our entrepreneurial capacity to act, production downtimes, loss of trade receivables, impact on sales and earnings.

Measures
WACKER is a globally operating Group with production facilities and technical centers in Europe, the Americas and Asia, and about 50 sales offices worldwide. Pandemics, natural disasters and acts of war in individual countries or regions where we are active represent a potential risk to our business and production operations, product sales, fixed assets and therefore our net assets, financial position and earnings. Our managerial entities and our sites have worked out and publicized plans and measures to minimize the effects of a pandemic on the health of our employees and on our business processes. A standardized and coordinated approach is ensured by a “pandemic preparedness plan” (corporate regulation). The financial impact of damage to our production plants due to natural disaster is partly covered by insurance. Since WACKER has production sites on different continents, our manufacturing and delivery capability will remain viable to a certain extent even if particular plants should fail. We counter the default risk with respect to trade receivables due to natural disasters and acts of war, inter alia, by demanding collateral depending on the nature and scope of what we provide.

Assessment
Risks from pandemics, natural disasters, acts of war or civil war can never be ruled out entirely. Our preparedness plan and our internationally distributed production sites and local offices help to limit the impact of local or regional damage on our business processes.

Evaluation of Overall Risk

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

No Risks That Could Endanger the Company's Continued Existence

We consider the above-mentioned risks to be manageable. As per this report's publication date, the Executive Board does not see any individual or aggregate risk that could endanger WACKER's future in any material way. The overall risk situation has intensified due to the increasingly difficult economic environment in 2011. In particular, we expect market risks to increase – especially in the photovoltaic industry, due to price pressure and overcapacity along the entire supply chain, to policy debates about renewable-energy incentives, and to a sector-wide consolidation process. Although consolidation may result in short-term market distortions, we see good chances for WACKER to benefit from this development in the medium to long term. We remain confident that WACKER is strategically and financially so well-positioned that we can take advantage of any opportunities that arise.

Supplementary Report

During the first two months of 2012, WACKER paved the way for its multi-year financing strategy.

Wacker Chemie AG established four promissory notes totaling €300 million with terms of three to five years. The financing measures concluded contain standard market credit terms and a net debt-to-EBITDA ratio as the only financial covenant.

The liquidity inflow occurred on February 23, 2012.

Otherwise, no major events took place following the closing date of December 31, 2011, and this Annual Report's preparation date of February 28, 2012. There were no fundamental changes in our overall economic and business environment.

The Group's organizational and legal structures remained unchanged in the first few weeks of 2012.

Management Report of Wacker Chemie AG

(Summary as per the German Commercial Code)

The management report of Wacker Chemie AG and the Group management report for fiscal 2011 are combined in accordance with German Commercial Code (HGB) Section 315, Subsection 3 in conjunction with Section 298, Subsection 3. The annual financial statements of Wacker Chemie AG, prepared in accordance with the German Commercial Code (HGB), and the summarized management report are published simultaneously in the Elektronischer Bundesanzeiger (the electronic version of Germany's Federal Gazette).

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

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

The overarching business and financial conditions of Wacker Chemie AG principally correspond to those of the Group and are stated in section 3.

Wacker Chemie AG had 9,511 employees as per December 31, 2011.

The financial statements of Wacker Chemie AG were prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Earnings Performance of Wacker Chemie AG as per German Commercial Code

T 3.34 Statement of Income

€ million	2011	2010
Sales	**3,539.5**	3,416.9
Changes in inventories	**124.7**	14.1
Other capitalized self-constructed assets	**41.6**	40.7
Operating performance	**3,705.8**	3,471.7
Other operating income	**194.1**	104.7
Cost of materials	**–1,470.5**	–1,216.7
Personnel expenses	**–777.2**	–706.9
Depreciation	**–330.1**	–307.4
Other operating expenses	**–641.3**	–595.8
Operating result	**680.8**	749.6
Result from investments in joint ventures and associates	**18.8**	–134.3
Net interest income	**–10.7**	–38.7
Other financial result	**–7.7**	–1.7
Financial result	**0.4**	–174.7
Pre-tax income	**681.2**	574.9
Extraordinary result	**–**	–94.7
Income taxes	**–179.0**	–178.7
Net income	**502.2**	301.5
Profit carried forward from the previous year	**775.2**	533.3
Dividends paid	**–158.9**	–59.6
Allocations to retained earnings	**–139.8**	–
Retained profit	**978.7**	775.2

Wacker Chemie AG's earnings performance was good in 2011. Net income climbed from €301.5 million in 2010 to €502.2 million in the year under review. This result was positively impacted by both the development of operations and by advance payments received that were collected as part of indemnity payments totaling €66.2 million. In contrast, write-downs of €23.0 million and pension-provision adjustments of €19.3 million had a negative effect. In 2010, however, non-recurring charges due to write-downs of investments were higher, at €78.9 million. In particular, accounting changes due to the first-time application of the German Accounting Law Modernization Act had a negative impact of €97.0 million on the prior-year result. Pre-tax income rose from €574.9 million to €681.2 million.

Sales increased slightly by just under 4 percent from €3.42 billion to €3.54 billion. Sales at WACKER SILICONES dropped year over year from €1.29 billion to €1.26 billion, down 2 percent from a year earlier. WACKER POLYSILICON sales rose by 5 percent to €1.37 billion (2010: €1.31 billion). WACKER POLYMERS increased its sales by 12 percent to €625.7 million (2010: €558.5 million). WACKER BIOSOLUTIONS generated stable total sales of €103.4 million (2010: €104.0 million). Sales not explicitly allocated amounted to €180.1 million (2010: €153.9 million). Operating performance rose to €3.71 billion (2010: €3.47 billion), and was influenced by an inventory build-up of €124.7 million (2010: €14.1 million) due to the need to hold higher inventories on the reporting date.

The cost of materials climbed 21 percent to €1.47 billion (2010: €1.22 billion). Higher energy and raw-material costs were the main reason for this increase in 2011. In particular, strategic raw materials such as silicon, ethylene and vinyl acetate monomers were 20 to 30 percent more expensive on average.

Personnel expenses rose 10 percent from €706.9 million in 2010 to €777.2 million in 2011. The main factors here were the start-up of Nünchritz's Poly 9 expansion stage and overall high capacity utilization, which caused the number of employees to climb to 9,551 in 2011 (2010: 8,866) and led to rising ongoing personnel expenses. As in 2009, WACKER accounted for the higher life expectancy of the Group's pension-fund beneficiaries in its pension-obligation estimates in 2011. Beside the ongoing expenditures for pension provisions, this realignment resulted in a non-recurring expense of €19.3 million.

In 2011, Wacker Chemie AG's R&D expenses amounted to €96.0 million (2010: €87.3 million). Higher personnel expenses were the main reason for the increase.

Depreciation and amortization of €330.1 million (2010: €307.4 million) contain a write-down of €23.0 million on a pilot plant to produce granular polysilicon. Some capacity sections of the plant were shut down.

The other operating result, consisting of other operating income less other operating expenses, improved 9 percent (on balance) to €–447.2 million (2010: €–491.1 million). This figure includes the foreign currency gain from operations of €19.2 million (2010: €11.7 million). Under other operating income, the Group posted reversals of provisions of €12.1 million (2010: €16.1 million). A major factor affecting other operating income stemmed from the retention of advance payments for polysilicon totaling €66.2 million in connection with indemnity payments and the termination of individual polysilicon supply agreements. In the fourth quarter of 2011, we concluded dissolution contracts with customers exiting the solar business. As for other operating expenses, major effects beside the foreign currency gain were: outgoing-freight expenses, customs duties, other selling expenses, other contractor work, and repair and maintenance.

In 2011, Wacker Chemie AG posted an operating result of €680.8 million (2010: €749.6 million). This 9-percent decline is primarily due to the higher cost of materials and to higher personnel expenses. In particular, the material-cost ratio rose year over year by 4.7 percentage points to 39.7 percent. The personnel-cost ratio increased only marginally by 0.6 percentage points to 21.0 percent of operating performance.

The result from investments in joint ventures and associates was positive in 2011 at €18.8 million (2010: €–134.3 million), and contains, for example, the net profits from profit and loss transfers. Loss transfers of €20.4 million, mainly stemming from Siltronic AG, stood in contrast to combined earnings from chemical subsidiaries totaling €39.2 million. In 2010, the result from investments in joint ventures and associates contained a €78.9 write-off in the company's investment in Wacker Chemicals (China) Company Ltd. (Holding), Shanghai.

Net interest income climbed by €28.0 million to €–10.7 million (2010: €–38.7 million). Compared to 2010, investments in securities and demand deposits generated significantly higher interest income, coming in at €30.3 million (2010: €8.6 million). The finance expense for banks and as a result of accrued interest on provisions declined slightly to €41.0 million (2010: €47.3 million).

At €179.0 million, income tax expenses remained almost constant, resulting in a tax rate of 26 percent.

Net income amounted to €502.2 million. After adding profit carried forward from 2010 and allocations to retained earnings, less €158.9 million in dividends paid, Wacker Chemie AG posted a retained profit of €978.7 million.

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

T 3.35 Statement of Financial Position

€ million	2011	2010
Assets		
Intangible assets	6.2	6.2
Property, plant and equipment	1,919.0	1,814.4
Financial assets	1,174.4	708.2
Fixed assets	3,099.6	2,528.8
Inventories	454.6	304.6
Trade receivables	303.1	319.2
Other receivables and other assets	650.8	628.6
Receivables and other assets	953.9	947.8
Securities	374.2	316.7
Cash on hand, demand deposits	350.7	411.6
Current assets	2,133.4	1,980.7
Prepaid assets	1.7	36.4
Total assets	5,234.7	4,545.9
Equity and Liabilities		
Subscribed capital	260.8	260.8
Less nominal value of treasury shares	–12.4	–12.4
Issued capital	248.4	248.4
Capital reserves	157.4	157.4
Other retained earnings	770.0	630.2
Retained profit	978.7	775.2
Equity	2,154.5	1,811.2
Provisions for pensions and similar obligations	498.6	445.2
Other provisions	350.5	389.4
Provisions	849.1	834.6
Financial liabilities	818.6	615.8
Trade payables	202.7	207.6
Sundry liabilities	1,209.8	1,076.7
Liabilities	2,231.1	1,900.1
Total equity and liabilities	5,234.7	4,545.9

Wacker Chemie AG's total assets grew strongly to €5.23 billion (2010: €4.55 billion). This 15-percent increase was mainly the result of additions to investments and of higher inventories.

Fixed assets rose €570.8 million to €3.10 billion (2010: €2.53 billion), an increase of 23 percent. Growth here was primarily due to strategic investment projects at WACKER POLYSILICON. Together with other projects, these led to additions to property, plant and equipment of €431.8 million. Depreciation reduced property, plant and equipment by €325.8 million. Compared to 2010, financial assets rose €466.2 million to €1.17 billion, an increase that was due to two items. Liquidity of €100.0 million not required over the short term was invested in a closed investment fund recognized as a financial asset under German commercial law. The Group added to the equity base of Wacker Polysilicon North America LLC, an intermediate holding company for production purposes. The funds serve to finance the US subsidiary, which is currently building a new production site in Charleston, Tennessee. The ratio of fixed assets to total assets grew from 2010's 56 percent to 59 percent in 2011 due to major investments in property, plant, equipment and financial assets. Strong customer demand boosted plant utilization in 2011, too.

As a result of high business volumes, inventories expanded at every division, up 49 percent to €454.6 million (2010: €304.6 million). Higher silicon-metal inventories played a key role here. At €303.1 million, trade receivables remained at the prior-year level (2010: €319.2 million). Other receivables and other assets rose marginally, from €628.6 million in 2010 to €650.8 million. Receivables from affiliated companies remained roughly constant in 2011, amounting to €467.7 million (2010: €437.6 million). Other assets declined slightly to €175.7 million (2010: €180.3 million). These contain tax receivables and receivables from an investment grant for the Group's investment in the polysilicon plant at Nünchritz.

Wacker Chemie AG invested part of its surplus liquidity in securities of several bond issuers with a term of over three months. Their share of current assets totaled €374.2 million as per the reporting date (2010: €316.7 million).

Cash on hand and demand deposits declined to €350.7 million as per December 31, 2011 (2010: €411.6 million) owing to major investments in the period under review.

Equity amounted to €2.15 billion as per the reporting date (2010: €1.81 billion). This was €343.3 million more than a year earlier and corresponds to an equity ratio of 41.2 percent (2010: 39.8 percent). There were several reasons for this gain. The retained profit of €978.7 million mainly comprised 2011's non-distributed net income of €502.2 million. In 2011, the company's dividend payout to shareholders for 2010 amounted to €158.9 million.

Over and above its normal additions, Wacker Chemie AG increased provisions for pensions and similar obligations by an additional amount of €19.3 million. The reason for this allocation was to take account of the higher life expectancy of the Group's pension-fund beneficiaries. Provisions for pensions and similar obligations amounted to €498.6 million (2010: €445.2 million) as per the reporting date. In contrast, other provisions declined from €389.4 million in 2010 to €350.5 million because tax provisions and provisions for phased early retirement were lower.

Financial liabilities grew to €818.6 million (2010: €615.8 million). Bank loans amounted to €469.0 million (2010: €280.9 million). Financial liabilities from cash pooling and loans increased liabilities due to affiliated companies from €330.9 million in 2010 to €344.3 million.

Trade payables remained virtually constant at €202.7 million (2010: €207.6 million). In total, sundry liabilities rose by €133.1 million to €1.21 billion (2010: €1.08 billion). Advance payments by customers stemming from concluded supply contracts significantly outweighed the reduction in advance payments from deliveries effected. Obligations from advance payments received rose in fiscal 2011 to €1.18 billion (2010: €1.05 billion), a gain of €130.3 million.

In 2011, Wacker Chemie AG's financial position reflected good business performance, which generated a strong cash flow from operating activities of €849.3 million (2010: €981.1 million). Net income amounted to €502.2 million (2010: €301.5 million). This figure still has to be adjusted for non-cash items from depreciation, for the establishment or reversal of provisions and for other non-cash expenses. High inventories lowered operating cash flow. Higher advance payments received, in particular, resulted in a cash inflow of €163.5 million (2010: €171.7 million).

In 2011, the cash flow from investment activities amounted to €–908.0 million after €–745.3 million in 2010. This amount includes investments of €151.6 million in securities. Compared to 2010, Wacker Chemie AG's investments in property, plant and equipment decreased by €63.0 million since the Group invested more outside Germany in 2011. As the Group's parent company, Wacker Chemie AG invested in subsidiaries via capital increases of €367.6 million. The Group particularly focused on funding its US subsidiary Wacker Polysilicon North America LLC, which is building the new polysilicon site in Charleston, Tennessee. Financing is taking place via an intermediate holding company. Adjusted for the effect of acquired securities, the cash outflow from noncurrent investment activities amounted to €756.4 million (2010: €495.7 million).

In fiscal 2011, net cash flow totaled €92.9 million (2010: €485.4 million). It was lower than the prior-year figure due to high investments of €392.4 million. WACKER defines net cash flow as the difference between cash inflow from operating activities and cash outflow due to noncurrent investment activities.

In 2011, cash flow from financing activities was in positive territory, at €3.7 million (2010: €114.1 million). The dividend payout of €158.9 million for fiscal 2010 was one item impacting cash flow. At Wacker Chemie AG, intra-Group financing resulted in a net cash inflow of €26.8 million (2010: cash inflow of €134.6 million). In fiscal 2011, the Group accessed the second installment (€200.0 million) of its investment loan from the European Investment Bank (EIB) to build the polysilicon plant at Nünchritz (Saxony).

Liquidity – defined as the balance of securities in current assets, fund shares, and of cash on hand and demand deposits – rose from €728.3 million at the start of 2011 to €824.9 million at year-end. Net financial receivables (the balance of liquidity and liabilities to financial institutions) equaled €355.9 million at the end of 2011 (2010: €447.4 million in net financial receivables).

Risks and Opportunities

Wacker Chemie AG's business performance is subject to the same risks and opportunities as those facing the WACKER Group. In principle, Wacker Chemie AG's exposure to risks at subsidiaries and investments depends on the size of its stakes in the respective entities. Through our subsidiaries and holdings, we could face impairments arising from legal or contractual contingencies (especially financing). These contingencies are explained in the Notes of Wacker Chemie AG.

As the parent company of the WACKER Group, Wacker Chemie AG is integrated in the groupwide risk management system.

For further details, see pages 231 to 232 of this Annual Report. The description of the internal control system for Wacker Chemie AG, as mandated by Section 289, Subsection 5 of the German Commercial Code (HGB), can be found in the section on Internal Control System (ICS) and Internal Control System for Accounting on page 131.

Outlook

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

WACKER expects the world economy to grow over the next two years, despite all the economic turbulence and increased risks. Economic momentum will be slower, though, due to the difficult underlying conditions.

We assume that sales for 2012 will increase slightly compared with the previous year. From today's perspective, we forecast a rise in sales for 2013. We anticipate that net income will remain in solidly positive territory in 2012 and 2013. We believe that WACKER is on the right course for continuing its growth trend in the next two years.

Publication

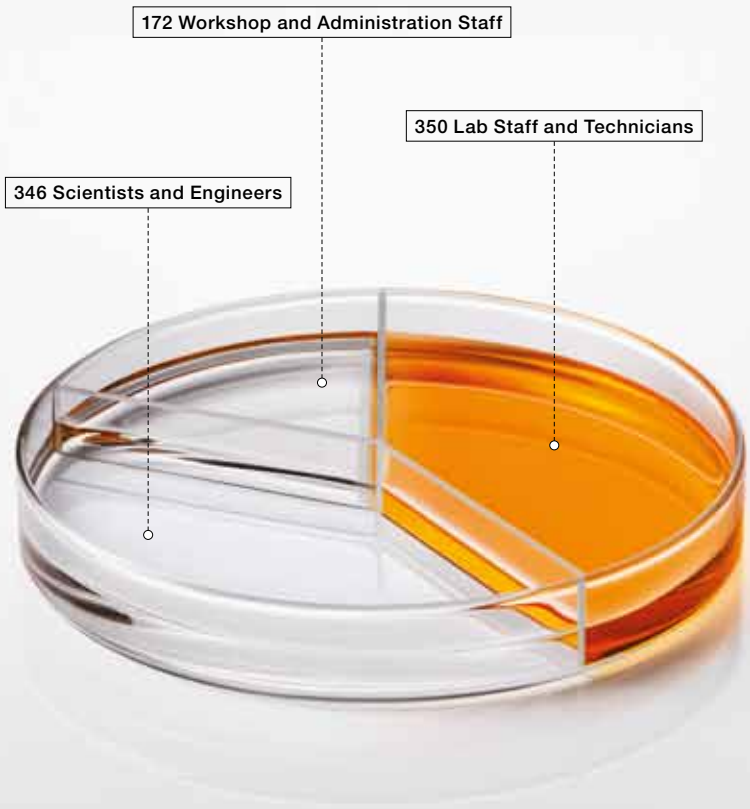
The annual financial statements of Wacker Chemie AG have been submitted to the publisher of the online German Federal Bulletin and can be viewed on the website of the German register of companies. KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements and provided them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

4

Combined Management Report Outlook

1,100

Group R&D Employees



Employees in R&D

WACKER had 1,100 research and development staff in 2011. That represents 6.4 percent of the Group's employees. Our scientists and engineers work on both basic research and developing new products and processes for our customers, as well as on improving existing processes. Our lab staff and technical staff support implementation in our laboratories, production and pilot plants or on-site in the customers' plants.

4

Combined Management Report

Outlook

Outlook

World Economy Predicted to Grow Despite Higher Risks

There is considerable uncertainty about the future direction of the global economy. The risks of economic activity losing momentum have clearly increased. The sovereign-debt crisis means national governments have less scope to counteract this trend. Growth is becoming noticeably weaker not just in EU countries and the USA, but also in China and other emerging economies. WACKER believes there are two possible scenarios. The world economy will be able to continue growing if sovereign-debt levels and financial-market turbulence are swiftly brought under control and long-term stability is achieved. If this does not happen, the possibility of a recession cannot be excluded.

While financial-market turbulence is likely to weigh on the real economy in 2012, we expect the sovereign-debt crisis to be resolved. For that reason, we anticipate that the world economy will grow in 2012 and 2013.

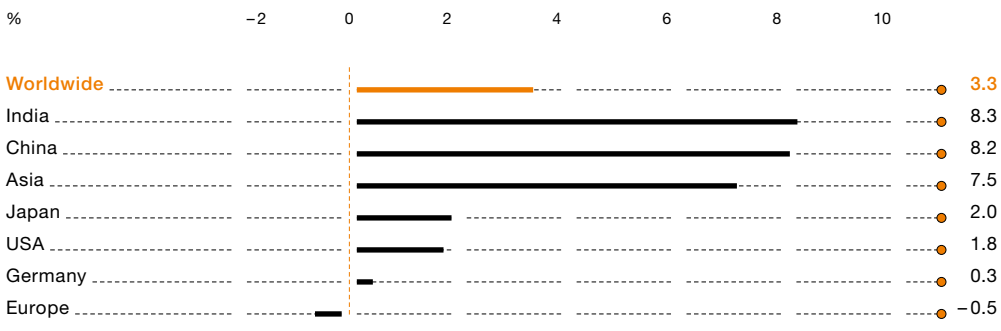
Underlying Economic Conditions

In the opinion of the International Monetary Fund (IMF), the global economy will continue to grow in 2012 despite the elevated risks. The IMF forecasts that world GDP will rise by 3.3 percent. For 2013, the IMF predicts 3.9 percent. This upward trend will be supported by emerging economies, which will achieve 5.4 percent growth in 2012. Since late 2011, both Brazil and China have been implementing monetary easing to prevent a growth slump in their domestic markets. The same is happening in Indonesia. The objective is to prevent a marked weakening of economic activity in these emerging countries. Advanced economies will contribute only 1.2 percent GDP growth in 2012.

Moderate Growth for US Economy

Economic growth in the USA in 2012 will remain at the prior-year level. The Organisation for Economic Co-Operation and Development (OECD) expects growth of 1.8 percent there. For 2013, the OECD estimate is 2.2 percent.

G 4.1 GDP Trends in 2012



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

Growth Prospects in Asia Remain Good

Asia will again deliver much higher growth rates than all other regions over the next two years. The Asian Development Bank (ADB) anticipates growth of 7.5 percent despite having downgraded its forecast for 2012. India and China remain the driving forces behind this development. According to the IMF, output is expected to go up 8.2 percent in China, with a gain of 8.3 percent in 2013. The ADB forecasts an increase of 8.8 percent for India. In Japan, GDP could grow by 2.0 percent in 2012 after 2011's earthquake. The OECD predicts growth of 1.6 percent there for 2013.

Growth in Europe Held Back by Sovereign Debt

Europe – according to IMF estimates – will see GDP significantly dampened by sovereign debt in 2012 and will fall into a recession. The IMF anticipates negative GDP growth of –0.5 percent for 2012 but takes a more positive view of developments in 2013. Growth in the eurozone should then reach 0.8 percent. Analysts are slightly more optimistic about Germany's prospects for 2012. Economic output there is likely to grow by 0.3 percent, followed by 1.5 percent in 2013.

General Sector-Specific Conditions

In the key industries for our business, we expect economic developments to present a mixed picture in 2012.

Demand for Semiconductor Wafers Continues to Stagnate in 2012

According to Gartner's market research experts, the semiconductor market will stagnate in 2012. Worldwide silicon-wafer sales by surface area sold will fall year on year to around 60,785 million cm^2. In terms of wafer sizes, 300 mm sales volumes will increase slightly, while those of small and midsize diameters are expected to decline. For 2013, Gartner predicts growth of 12 percent.

T 4.1 WACKER's Key Customer Sectors

Sectors	Trends in 2011	Trends in 2012/2013
Construction	Slight recovery	Varying trends in individual markets: growth in emerging countries, stagnation in advanced economies
Photovoltaic	Growth	Moderate growth
Semiconductor	Decline	Growth for 300 mm wafers, decline in smaller wafers
Energy/electrical	Growth	Weak growth
Chemical	Growth	Weak growth

Photovoltaics

Regardless of developments in the world economy, photovoltaic markets face a special situation. They are characterized by production overcapacity, by dwindling prices at all stages of the supply chain and by the continuous scaling-back of state incentives. Consequently, 2012 will see the industry experiencing a consolidation phase that will be relevant to its future development. However, the marked price decline at every stage of the supply chain is making photovoltaics more competitive. This trend will facilitate accessing new markets and support expansion in the global market for photovoltaic applications.

The EPIA (European Photovoltaic Industry Association) anticipates further photovoltaic-market growth for the next two years. Newly installed photovoltaic (PV) capacity might be between 27 and 33 gigawatts (GW). The EPIA expects growth mainly in the USA and China[1]. In 2013, newly installed PV capacity is forecast to continue growing worldwide.

Slowdown in Chemical-Industry Growth

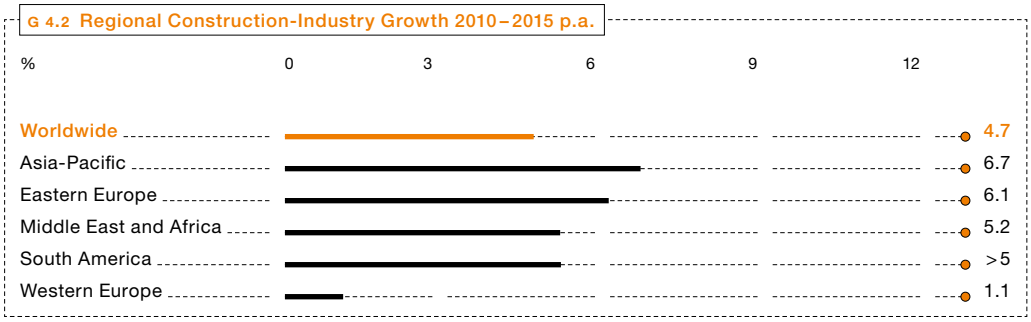
The chemical industry's growth in 2012 will be much slower than in the previous year. The German Chemical Industry Association (VCI) expects output to rise by 1 percent and sales revenue by 2 percent. Expansion will be supported by steady growth in Germany's chemical exports to the BRIC countries (Brazil, Russia, India and China) and to other emerging economies. However, progress could be hampered by weak economic growth in Europe. Around 60 percent of exports by German chemical manufacturers still go to other EU countries.

WACKER sees the BRIC countries and other emerging economies as offering the brightest growth prospects. Thanks to our global production and sales network, we are well placed to increase our sales revenues there. Over the next two years, we expect the steadily rising standard of living in Brazil, China and India to push up our sales revenues, since our portfolio includes many higher-grade products that are in demand among new customer groups. In addition, WACKER POLYMERS sees bright growth prospects for VAE dispersions in the Americas.

Asia and Latin America Support the Global Construction Industry

According to market researcher Global Insight, the construction industry will continue to grow in Asia and Latin America in 2012 and 2013, while remaining flat in advanced economies. Pinpointing Asia in particular, Global Insight forecasts steady growth up until 2015 in the commercial and residential building sector and in infrastructure investment. Populations will continue to migrate toward megacities. By 2030, 59 percent of the Earth's population is expected to live in cities. This will create fresh challenges for how people build and live, and for the infrastructure needed. We see especially attractive opportunities for WACKER in the construction industry's growing demand for energy-efficient solutions. WACKER's prime focus here is on exterior insulation and finish systems.

G 4.2 Regional Construction-Industry Growth 2010 – 2015 p.a.



Source: Global Insight (Oct. 2011)

Electrical and Electronics Sectors Cautiously Optimistic

The outlook for the electrical and electronics sectors for 2012 has deteriorated, but the mood remains one of cautious optimism. According to estimates by the German Electrical and Electronic Manufacturers' Association (ZVEI), market volumes could rise further in 2012. Again, the BRIC countries are the main drivers in the global electrical and electronics markets – with double-digit growth rates. At WACKER SILICONES, electricity transmission and distribution continues to offer good opportunities for increasing product sales. In the case of LEDS, silicones make it possible to produce a moldless optical lens directly on an

[1] European Photovoltaic Industry Association (EPIA) Global Market Outlook for Photovoltaics until 2015 (April 2011)

LED chip, using a dispensing process in a single production step. Silicones reduce the reflection produced by monitors and screens, increasing their legibility. The market for automotive electronics remains dynamic, offering additional sales potential for our products and applications.

Positioning the Group for the Next Two Years

WACKER will adhere to its growth strategy over the next two years. As before, we identify three levers for continuing growth: expansion into emerging markets and regions, substitution of existing products with WACKER products, and innovations. We will place the focus for further growth on Brazil, China, India and the Middle East. Of these, China offers the greatest potential.

Making WACKER Even More International

WACKER will strengthen its international orientation over the next two years. We will step up our local presence and expertise in emerging economies in particular. As a result, we aim to seize local opportunities in key growth markets, and benefit from the lower factor costs offered by manufacturing locally.

It is our goal to make WACKER more innovative, thus raising the sales revenue generated by new products.

We currently do not foresee any other major changes in business policies and organizational orientation.

The WACKER Group's Prospects

We are making plans for the future on the assumption that the global economy will grow in 2012. The BRIC countries and other emerging markets will be the main growth drivers.

We expect that WACKER will continue to grow organically. Investments will remain high. Our investment plans are geared to investing in major markets, to safeguarding our market share, and to reinforcing our competitive edge through innovative technical processes. The emphasis of our investment spending over the next two years will be on expanding polysilicon production operations at WACKER POLYSILICON. Our key project here is the construction of a new polysilicon facility in the US State of Tennessee. Due to this project, a large portion of our capital spending during 2012 and 2013 is in the USA.

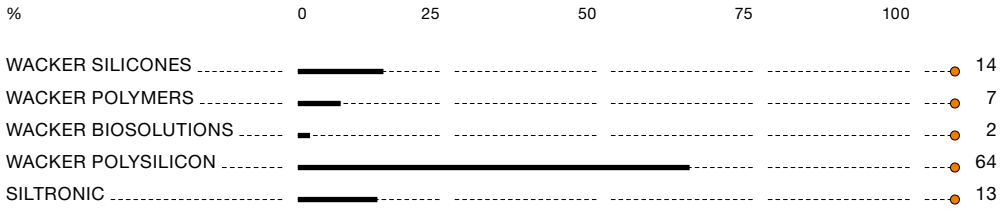
We are building two new production plants at Nanjing (China) for WACKER POLYMERS and WACKER BIOSOLUTIONS. Our existing facilities for producing vinyl acetate-ethylene copolymers for dispersions are being expanded by a new reactor with an annual output of 60,000 metric tons. It will double WACKER POLYMERS' capacity for VAE dispersions at Nanjing to approx. 120,000 metric tons per year. WACKER BIOSOLUTIONS is also building a new plant to produce polyvinyl acetate (PVAC) solid resins, with an annual capacity of 20,000 metric tons. This move will strengthen our position as the world's leading manufacturer of polymers for dispersions and gumbase.

At WACKER SILICONES, we are investing in facilities for manufacturing downstream products, for example. Investments at Siltronic are highly diversified. One important project involves increasing capacity for 300 mm wafers at our joint venture with Samsung Electronics in Singapore.

Capital expenditures are expected to reach approx. €1 billion in 2012. A similar volume is planned for 2013. The depreciation amount will exceed €500 million in 2012 and reach some €700 million in 2013.

Investments to Remain at a High Level in the Next Two Years

G 4.3 Investments by Division in 2012



Future Products and Services

We see further growth potential over the next two years in the replacement of styrene-butadiene polymer with WACKER VAE dispersions and in the development of new products. In our view, the move to the more cost-effective VAE dispersion alternatives will continue and extend from the paper and carpets industry to the field of coatings.

At WACKER SILICONES, we aim to promote products made from thermoplastic silicone elastomers. The products can change their crosslinked state under the effect of heat by the use of conventional technologies without losing the typical properties of silicone. We see market potential especially in the photovoltaic, medical and film industries.

Research and Development

The emphasis of our R&D work will remain on key strategic projects. WACKER is planning to use 25 percent (2011: 21 percent) of its R&D budget for such projects in 2012. The R&D budget is set to rise by some 4 percent in 2012 compared with the previous year (2011: €172.9 million). Our R&D priorities remain the highly promising fields of energy, catalysis, biotechnology, construction applications and semiconductors. We are devoting particular attention to energy storage and renewable energy generation.

Production

WACKER will bring new production capacity on stream over the next two years. Burghausen's polysilicon capacity will increase by 5,000 metric tons in 2012. The Poly 11 expansion stage at Charleston (Tennessee, USA) will be completed in late 2013 with a nominal capacity of 18,000 metric tons. 2013 will also see the two Nanjing-based production facilities come on stream for WACKER POLYMERS (VAE dispersions) and WACKER BIOSOLUTIONS (PVAC solid resins).

T 4.3 Production Facility Start-Ups in 2012–2013

Site	Project	Start-Up
Burghausen	Polysilicon production	2012
Burghausen	Lab buildings	2012
Ulsan	VAE dispersions	2012
Charleston, Tennessee	Poly 11 expansion stage	2013
Nanjing	Solid resins	2013
Nanjing	VAE dispersions	2013

As announced in December 2011, Siltronic is to close its production plant for 200 mm silicon wafers at Hikari (Japan) in mid-2012. WACKER will cease making its own acetic acid at Burghausen in 2012 because we can buy in the amounts more economically and with a similar level of supply security.

Under the groupwide "Wacker Operating System" (WOS) program and its component projects, we will reassess all the main productivity levers (raw-material and energy efficiency, capacities, and labor productivity). We will place the emphasis on key projects that have a high economic impact on costs and benefits.

Due to the polysilicon project in Tennessee, we spur on the process of establishing regional planning teams in the USA that collaborate closely with WACKER's engineering units in Germany.

Technical spending will edge up in 2012.

Procurement and Logistics

Energy and raw-material procurement has an important bearing on WACKER's profitability. In our case, energy and raw-material costs account for over one-third of the cost of goods sold. We assume that the prices of our main raw materials will, on the whole, stop rising in 2012, remaining instead at their current level. Prices for vinyl acetate are tightly linked to the oil price. The price of methanol remains at the high prior-year level. We foresee a slight drop in silicon-metal prices in 2012. As for energy (electricity, gas), we expect prices in 2012 to remain broadly stable at 2011's levels. We do not anticipate any supply-security problems or disruptions to raw materials and energy in 2012. Our volume requirements for silicon, our most important raw material, have largely been covered for 2012. Ethylene, methanol and vinyl acetate monomer needs have also been contractually secured.

On the energy front, we have, for the first time, concluded several favorable long-term agreements running until 2020 for the supply of electricity in Germany. We have also secured attractively-priced terms on the open market for gas supplies to the Nünchritz site. For the Holla site in Norway, we have negotiated a long-term electricity contract.

When negotiating new contracts, we try to shift away from conventional, fixed annual contracts with rigid price structures. Instead, we focus more on market-based pricing for-

mulas and on contractual escalator clauses pertaining to purchase quantities. As a result, we can respond better, and in either direction, to strong market fluctuations. For silicon metal, we want to conclude initial contracts with some new suppliers that we have identified. It remains an important goal for the next two years to achieve a greater global spread in WACKER's portfolio of raw-material suppliers.

WACKER to Diversify Raw-Material Supplier Portfolio Internationally

In Technical Procurement, WACKER's task for 2012 is to qualify additional US suppliers for roles in the construction and subsequent operation of the polysilicon facility in Tennessee. In parallel, we are working to create a regional procurement organization for the USA once the polysilicon plant is ready. For smaller and mid-sized projects, especially in China, we will make even greater use of local suppliers – and develop and set up new supplier relationships. To further expand our procurement relationships internationally, we are also looking for additional regional sources and suppliers that WACKER can use for certain goods or services all over the world. In order to handle our procurement processes more effectively, we will introduce new SAP modules in 2012 and extend the CONTRACT software, which records all supplier agreements and archives them in a single system.

With regard to Logistics, the main task over the next two years is to secure the supply and distribution logistics for our polysilicon project in Tennessee. This includes establishing freight-transport chains connecting various suppliers from the USA and Europe to the new site in Charleston. The logistics masterplans for other WACKER sites will also be updated, and essential measures initiated and realized.

Sales and Marketing

Our e-business activities, which previously came under the umbrella of WACKER SILICONES, have been reassigned to our Sales & Distribution corporate department, effective January 1, 2012. This brings together the various sales channels under one roof. We will enhance and expand our distribution network.

Employees

In Japan, WACKER is to close the Hikari site of its Siltronic subsidiary in mid-2012. The measure will involve around 500 layoffs. Despite Hikari's closure, the Group's total workforce will rise to around 17,000 in 2012. This increase in employee numbers is mainly due to the construction of the polysilicon site in Tennessee and the full commissioning of the polysilicon facility at Nünchritz. We expect the employee total to rise in every region over the next two years – in line with the market trend, but at a slower rate than volume growth.

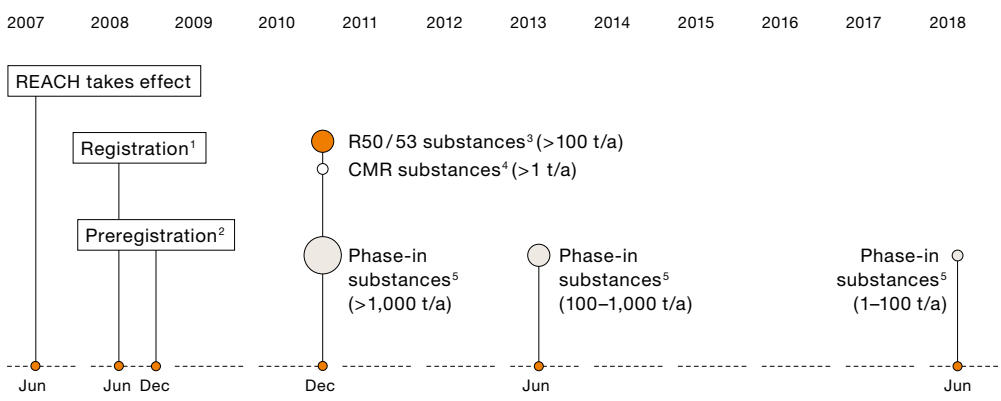
We are keeping the number of vocational training places at a high level. The need to attract fresh talent to WACKER remains a priority. As part of our employer brand project, we will define target groups among graduates and tailor our communications and advertising to our new employer profile. WACKER will continue its efforts to significantly increase the proportion of women in management positions at the company over the next few years.

Sustainability

Alongside its production sites, WACKER aims to include all its sales subsidiaries in its groupwide accreditation process in 2012. In the same year, our production sites in Holla (Norway) and Jincheon (South Korea) will join the Group's integrated management system. As part of the process for obtaining a groupwide OHSAS certificate for occupational health and safety, we will embark on accreditation of our German sites to this standard in 2012. Our aim is to achieve groupwide OHSAS certification by 2015.

Further Production Sites to Be Included in Group Certification

G 4.4 REACH Timetable



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

REACH will be a major issue for us over the next ten years. By June 2013, we aim to have sent the European Chemicals Agency (ECHA) 67 dossiers on substances manufactured in quantities of between 100 and 1,000 metric tons annually. We are currently preparing about 190 more substance dossiers for the third stage of REACH, which runs until mid-2018.

In 2011, we conducted the first survey of our indirect greenhouse gas emissions from bought-in energy (as per Greenhouse Gas Protocol Scope 2). In the medium term, we also intend to measure Scope 3 emissions as per the Greenhouse Gas Protocol. These include all emissions generated along the supply chain (e.g. by suppliers or through waste disposal and the transportation of products).

Following the completion of the "ANSIKO 2010" plant safety project in 2011, we will, as a precaution, start conducting a groupwide safety examination of machinery with high risk potential in 2012. The project, going by the name of "ANSIKO 2012," should be finished in 2013.

By 2015, we aim to have reduced our accident rate (the number of workplace accidents per million hours worked) to below 2.0, roughly halving it compared to 2010.

In 2013, WACKER will publish its Sustainability Report for 2011 and 2012.

Expected Earnings Performance

The main assumptions underlying WACKER's plans relate to raw-material and energy costs, to personnel costs and to exchange rates. For 2012, we are planning on an exchange rate of US$1.35 to €1.

Group Sales Expected to Rise in 2012

WACKER's target in 2012 is to generate some €5 billion in sales revenue. This is contingent on the fact that the photovoltaic market continues to grow, that semiconductor-sector demand picks up during the second half of 2012, and that the sovereign-debt crisis does not lead to a prolonged recession. Economic uncertainties mean the actual performance of the WACKER Group and its divisions could depart from our assumptions, either positively or negatively. From today's viewpoint, our divisions should post higher sales revenues – apart from SILTRONIC and WACKER POLYSILICON. Sales volumes will be the main growth driver. We expect sales revenues to increase most in Asia. In 2013, sales-revenue growth is set to continue – provided the global economy continues to expand as forecast by the economic research institutes, and provided there are no unforeseeable slumps in the regions and sectors that are crucial to WACKER's sales.

T 4.4 Outlook for 2012

€ million	2012	2011
Sales	Approx. 5,000	4,909.7
EBITDA	Below prior-year level	1,104.2
Investments (incl. financial assets)	Approx. 1,000	981.2

We anticipate that EBITDA for 2012 will clearly fall short of the previous year's level. That will be mainly due to the lower prices obtained from our photovoltaic customers for polysilicon deliveries. As for Group net income, we expect to remain in positive territory. This income, however, will be lower due to higher depreciation and amortization.

Divisional Performance

At WACKER SILICONES, we anticipate slightly higher sales revenues amid increased price pressure in 2012, though without raw-material costs easing significantly. Growth will be generated mainly in Asia, where rising prosperity is prompting higher per-capita consumption of silicone products. Additionally, ever more stringent quality demands are accelerating the process of substituting simple products by value-added products that incorporate silicones. One of the priorities of our wider strategy is to increase our business for specialty products. 2012 will see WACKER SILICONES broaden its product range for the medical sector, which promises good medium-term growth potential.

Despite overcapacity for VAE dispersions and more competitors for dispersible polymer powders in Asia, we believe that WACKER POLYMERS' prospects of volume and price growth in 2012 are good, and that its capacity utilization will be high. We aim to increase profitability by improving productivity and starting up new production facilities swiftly. Earnings growth is likely to be held back somewhat by continuously high energy and raw-material costs. Regarding dispersions business, we expect the substitution of styrene butadiene with VAE dispersions in the paper and carpet industry to translate into increased sales, especially in the USA. We will continue to pursue market strategies tailored to individual regions in order to maximize exploitation of growth potentials. The construction sector will experience mixed fortunes, depending on the country. While markets in Asia and South America are growing, they remain flat in advanced economies.

At WACKER BIOSOLUTIONS, too, we expect 2012's sales revenue to rise. We aim to build on our position as market leader for PVAC solid resins for gumbase. There are good growth prospects in the food industry. We believe the key to sales-volume growth in that sector is the development of innovative products. We will be releasing extra R&D funding for this purpose over the coming years.

2012 promises to be challenging for WACKER POLYSILICON. Polysilicon prices will not rise and the consolidation process will continue. Inventory levels will have been adjusted by mid-year. Thereafter, demand should return to normal. Short-term demand, however, will be influenced by how the basic conditions underlying solar-energy subsidization develop. Many countries are considering measures to slow down the installation of new PV modules. Nonetheless, we are optimistic about the outlook for photovoltaics – as an important energy source of the future. The marked downturn in prices for polysilicon, wafers, cells and modules makes photovoltaics more competitive. The levelized cost of electricity from photovoltaic systems will be on a par with on-shore wind power by as early as 2013. This trend will facilitate access to new markets and promote global growth in the market for photovoltaic applications. Overall, as the cost and quality leader, we expect to emerge from this consolidation process with renewed strength. We anticipate that sales revenues for 2012 will be slightly down on the previous year. 2012 will see us completing the start-up of the Poly 9 expansion stage at Nünchritz. Our production capacity in Germany will then be around 52,000 metric tons per year.

Continuing Substitution of Styrene Butadiene by VAE Dispersions

We expect the semiconductor market to continue growing. Computers, cellphones and consumer electronics will continue to drive demand for semiconductors. Siltronic's sales revenues should edge up in 2012. In terms of wafer diameters, we foresee business increasing for 300 mm wafers and remaining stable for 200 mm wafers. Business for the smaller wafer diameters is likely to retreat in the future. We are continuing our strategy of lead sites, where we concentrate the production of individual wafer diameters. With the closure of Hikari, we will transfer this plant's 200 mm wafer volumes to Singapore and Portland (USA).

Expected Liquidity and Financial Performance

WACKER entered 2012 in a positive net cash position. Over the past few years, we received advance payments from our polysilicon customers. Now, our deliveries to these customers are taking place. This will lower our liquidity.

The net cash flow will be considerably negative mainly as a result of our high capital expenditures. The planned positive net income will continue to cause equity to increase.

Future Dividends

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

Financing

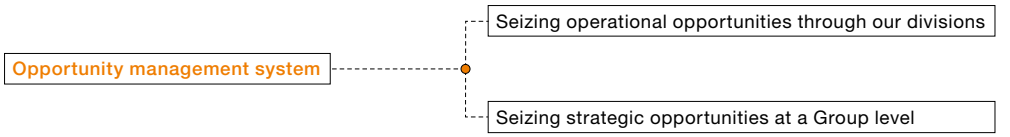
In 2012, we will adhere to our conservative financial policy. In doing so, we focus on a strong financial profile with a robust capital structure and healthy maturities for our debt. We have already laid the groundwork for medium-term Group financing over the last few years. As of December 31, 2011, WACKER had some €1.18 billion in used and unused credit lines. In February 2012, we successfully placed four promissory notes for a total of €300 million on the capital market.

Opportunities Report

Opportunity Management System

WACKER's opportunity management system remained unchanged from the previous year. It is a divisional and Group-level instrument. We identify operational opportunities and exploit them in our business divisions, which possess the detailed product and market expertise needed. We continuously use market observation and analysis tools to obtain a well-structured assessment of market, industry and competitor data, for instance. Plus, we hold customer interviews to evaluate future opportunities. The monitoring process – how WACKER seizes opportunities – is based on key indicators (such as rolling forecasts and current-status reporting).

G 4.5 Opportunity Management System



Strategic opportunities of overarching importance – such as strategy adjustments, potential acquisitions, collaborations and partnerships – are handled at the Executive Board level. Such opportunities are incorporated into WACKER's annual strategy-development and planning process, with current issues being discussed at regularly scheduled Executive Board meetings. For these issues, we normally use various scenarios to develop risk-opportunity profiles before making decisions.

WACKER has identified a whole range of opportunities for advancing the Group's success over the next few years.

Overall Economic-Growth Opportunities

Energy Megatrend Continues to Offer Growth Opportunities

Although the economic environment is becoming tougher, WACKER sees good opportunities for growth in new markets and sales regions. Our focus here is on Brazil, China, India and the Middle East. As previously, we expect the highest growth rates to be in China. To seize such opportunities, we are steadily expanding our presence in these markets. Our technical competence centers and the WACKER ACADEMY are pivotal in achieving WACKER's high standard of service and customer proximity.

T 4.5 Overview of Business Opportunities

Overall economic opportunities	Growth in Asia and other emerging countries
Sector-specific opportunities	Good product portfolio for megatrends, such as energy, greater prosperity, urbanization and digitization
Strategic opportunities	Expansion of our production capacities New high-quality products via innovations
Performance-related opportunities	Higher plant productivity Extension of our sales organization and establishment of technical competence centers Region-specific product development via complete supply chain for dispersions and dispersible polymer powders

Sector-Specific Opportunities

Sector-specific opportunities arise mainly due to our extensive product portfolio, which enables us to respond to global megatrends with great success. These trends remain as important as ever to our business.

At the forefront is the energy megatrend, where the photovoltaic industry is playing a highly crucial role. Many countries worldwide are increasingly harnessing renewable energy sources. Since solar power is becoming ever more competitive, demand for solar installations will go up. As a polysilicon producer and cost and quality leader, WACKER POLYSILICON will benefit from this megatrend. Importantly, WACKER's portfolio includes products that conserve energy. WACKER POLYMERS supplies innovative products for the thermal insulation of buildings, for example. The Chinese government has cited energy conservation as one of its key environmental goals for the next few years. Thanks to our products, we can play a significant role here.

Greater prosperity is a feature of Asia's growth markets and of other regions' emerging economies. As a result, there is an increasing need for high-quality products incorporating silicones. The market for silicone products is expected to rise to €11.1 billion by 2014 – growing at an average of 6 percent annually. In almost every sector, WACKER SILICONES offers products and solutions that support rising prosperity and promote urbanization, infrastructure expansion and environmental protection.

The digital processing and storage of information is progressing fast. As a manufacturer of silicon wafers, WACKER benefits from this megatrend. The demand for silicon wafers is climbing, fueled by semiconductor products for consumer electronics and by volume growth in Asia. The market share of 300 mm wafers is rising. WACKER will have sufficient capacity to participate in this growth due to the expansion measures planned in 2012 at Siltronic Samsung Wafer, our Singapore-based joint venture.

Strategic Opportunities

Production-capacity expansion presents WACKER's divisions with opportunities for further growth. We intend to benefit from continuing growth in the photovoltaic industry. The same applies to the industries and sectors supplied by our other divisions. Consequently, we are investing specifically in technologies and production plants that underpin and promote growth.

Further opportunities arise through developing high-quality WACKER products that we can use to substitute other commercial products.

WACKER POLYMERS sees scope for growth in the substitution of styrene butadiene with VAE dispersions. The high price of crude oil and the lack of supply security following the switch from oil to ethane by American crackers have prompted many paper and carpet manufacturers to turn to lower-priced VAE dispersions. We believe this trend will continue. In our opinion, there is also scope for substitution in the coatings area.

When it comes to VAE dispersions and dispersible polymer powders, WACKER is the only company that can globally draw on an integrated supply chain in the three key regions of the Americas, Asia and Europe.

At WACKER SILICONES, we aim to promote products made from thermoplastic silicone elastomers. The prime advantage of these products is that crosslinking can be reversed under heat, via established technology, and that they retain their typical silicone characteristics. They are used in photovoltaics, in medical engineering and in film and sheet manufacturing.

Business with Thermoplastic Silicone Elastomers to Be Expanded

Performance-Related Opportunities

Through our "Wacker Operating System" (WOS), we strive to minimize costs, optimize processes and increase productivity, each year fine-tuning the main levers within our supply chain so that we become even better. The overriding objective is to defend WACKER's superior cost and quality position against competitors. Crucially, we are supported by our own engineering teams, who have a wealth of plant expertise.

WACKER is systematically expanding its sales organization, technical competence centers and WACKER ACADEMY training facilities. With this even stronger market presence, we gain opportunities to enhance our market share.

Our complete supply chain for dispersions and dispersible polymer powders continues to offer WACKER good perspectives for the future. We are able to tailor products to local requirements by maintaining production sites in Europe, the Americas and Asia.

Overall Business Expectations

WACKER expects the world economy to grow over the next two years, despite all the economic turbulence and increased risks. Economic momentum will be slower, though, due to the difficult underlying conditions. As in the past, we forecast growth in Asia, especially in China and India. We also anticipate expansion in Brazil and the Middle East. Regarding dispersions, we expect that the paper and carpet industry's substitution of styrene butadiene with VAE dispersions will translate into increased sales, especially in the USA. Energy and raw-material procurement has an important bearing on WACKER's profitability. We assume that the prices of our main raw materials will, on the whole, stop rising in 2012, remaining instead at their current level.

In the first few months of 2012, the photovoltaic industry will still face production overcapacity, price pressure along the supply chain, and further consolidation. Despite the current challenges, we see good prospects for photovoltaics as an important energy source of the future. The marked downturn in prices for polysilicon, wafers, cells and modules will make photovoltaics more competitive, opening the way to market expansion in the coming years. Overall, as the cost and quality leader, we expect to emerge from this consolidation process with renewed strength.

Our target in 2012 is to generate some €5 billion in sales revenue. We anticipate that EBITDA in 2012 will clearly fall short of the previous year's level. This is mainly due to the lower prices obtained from our photovoltaic customers for polysilicon deliveries. From today's perspective, we expect a rise in sales and EBITDA for 2013. We believe that WACKER is on the right course for continuing its growth trend in 2012 and 2013.

As in previous years, polysilicon-capacity expansion will be the focus of investments, which will remain high over the next two years. Once Poly 11 is on stream in Tennessee, together with the expansion stages in Burghausen and Nünchritz (both by 5,000 metric tons), WACKER's capacity will reach 70,000 metric tons by 2014.

In the first few weeks of 2012, at the time of preparing the financial statements, we saw volumes rising again and demand for our products gaining momentum after 2011's very weak fourth quarter.

5

Consolidated Financial Statements

5,000

Active Patents

2,900

Current Patent Applications

Portfolio Management

We present our groupwide research and development activities transparently in our portfolio management. We use this to evaluate existing projects and select new ones in line with market needs. Through this management process, we increase our innovative strength, which is reflected in the number of patents and patents pending that we hold.

5

Consolidated Financial Statements

Statement of Income of the WACKER Group

For the Period January 1 to December 31

T 5.1 Statement of Income

€ million	Notes	2011	2010
Sales	01	4,909.7	4,748.4
Cost of goods sold	01	–3,747.2	–3,402.1
Gross profit from sales		1,162.5	1,346.3
Selling expenses		–280.8	–269.6
Research and development expenses		–172.9	–165.1
General administrative expenses		–124.0	–113.3
Other operating income	01	286.6	214.1
Other operating expenses	01	–260.5	–209.8
Operating result		610.9	802.6
Income from investments in joint ventures and associates	02	–7.7	–38.0
EBIT (earnings before interest and taxes)		603.2	764.6
Interest income	02	16.9	7.1
Interest expenses	02	–13.5	–9.1
Other financial result	02	–39.2	–30.3
Financial result		–35.8	–32.3
Income before taxes		567.4	732.3
Income taxes	03	–211.3	–235.3
Net income for the year		356.1	497.0
Of which			
Attributable to shareholders of Wacker Chemie AG		352.6	490.7
Attributable to non-controlling interests	12	3.5	6.3
Earnings per common share (€) (basic / diluted)	19	7.10	9.88

Statement of Comprehensive Income of the WACKER Group

For the Period January 1 to December 31

T 5.2 Statement of Comprehensive Income

€ million	2011			2010		
	Before taxes	Deferred taxes		Before taxes	Deferred taxes	
Net income for the year			356.1			497.0
Difference from foreign currency translation adjustments	9.3	–	9.3	58.4	–	58.4
Changes in market values of the securities available for sale	0.5	–0.1	0.4	–0.1	–	–0.1
Changes in market values of derivative financial instruments (cash flow hedge)	–30.1	8.4	–21.7	15.6	–4.3	11.3
Of which recognized in profit and loss	–35.4	9.7	–25.7	9.8	–2.7	7.1
Share of cash flow hedge in associates accounted for using the equity method	–0.3	–	–0.3	–4.1	–	–4.1
Non-controlling interests	–0.8	–	–0.8	2.2	–	2.2
Income and expenses recognized in equity	–21.4	8.3	–13.1	72.0	–4.3	67.7
Total income and expenses reported in the fiscal year			343.0			564.7
Of which						
Attributable to Wacker Chemie AG shareholders			340.3			556.2
Attributable to non-controlling interests			2.7			8.5

Statement of Financial Position of the WACKER Group

As of December 31

T 5.3 Assets

€ million	Notes	2011	2010
Intangible assets	04, 05	30.2	33.2
Property, plant and equipment	04, 06	3,500.5	3,025.7
Investment property	07	1.5	1.5
Investments in associates accounted for using the equity method	08	124.5	111.7
Financial assets	08	141.0	101.4
Noncurrent securities	11	162.5	210.8
Other assets	10	13.3	37.1
Tax receivables	10	10.9	12.7
Deferred tax assets	03	11.6	13.5
Noncurrent assets		3,996.0	3,547.6
Inventories	09	713.7	530.7
Trade receivables	10	566.1	596.0
Other assets	10	132.8	153.2
Tax assets	10	117.3	87.1
Current securities	11	237.2	41.4
Cash and cash equivalents	11	473.9	545.2
Current assets		2,241.0	1,953.6
Total Assets		6,237.0	5,501.2

T 5.4 Equity and Liabilities

€ million	Notes	2011	2010
Subscribed capital of Wacker Chemie AG		260.8	260.8
Capital reserves of Wacker Chemie AG		157.4	157.4
Treasury shares		–45.1	–45.1
Retained earnings		2,216.4	2,022.8
Other equity items		13.9	26.2
Equity attributable to Wacker Chemie AG shareholders		2,603.4	2,422.1
Non-controlling interests		26.3	24.7
Equity	12	2,629.7	2,446.8
Provisions for pensions	13	527.1	475.4
Other provisions	14	193.9	227.6
Tax provisions	14	61.3	42.8
Deferred tax liabilities	03	33.8	36.0
Financial liabilities	15	662.1	407.1
Other liabilities	16	1,007.8	873.0
Noncurrent liabilities		2,486.0	2,061.9
Other provisions	14	114.7	85.2
Tax provisions	14	7.2	62.2
Tax liabilities	16	22.7	16.6
Financial liabilities	15	115.8	126.3
Trade payables	16	402.6	335.2
Other liabilities	16	458.3	367.0
Current liabilities		1,121.3	992.5
Liabilities		3,607.3	3,054.4
Total Equity		6,237.0	5,501.2

Statement of Cash Flows of the WACKER Group

For the Period January 1 to December 31

T 5.5 Statement of Cash Flows

€ million	Notes	2011	2010
Net income for the year		356.1	497.0
Write-downs and impairments/write-ups of noncurrent assets		501.0	429.9
Changes in provisions		39.2	58.8
Changes in deferred taxes		8.1	15.0
Other non-cash expenses and income		–45.5	–58.7
Result from disposal of noncurrent assets		0.4	–13.5
Result from equity accounting and joint venture dividends		9.8	38.8
Changes in inventories		–192.1	–46.7
Changes in trade receivables		43.0	–78.6
Changes in other assets		–29.2	–36.2
Changes in other liabilities		22.2	132.1
Changes in advance payments made and received		154.0	165.2
Cash flow from operating activities (gross cash flow)	21	867.0	1,103.1
Investment in intangible assets, property, plant and equipment, and investment property		–781.1	–617.3
Investment in financial assets		–18.4	–1.4
Payments for loans to joint ventures and associates accounted for using the equity method		–34.9	–11.7
Proceeds from the disposal of intangible assets, property, plant and equipment		1.3	4.7
Proceeds from the disposal of investments		1.6	–
Proceeds from the disposal of joint ventures and associates accounted for using the equity method		–	25.4
Investments in acquisitions		–	–81.2
Cash flow from noncurrent investment activities before securities		–831.5	–681.5
Acquisition of securities		–187.5	–252.2
Disposal of securities		40.0	–
Cash flow from investment activities	21	–979.0	–933.7
Dividends paid		–159.0	–59.6
Dividends paid to non-controlling interests		–1.1	–0.7
Bank loans raised		262.6	303.7
Bank loans repaid		–54.7	–230.5
Other financial liabilities incurred		–0.8	0.9
Other financial liabilities repaid		–9.6	– 10.1
Cash flow from financing activities	21	37.4	3.7
Changes due to exchange-rate fluctuations		3.3	8.5
Changes in cash and cash equivalents	11	–71.3	181.6
At the beginning of the year		545.2	363.6
At the end of the year		473.9	545.2
Additional information on payment transactions included in the cash flow from operating activities			
Taxes paid		–262.0	–286.1
Interest paid		–24.4	–22.9
Interest received		13.2	7.1
Dividends received		2.1	0.8

Statement of Changes in Equity of the WACKER Group

For the Period January 1 to December 31

T 5.6 Statement of Changes in Equity

€ million	Subscribed capital	Capital reserves	Treasury shares	Retained earnings	Other equity items	Total	Non-controlling interests	Total
Jan. 1, 2010	260.8	157.4	–45.1	1,591.7	–39.3	1,925.5	16.9	1,942.4
Net result for the year	–	–	–	490.7	–	490.7	6.3	497.0
Dividends paid	–	–	–	–59.6	–	–59.6	–0.7	–60.3
Income and expenses recognized in equity	–	–	–	–	65.5	65.5	2.2	67.7
Dec. 31, 2010	260.8	157.4	–45.1	2,022.8	26.2	2,422.1	24.7	2,446.8
Jan. 1, 2011	260.8	157.4	–45.1	2,022.8	26.2	2,422.1	24.7	2,446.8
Net income for the year	–	–	–	352.6	–	352.6	3.5	356.1
Dividends paid	–	–	–	–159.0	–	–159.0	–1.1	–160.1
Income and expenses recognized in equity	–	–	–	–	–12.3	–12.3	–0.8	–13.1
Dec. 31, 2011	260.8	157.4	–45.1	2,216.4	13.9	2,603.4	26.3	2,629.7

Reconciliation of Other Equity Items

For the Period January 1 to December 31

T 5.7 Reconciliation of Other Equity Items

€ million	Changes in market values of securities available for sale	Difference from foreign currency translation adjustments	Changes in market values of derivative financial instruments (cash flow hedge)	Total (excluding non-controlling interests)
Jan. 1, 2010	0.6	–50.9	11.0	–39.3
Additions	–	–	5.3	5.3
Disposals	–0.1	–	–5.2	–5.3
Reclassification in the statement of income	–	–	7.1	7.1
Changes in exchange rates	–	58.4	–	58.4
Dec. 31, 2010	0.5	7.5	18.2	26.2
Jan. 1, 2011	0.5	7.5	18.2	26.2
Additions	0.4	–	–7.9	–7.5
Disposals	–	–	11.6	11.6
Reclassification in the statement of income	–	–	–25.7	–25.7
Changes in exchange rates	–	9.3	–	9.3
Dec. 31, 2011	0.9	16.8	–3.8	13.9

Segment Information by Division

For the Period January 1 to December 31

T 5.8 2011

€ million	Silicones	Polymers	Bio-solutions	Polysilicon	Siltronic	Other	Con-solidation	Group
External sales	1,580.2	901.4	138.9	1,234.8	985.1	69.3	–	4,909.7
Internal sales	13.6	26.7	5.6	212.9	7.0	107.6	–373.4	–
Total sales	1,593.8	928.1	144.5	1,447.7	992.1	176.9	–373.4	4,909.7
EBIT	103.3	76.2	13.3	545.6	–56.7	–78.9	0.4	603.2
Write-downs and impairments / write-ups of noncurrent assets	79.6	35.6	7.1	201.7	105.9	71.1	–	501.0
EBITDA	182.9	111.8	20.4	747.3	49.2	–7.8	0.4	1,104.2
EBIT includes:								
Income from investments in joint ventures and associates	16.7	–	–	–	–24.4	–	–	–7.7
Impairment losses	–	–	–0.7	–25.9	–14.8	–	–	–41.4
Additions to property, plant and equipment[1]	87.9	30.4	8.6	566.5	93.2	141.3	–	927.9
Additions to financial assets[2]	18.4	–	–	–	34.9	–	–	53.3
Asset additions	106.3	30.4	8.6	566.5	128.1	141.3	–	981.2
Assets (Dec. 31)	1,197.7	478.9	96.1	1,928.7	1,190.4	1,672.0	–326.8	6,237.0
Liabilities (Dec. 31)	597.9	209.1	39.8	1,796.4	317.3	965.5	–318.7	3,607.3
Net assets (Dec. 31)	599.8	269.8	56.3	132.3	873.1	706.5	–8.1	2,629.7
Investments in joint ventures and associates included in net assets (Dec. 31)	80.0	–	–	–	44.5	–	–	124.5
Research and development expenses	–25.4	–14.1	–6.2	–14.5	–71.7	–42.8	1.8	–172.9
Employees (Dec. 31)	3,956	1,412	354	2,251	4,974	4,221	–	17,168
Employees (average)	3,957	1,404	357	2,054	5,002	4,160	–	16,934

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

The segment information by division is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators. See Note 22

T 5.9 2010

€ million	Silicones	Polymers	Bio-solutions	Polysilicon	Siltronic	Other	Con-solidation	Group
External sales	1,563.3	788.9	138.0	1,177.5	1,018.7	62.0	–	**4,748.4**
Internal sales	17.2	21.1	4.4	191.2	6.1	95.1	–335.1	**–**
Total sales	1,580.5	810.0	142.4	1,368.7	1,024.8	157.1	–335.1	**4,748.4**
EBIT	150.0	82.2	16.6	586.7	–3.5	–65.5	–1.9	**764.6**
Write-downs and impairments/ write-ups of noncurrent assets	79.9	40.4	8.4	146.7	91.2	63.3	–	**429.9**
EBITDA	229.9	122.6	25.0	733.4	87.7	–2.2	–1.9	**1,194.5**
EBIT includes:								
Income from investments in joint ventures and associates	–14.1	–	–	–	–24.0	0.1	–	**–38.0**
Impairment losses	–7.5	–3.5	–1.4	–	–0.3	–	–	**–12.7**
Additions to property, plant and equipment[1]	92.1	13.1	6.5	309.9	63.8	115.4	–	**600.8**
Additions to financial assets[2]	0.8	–	–	–	11.7	0.6	–	**13.1**
Asset additions	92.9	13.1	6.5	309.9	75.5	116.0	–	**613.9**
Acquisitions	81.2	–	–	–	–	–	–	**81.2**
Assets (Dec. 31)	1,084.7	413.1	91.8	1,476.6	1,237.2	1,542.0	–344.2	**5,501.2**
Liabilities (Dec. 31)	524.5	172.9	36.9	1,391.0	293.9	976.1	–340.9	**3,054.4**
Net assets (Dec. 31)	560.2	240.2	54.9	85.6	943.3	565.9	–3.3	**2,446.8**
Investments in joint ventures and associates included in net assets (Dec. 31)	42.7	–	–	–	69.0	–	–	**111.7**
Research and development expenses	–25.3	–14.0	–3.5	–12.8	–72.3	–39.3	2.1	**–165.1**
Employees (Dec. 31)	3,892	1,377	363	1,763	5,025	3,894	–	**16,314**
Employees (average)	3,737	1,369	354	1,715	5,024	3,834	–	**16,033**

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

The segment information by division is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators. See Note 22

Segment Information by Region

For the Period January 1 to December 31

T 5.10 2011

€ million	Germany	Rest of Europe	The Americas	Asia	Other regions	Consolidation	Group
External sales by customer headquarters	899.4	1,186.7	846.4	1,822.0	155.2	–	4,909.7
External sales by Group company headquarters	4,250.8	138.3	783.0	750.4	7.4	–1,020.2	4,909.7
Additions to property, plant and equipment[1]	553.8	5.3	313.4	55.4	–	–	927.9
Additions to financial assets[2]	18.4	34.9	–	–	–	–	53.3
Asset additions	572.2	40.2	313.4	55.4	–	–	981.2
Assets (Dec. 31)	5,959.9	878.7	1,007.8	672.7	5.8	–2,287.9	6,237.0
Liabilities (Dec. 31)	3,189.1	67.7	283.9	555.7	3.3	–492.4	3,607.3
Net assets (Dec. 31)	2,770.8	811.0	723.9	117.0	2.5	–1,795.5	2,629.7
Noncurrent assets[3]	2,823.1	327.2	467.2	329.9	3.4	–136.5	3,814.3
Research and development expenses	–155.6	–	–11.9	11.1	–	5.7	–172.9
Employees (Dec. 31)	12,813	370	1,822	2,122	41	–	17,168.0

T 5.11 2010

€ million	Germany	Rest of Europe	The Americas	Asia	Other regions	Consolidation	Group
External sales by customer headquarters	887.3	1,175.4	818.2	1,717.4	150.1	–	4,748.4
External sales by Group company headquarters	4,150.9	74.3	779.4	684.1	6.3	–946.6	4,748.4
Additions to property, plant and equipment[1]	505.5	1.4	23.1	70.6	0.2	–	600.8
Additions to financial assets[2]	1.4	11.7	–	–	–	–	13.1
Asset additions	506.9	13.1	23.1	70.6	0.2	–	613.9
Acquisitions	–	66.5	–	14.7	–	–	81.2
Assets (Dec. 31)	5,135.3	799.3	433.3	653.8	5.9	–1,526.4	5,501.2
Liabilities (Dec. 31)	2,937.0	174.4	152.8	492.8	3.9	–706.5	3,054.4
Net assets (Dec. 31)	2,198.3	624.9	280.5	161.0	2.0	–819.9	2,446.8
Noncurrent assets[3]	2,699.4	285.7	146.7	297.9	3.7	–130.8	3,302.6
Research and development expenses	–144.8	–	–12.6	–13.7	–	6.0	–165.1
Employees (Dec. 31)	12,235	321	1,689	2,025	44	–	16,314

[1] Intangible assets; property, plant and equipment; investment property
[2] Investments in joint ventures and associates, financial assets
[3] Noncurrent assets as per IFRS 8 (excluding financial instruments, deferred tax assets and benefits after termination of the employment relationship)

The segment information by region is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, see Note 22.

Notes of the WACKER Group

Accounting Principles and Methods

The WACKER Group (WACKER) is a globally active chemical group with divisions operating in the following fields: silicone and polymer chemistry, specialty and fine chemistry, polysilicon production and semiconductor technologies. The activities of the individual segments are explained in the management report.

The Group's parent company, Wacker Chemie AG, is a listed company with headquarters in Munich, Germany. Its address is Wacker Chemie AG, Hanns-Seidel-Platz 4, 81737 München, Germany.

Wacker Chemie AG is registered under the number HRB 159705 at the Munich District Court. The consolidated financial statements, the combined management report and any other documents subject to disclosure requirements are submitted to the publisher of the online German Federal Bulletin. The consolidated financial statements and the combined management report for the WACKER Group and Wacker Chemie AG can also be viewed on the WACKER website. www.wacker.com/annual-report

The declaration concerning the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) has been submitted and made accessible to the shareholders on WACKER's website. www.wacker.com/corporate-governance

Wacker Chemie AG's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and the supplementary rules in Section 315 a (1) of the German Commercial Code (HGB). All of the IFRS published by the International Accounting Standards Board (IASB) and valid for the fiscal year in question were adopted by the European Commission for application in the EU. The consolidated financial statements are, therefore, in compliance with IFRS. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are applicable for the current fiscal year have also been applied.

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

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

The Executive Board of Wacker Chemie AG authorized the consolidated financial statements on February 28, 2012. They will be submitted to the Supervisory Board for its meeting on March 7, 2012.

New Accounting Standards

Accounting Standards Applied for the First Time in 2011

Standard / Interpretation		Mandatory from	Endorsed by EU	Substantial Changes and Impact on WACKER
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters	July 1, 2010	June 30, 2010	In the absence of relevant circumstances, there was no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IAS 32	Classification of Rights Issues	Feb. 1, 2010	Dec. 23, 2009	In the absence of relevant circumstances, there was no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010	July 23, 2010	In the absence of relevant circumstances, there was no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IFRIC 14	Prepayments of Minimum Funding Requirements	Jan. 1, 2011	July 19, 2010	The amendments had no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
IAS 24	Related Party Disclosures	Jan. 1, 2011	July 19, 2010	The revised version clarifies the definition of the term "related party." An exemption option has also been introduced for entities that are controlled by a public body. The amendments had no substantial impact on the presentation of WACKER's financial statements. The related parties have not changed.
Miscellaneous	Amendments resulting from the annual improvements to IFRSs (2008–2010 cycle) issued by the IASB in May 2010	Jan. 1, 2011, and July 1, 2010	Feb. 18, 2011	Miscellaneous amendments. The amendments had no substantial impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.

Accounting Standards/Interpretations Not Applied Prematurely

The International Accounting Standards Board (IASB) has published the following standards, interpretations, and changes to existing standards of which the application is not yet mandatory and which WACKER is not applying earlier than required. In cases where there is no official German translation of new standards or interpretations, we shall use the English title of the relevant new official statement. WACKER continuously evaluates the new standards to determine their impact on the consolidated financial statements.

Standards, Interpretations, and Changes to Existing Standards Already Endorsed by the EU

Standard / Interpretation		Application Date	Endorsed by EU	Anticipated Impact on WACKER
Amendment to IFRS 7	Disclosure requirements relating to transfers of financial assets	July 1, 2011	Nov. 22, 2011	The application of the revised standard will have no substantial impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.

Standards, Interpretations and Changes to Existing Standards Not Yet Endorsed by the EU

Standard/ Interpretation		Publication by IASB	Application Date	Endorsed by EU	Anticipated Impact on WACKER
Amendments to IFRS 1 for First-time Adopters	Severe Hyper-inflation and Removal of Fixed Dates	Dec. 20, 2010	July 1, 2011	Expected in Q2 2012	The amendment replaces the existing references to the date of January 1, 2004, by a reference to the timing of the transition to IFRS. This amendment also includes rules for those cases in which hyperinflation makes it impossible for an entity to comply with all IFRS stipulations. Its application will have no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities	Dec. 16, 2011	Jan. 1, 2013	Q3 2012	These amendments to IFRS 7 extend the disclosure requirements regarding the netting of financial assets and financial liabilities. The added disclosure requirements will have an impact on the presentation of the financial statements.
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures	Dec. 16, 2011	Jan. 1, 2015	Postponed	The amendments postpone the effective data of IFRS 9 and provide for additional disclosure requirements. Because WACKER cannot yet assess what impacts the first-time application of IFRS 9 will have, it is also not yet possible to evaluate the potential impact of these amendments of IFRS 9 and IFRS 7.
IFRS 9	Financial Instruments	Nov. 12, 2009	Jan. 1, 2015	Postponed	In the future, financial assets will be measured either at amortized cost or at fair value, depending on the business model of the company in question. At the moment, WACKER cannot conclusively assess what impacts the first-time application of this standard will have, should it be endorsed by the EU in its current form.
IFRS 10	Consolidated Financial Statements	May 12, 2011	Jan. 1, 2013	Expected in Q3 2012	IFRS 10 changes the definition of "control" so that the same criteria are applied to all companies in determining control. The standard replaces the consolidation guidelines currently provided for in IAS 27 and SIC 12. The new rules may lead to major changes in the scope of consolidation compared with the previous determination of the Group pursuant to IAS 27. WACKER is currently of the opinion that application of the revised standard will have no influence on the current determination of the scope of consolidation.
IFRS 11	Joint Arrangements	May 12, 2011	Jan. 1, 2013	Expected in Q3 2012	IFRS 11 regulates the accounting of arrangements where a company exercises joint control over a joint venture or a joint operation. The standard replaces IAS 31. In the future, joint ventures will be accounted for using exclusively the equity method. The option of proportionate consolidation has been abolished. The abolition of proportionate consolidation has no impact on WACKER's earnings, net assets and financial position because WACKER already accounts for joint ventures using the equity method. WACKER cannot yet assess what other impacts may result from the application of IFRS 11, including in respect of joint operations.
IFRS 12	Disclosure of Interests in Other Entities	May 12, 2011	Jan. 1, 2013	Expected in Q3 2012	IFRS 12 regulates the disclosures in the consolidated financial statements that enable users to assess the nature of, risks associated with and financial consequences of the entity's involvement in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Application of the revised standard will lead to a substantial broadening of the disclosures in WACKER's consolidated financial statements.

Standard / Interpretation		Publication by IASB	Application Date	Endorsed by EU	Anticipated Impact on WACKER
IFRS 13	Fair Value Measurement	May 12, 2011	Jan. 1, 2013	Expected in Q3 2012	IFRS 13 describes how fair value is to be measured and extends the disclosures on fair value. Application of the new method of determining fair value will be relevant to all areas of WACKER's consolidated financial statements in which fair values are determined. WACKER does not expect the new approach to have any substantial impact on its earnings, net assets and financial position. The disclosure obligations in the consolidated financial statements will increase.
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	June 16, 2011	July 1, 2012	Expected in Q1 2012	The application of the revised standard will have no impact on WACKER's earnings, net assets and financial position. The presentation in WACKER's financial statements of items of other comprehensive income will be enhanced.
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	Dec. 20, 2010	Jan. 1, 2012	Expected in Q2 2012	The amendment contains a partial clarification on the treatment of temporary taxable differences from IAS 40's fair value model. Investment property often makes it difficult to assess whether existing differences are recovered as part of continuing use or in the wake of a sale. The amendment therefore generally makes it necessary to presume recovery due to a sale. Its application will have no substantial impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements. WACKER measures its investment property exclusively at amortized cost.
Amendments to IAS 19	Employee Benefits	June 16, 2011	Jan. 1, 2013	Expected in Q1 2012	The amendments to IAS 19 will affect the recognition and measurement of the expense for defined benefit pension plans and termination benefits. They will also result in wider disclosure requirements regarding employee benefits The option of accounting for actuarial gains and losses using the corridor method is eliminated. In the future, these impacts will be recognized immediately in other comprehensive income. Because WACKER currently applies the corridor method, this change is expected to result in a substantial increase in pension provisions when adopted for the first time, which in turn will reduce the Group's equity. Such recognition within other comprehensive income of variations in actuarial gains and losses will lead to more volatility in equity in the future.
IAS 27	Separate Financial Statements	May 12, 2011	Jan. 1, 2013	Expected in Q3 2012	In the future, IAS 27 will deal only with separate financial statements. The existing guidelines for separate financial statements remain unchanged. The application of the revised standard will have no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
IAS 28	Investments in Associates and Joint Ventures	May 12, 2011	Jan. 1, 2013	Expected in Q3 2012	IAS 28 now also regulates the accounting of joint ventures using the equity method. The application of the revised standard will have no substantial impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	Dec. 16, 2011	Jan. 1, 2014	Q3 2012	This amendment to IAS 32 clarifies the requirements governing the offsetting of financial instruments. The application of the revised standard will have no substantial impact on WACKER's earnings, net assets and financial position.

Standard / Interpretation		Publication by IASB	Application Date	Endorsed by EU	Anticipated Impact on WACKER
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Oct. 19, 2011	Jan. 1, 2013	Expected in Q2 2012	IFRIC 20 regulates the accounting treatment of the cost of removing waste from a surface mine. In the absence of relevant circumstances, the interpretation has no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.

Scope of Consolidation

The consolidated financial statements include the financial statements of Wacker Chemie AG and its subsidiaries. Subsidiaries are defined as companies in which Wacker Chemie AG directly or indirectly holds a voting majority or has, in any other way, the power to govern the financial and business policies of an entity in order to benefit from its activities. In assessing control, we take potential voting rights that presently are exercisable or convertible into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Special-purpose entities (SPEs) are also consolidated if the economic substance of the relationship indicates the existence of control.

Joint ventures and associated companies are defined as companies in which Wacker Chemie AG exercises significant influence. This normally means that it holds 20–50 percent of the voting rights. These companies are included in the consolidated financial statements using the equity method. If joint ventures and associated companies have their own subsidiaries, these are not included in the table below.

Companies in which Wacker Chemie AG has a shareholding of less than 20 percent are shown as other investments under noncurrent financial assets.

Number	Germany	Rest of Europe	The Americas	Asia	Other regions	Total
Fully consolidated subsidiaries (incl. parent company)						
Jan. 1, 2011	14	13	5	16	2	50
Dec. 31, 2011	14	13	5	16	2	50
Companies consolidated using the equity method						
Jan. 1, 2011	1	–	–	4	–	5
Dec. 31, 2011	1	–	–	4	–	5
Non-consolidated affiliated companies[1]						
Jan. 1, 2011	1	–	–	–	–	1
Dec. 31, 2011	1	–	–	–	–	1
Total						
Jan. 1, 2011	16	13	5	20	2	56
Dec. 31, 2011	16	13	5	20	2	56
Special-purpose entities						
Jan. 1, 2011	–	–	–	–	–	–
Additions	1	–	–	–	–	1
Dec. 31, 2011	1	–	–	–	–	1

[1] Not consolidated on grounds of insignificance (W.E.L.T. Reisebüro GmbH; shareholding: 51 percent; sales in 2011 below €1 million; total assets below €0.5 million)

Changes in the Scope of Consolidation

Additions to special-purpose entities

WMM-Universal-Fonds, Germany (acquisition, August 16, 2011)	100%

In 2011, Wacker Chemie AG paid a total of €100 million in investment funds into the institutional investment fund "WMM-Universal-Fonds." This trust was established exclusively for WACKER, and all shares of the fund are held by WACKER. Because of the special stipulations of the investment fund, the contribution is subject to SIC 12.10. Looking at the economic substance of the arrangement, WACKER's influence amounts to control and the special-purpose entity must therefore be consolidated.

The changes in the scope of consolidation had no substantial impact on the Group's earnings, assets or financial position.

Consolidation Methods

The consolidated financial statements are based on the separate financial statements of Wacker Chemie AG and its consolidated subsidiaries and special-purpose entities. Since 2011, all of the companies have their balance sheet date on December 31.

All of the significant financial statements included in the consolidated financial statements were audited by independent auditors.

First-time consolidation is carried out in accordance with the purchase method, by setting off the acquisition cost against the Group's share in the equity of the consolidated sub-

sidiaries at the time of their acquisition or first inclusion in the consolidated financial statements. The consolidated subsidiaries' equity is calculated on the basis of all identifiable assets, liabilities and contingencies, while all statement of financial position items are measured at fair value. Any positive difference between the subsidiary's acquisition cost and the pro rata equity ascertained in this way is capitalized as goodwill and subjected to an annual impairment test. Any negative difference is recognized directly as income. The capital consolidation is carried out by setting off the carrying amounts of the investments against the proportional equity of the subsidiaries.

Investments accounted for using the equity method are initially measured at cost when the acquisition is made. If the cost exceeds the pro rata share of equity, the difference (goodwill) is included in the carrying amount of the investment. The carrying amount has to be tested for possible impairment losses as of the balance sheet date. If the cost is lower than the share of equity at the time of acquisition, this difference is included in the carrying amount and recorded in the statement of income as income from investments in joint ventures and associates. The cost is increased or reduced annually by the changes in equity corresponding to the proportion of the capital held by WACKER.

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

Acquisitions

Acquired businesses are accounted for using the purchase method, which requires that the assets acquired and liabilities assumed be recorded at their respective fair values applicable on the date WACKER gains control.

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

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

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

Foreign Currency Translation

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

The financial statements of consolidated companies which are prepared in foreign currencies are translated on the basis of the functional currency principle using the modified reporting date rate method, in which balances are translated from the functional currency to the reporting currency using the average rates of exchange prevailing on the balance sheet date, while income statement amounts are translated using the period's average exchange rates. As the Group's subsidiaries conduct their business along autonomous lines financially, commercially and organizationally, their functional currencies are basically identical to the respective company's local currency. Any currency differences arising from the translation of equity are recognized in the other equity items. Translation differences resulting from divergent exchange rates in the statement of income are likewise included there. If any Group companies are removed from the scope of consolidation, any translation difference is reclassified from equity to profit or loss.

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

	ISO Code	Exchange rate as of		Average exchange rate	
		Dec. 31, 2011	Dec. 31, 2010	**2011**	2010
US dollar	USD	**1.29**	1.33	**1.39**	1.33
Japanese yen	JPY	**100.30**	108.46	**110.99**	116.36
Singapore dollar	SGD	**1.68**	1.71	**1.75**	1.81
Chinese renminbi	CNY	**8.13**	8.79	**9.00**	8.98

Estimates and Assumptions Used in Preparing the Consolidated Financial Statements

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

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

The expected useful life and depreciation of intangible assets, property, plant and equipment are based on past experience, plans and estimates. This includes estimates of the period and allocation of future cash inflows derived from the investments made and from future technical advancements.

Impairment tests are performed for assets if specific indicators point toward a possible impairment loss or reversal of an impairment loss. In the case of a possible impairment, an estimate must be made of the recoverable amount of the affected asset that corresponds to the higher value of the fair value less costs to sell or the value in use.

To ascertain the value in use, the discounted future cash flows of the affected asset must be determined. The estimate of the discounted future cash flows contains significant assumptions such as, in particular, those regarding future selling prices and sales volumes, costs, and discount rates. Although WACKER is assuming that the estimates of the relevant expected useful lives and of discounted future cash flows, as well as the assumptions regarding the general economic conditions and the development of the economic sectors are reasonable, a change in the assumptions or circumstances might necessitate a change in the analysis. This could result in additional impairments or reversals of impairment losses in the future.

Significant risks inherent in the environmental protection provisions and in provisions stemming from claims for damages and onerous contracts are possible changes in future cost/benefit estimates, changes in the likelihood of their utilization, and enhanced statutory provisions concerning the elimination and prevention of environmental damage. See Note 14

The accounting of pensions and similar obligations is in accordance with actuarial valuations. These valuations are based on statistical and other factors in order to anticipate future events. The factors include the discount rate, the expected return on plan assets, expected salary and pension increases, the mortality rate and rate increases for preventive healthcare. These assumptions could, due to changed market and economic conditions, vary considerably from actual developments, consequently leading to essential changes to pension and similar obligations, as well as the associated future expenses. See Note 13

At the end of each reporting period, the Group assesses whether the probability of future tax benefits being realized is sufficient to recognize deferred taxes. Among other things, this requires that management evaluate the tax benefits resulting from currently available tax strategies and future taxable income, as well as taking additional positive and negative factors into account.

Accounting Principles

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

The Group's consolidated financial statements are based on the principle of the historical cost of acquisition and production, with the exception of the items reflected at fair value, such as available-for-sale financial assets and derivatives and plan assets within the scope of pension obligations.

The accounting methods correspond to those used for the last consolidated financial statements as of the end of the previous fiscal year. There may be limits to comparability in the case of significant acquisitions of fully consolidated companies. This topic is dealt with in the explanation of the scope of consolidation. Insofar as amounts from the previous year are adjusted, these are explained in the relevant Notes.

Sales encompass the fair value of the counterperformance or claim received for the goods and services that were sold within the scope of ordinary activities. These are reported without VAT and other taxes incurred in connection with sales and without discounts and price reductions. Sales revenues are recognized when the goods and services owed have been delivered and the main opportunities and risks of ownership have passed to the purchaser. Sales from services are recognized once services are rendered. Sales are not reported if there are risks attached to the receipt of the consideration. Provisions are recognized for risks from returns of finished goods and merchandise, warranties and other complaints using the specific identification method. Information on the development of sales by division and region is provided in the section on segment reporting.

WACKER does not conduct any business that requires using the percentage-of-completion method for recognizing sales of long-term production contracts.

Cost of goods sold shows the costs of the products, merchandise and services sold. In addition to directly attributable costs, such as material costs, personnel expenses and energy costs, they encompass overheads including depreciation and inventory write-downs. This item also includes the cost of outward freight.

Selling expenses include costs incurred by the sales organization and the cost of advertising, market research, and application support on customers' premises. This item also includes commission expenses.

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

General administrative expenses include the pro rata payroll and material costs of corporate control functions, human resources, accounting and information technology, unless they have been charged as an internal service to other cost centers and hence, in certain circumstances, to other functional areas.

Operating expenses are reported as expenses when the service is utilized, i.e. when the expense is incurred. Interest income is valued pro rata temporis, taking account of the outstanding loan amount and the effective interest rate to be applied. Dividend income from financial investments is reported when the legal claim to payment arises.

Intangible assets acquired against payment are measured at cost and, if their useful lives can be determined, are amortized on a straight-line basis. The useful life is taken to be between four and 15 years unless otherwise indicated, e.g. by the life of a patent. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. Amortization of intangible assets (apart from goodwill) is allocated to the functional areas that use them. Intangible assets with indefinite useful lives undergo an annual impairment test. At present, no intangible assets with indefinite useful lives have been capitalized.

Internally generated intangible assets are capitalized if it is probable that a future economic benefit can be associated with the use of the asset and the costs of the asset can be determined reliably. They are recognized at cost and amortized on a straight-line basis. Their stated useful lives correspond to those of the intangible assets acquired against payment. If development costs are capitalized, they consist of the costs directly attributable to the development process. Capitalized development costs are amortized over the useful life of the corresponding production facilities as from the start of production.

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

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over its expected economic life. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. In addition to the purchase price, acquisition costs include incidental acquisition costs as well as any costs incurred in the demolition, dismantling, and/or removal of the asset in question from its site and in the restoration of that site. Any reductions in the price of acquisition reduce the acquisition costs. Property, plant and equipment is not revalued on the basis of the provisions in IAS 16. Day-to-day maintenance and repair costs are expensed as incurred. Costs for replacing parts or for major overhauls are capitalized if items of property, plant and equipment embody future economic benefits that are likely to flow to the Group and if the costs can be measured reliably.

Grants from third parties reduce acquisition and production costs. Unless otherwise indicated, these grants (investment subsidies) are provided by government bodies. Income grants that are not offset by future expenses are recognized as income. Until the funds have been received, grants are recognized as separate assets. For grants involving a legal claim, the claim to the grant is capitalized as an asset if the company has, on the balance sheet date, fulfilled the material requirements for provision of such a grant and has, by the closing date, submitted the necessary application form or is highly likely to do so by this date.

Financing costs that were incurred in connection with particular, qualified assets and which can be attributed directly or indirectly to them are capitalized as part of acquisition or production costs until the assets are used for the first time. In all other respects, financing costs are not reported as part of acquisition or production costs. WACKER accounts for financing costs as per IAS 23 (Borrowing Costs) if they concern major, long-term investments in production plants.

The cost of **internally generated assets** includes all costs directly attributable to the production process, as well as appropriate portions of the production-related overheads.

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

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

The **depreciation** of property, plant and equipment is generally based on the following useful lives:

	Useful life in years
Production buildings	20 to 40
Other buildings	10 to 30
Plant and machinery	6 to 12
Motor vehicles	4 to 16
Factory and office equipment	6 to 10

If, having been measured in accordance with the above principles, the carrying amounts of intangible assets or items of property, plant and equipment that were amortized or depreciated are higher than their recoverable amounts as of the reporting date, corresponding **impairment losses** are recognized as an expense.

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

Investment property is measured like property, plant and equipment in accordance with the acquisition cost model. Investment property consists of land and buildings that are held to earn rental income or for capital appreciation, rather than for use in captive production, supply of goods or services, for administrative purposes or for sale in the normal course of business. The fair value of this property is regularly measured through external property valuations.

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

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

Investments in joint ventures and associates are accounted for using the equity method, with the carrying amount generally reflecting the Group's pro rata share of equity. In the process, pro rata net results are posted to the consolidated income statement, and the carrying amount is increased or decreased accordingly. Any changes in equity recognized directly in the investee's equity are also recognized directly in equity in the consolidated financial statements. Dividends paid by joint ventures and associates reduce their equity and, therefore, reduce the carrying amount without affecting profit. If a joint venture or associate faces losses that have exhausted its equity, the carrying amount of the investment is written off in full in the consolidated statement of financial position. Further losses are taken into account only if there are noncurrent unsecured receivables against the associated company or the Group has entered into additional obligations or made payments for the associated company. The carrying amount is not increased until the loss carryforward has been set off and the equity is positive again.

A **financial instrument** is a contract that gives rise to a financial asset at one company and a financial liability or equity instrument at another company. Financial instruments are recognized in the consolidated financial statements at the time that WACKER becomes a contracting party to the financial instrument.

In the case of purchase or sale on usual market terms (purchase or sale within the framework of a contract of which the terms require delivery of the asset within the time frame generally established by regulations or conventions prevailing on the market in question) the settlement date is relevant to the initial recognition or derecognition. This is the date on which the asset is delivered to or by WACKER. In general, financial assets and financial liabilities are not offset. A net amount is presented in the statement of financial position when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis. Where financial instruments are combined, borrowed capital and equity components are separated and shown separately by the issuer.

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

The fair value of financial instruments is generally equal to the amount the Group would receive or pay if it exchanged or settled the financial instruments on the balance sheet date. If available, quoted market prices are used for financial instruments. Otherwise, fair values are calculated based on the market conditions prevailing on said reporting date – interest rates, exchange rates, commodity prices – using average rates. In doing so, fair values are calculated using option pricing models for currency and interest rate options or the discounted cash flow method for interest rate swaps. The fair values of some derivatives are based on external valuations by our financial partners.

Financial assets at WACKER comprise, in particular, cash and cash equivalents, trade receivables, loans granted and other receivables, held-to-maturity financial investments, and primary and derivative financial assets held for trading. WACKER makes no use of the option to measure financial assets at fair value through profit or loss on initial recognition.

Financial liabilities must be regularly settled in cash or another financial asset. This includes, in particular, the Group's own bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes (Schuldscheine) and derivative financial liabilities. WACKER makes no use of its option to measure financial liabilities at fair value through profit or loss on initial recognition.

The manner in which financial assets and liabilities are subsequently measured depends on whether a financial instrument is held for trading or until it matures, whether such a financial instrument is available for sale, or whether the financial assets concerned are loans and receivables granted by the company.

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

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

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

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

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

Derivative financial instruments are used for hedging purposes with the sole aim of reducing the Group's exposure to foreign-currency exchange rates, interest rates, and commodity price risks arising from operating activities and the resultant financing requirements.

Derivative financial instruments are recognized as of the trade date. Derivative financial instruments are always measured at fair value, irrespective of the purpose or intention for which they were concluded. Positive market values are recognized as a receivable and negative market values as a liability. Changes in the market values of financial instruments used to limit the risk of lower future cash inflows or higher cash outflows (cash flow hedges) are recognized under other equity items while taking account of any related tax effects when their efficiency is adequate and documented as such. The profit contribution of the hedging instrument is not released to the statement of income until the hedged item is realized. If such a derivative is sold or the hedging relationship is discontinued, the change in its value continues to be reported under other equity items until the underlying transaction occurs. Steps taken to hedge the risk of changes in the market values of recognized assets or liabilities lead to fair value hedges. Changes in fair values are recorded for both the hedged underlying transaction and the derivative financial instruments used for hedging, and these changes are presented in the statement of income. At the moment, WACKER does not hedge any net investments in foreign operations.

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

Changes in the values of forward exchange contracts and currency options are reflected in other operating income and expenses, while changes in the value of interest rate swaps and interest rate options are recognized in net interest income. Changes in fair values of commodity futures and commodity options are recognized in cost of goods sold. The hedging of planned transactions in foreign currencies is included in other operating income and expenses. The expenses and income are not set off.

Inventories are measured at cost using the average cost method. Lower net realizable values or prices as of the balance sheet date are taken into account by means of write-downs to fair value less costs to sell. The cost of goods sold includes directly attributable costs, appropriate portions of indirect material and labor costs, and straight-line depreciation. Due to the relatively short-term production processes, financing costs are not included as part of acquisition or production costs. The overhead cost markups are determined on the basis of average capacity utilization. Write-downs are recognized for inventory risks resulting from extended periods of storage and reduced usability and to reflect other reductions in the recoverable amount. In the statement of income, the cost of unused production capacity is also included in the cost of goods sold. For production-related reasons, unfinished and finished goods are combined and reported under products.

Emission certificates allotted free of charge are measured at a nominal value of zero. Emissions certificates acquired against payment are carried at cost. Thereafter, they are carried at market prices, at a maximum, however, at cost. In the case of a lower fair value as per the reporting date, a devaluation is carried out to match this value. Proceeds from the sale if emission certificates are recognized in profit or loss.

Trade receivables and other assets (including tax receivables), with the exception of financial derivatives, are generally recognized at amortized cost. Risks are taken into account through appropriate write-downs posted as valuation allowances. Allowances for uninsured receivables – or for the deductible in the case of insured receivables – are made whenever legal action is taken. If payment of a receivable is no longer expected even though legal action has been taken, the gross receivable is derecognized and any valuation allowances made are reversed. Noncurrent receivables which are non-interest-bearing or low-interest-bearing are discounted. WACKER is not a contractor for long-term production orders.

Receivables from finance lease agreements where WACKER acts as the lessor are reported under other assets. In the process, the gross value of the outstanding lease payments, less the still unrealized interest earnings, is capitalized as a receivable. The lease installments received are apportioned into the respective interest amount and the repayment of the outstanding receivable in such a way that the interest amount reflects a constant rate of interest on the receivable still outstanding. The interest amount is reported in the statement of income under other financial result.

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

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

Pension provisions are recognized in accordance with the projected unit credit method. This method takes account not only of pensions and entitlements to future pensions known as of the balance sheet date, but also of estimated increases in salaries and pensions. The calculation is based on actuarial valuations, taking account of biometric calculation principles. Entities can generally choose how they recognize actuarial gains and losses. To avoid volatility in equity on the reporting dates, WACKER has elected to apply the corridor method. Except for the effects from adjusted probable mortality rates, actuarial gains and losses are recognized as income or expenses only once they move outside a "corridor" of 10 percent of the present value of the defined benefit obligation and the fair value of plan assets, whichever is higher. If that happens, the amounts are distributed over the average future remaining working lives of the employees. Actuarial gains and losses arising from the changed or adjusted mortality tables are posted immediately to the statement of income as a reduction or increase in the provision for pensions. The expense incurred in funding the pension provisions (service cost) is allocated to the costs of the functional areas concerned. The interest cost is reported under other financial result. If assets to finance pension obligations are invested externally (plan assets), the fair values of these assets are set off against the present value of the obligations. The expected return on plan assets is likewise reported under other financial result.

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

Provisions for restructuring costs are recognized if a detailed formal plan for restructuring has been drawn up and conveyed to the affected parties. Provisions for contingent losses arising from onerous contracts are recognized if the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the contractual obligations. Provisions for environmental protection are recognized if the future cash outflows for complying with environmental legislation or for cleanup measures are likely, the costs can be estimated with sufficient accuracy and no future acquired benefit can be expected from the measures. Provisions are recognized if the available portfolio of emission certificates does not cover the anticipated obligations.

If a reduction of the scope of the obligation results from a changed estimate, the provision is reversed proportionately and the resulting income allocated to the functional areas originally charged with the expense when the provision was recognized.

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 included in the recognized liability. Liabilities from finance lease agreements are reported as financial liabilities and measured at the present value of the future lease installments.

Trade payables and other liabilities (including tax liabilities) are, as a general rule, measured at amortized cost using the effective interest method.

Contingencies are potential obligations arising from past events of which the existence depends on uncertain future events which are beyond the Group's influence, and on existing obligations that cannot be carried as liabilities because either an outflow of resources is unlikely or the amount of the obligation cannot be estimated with sufficient reliability. Contingencies are shown at values corresponding to the degree of liability that exists on the balance sheet date.

In accordance with the "management approach," **segment reporting** at WACKER is based on an internal organizational and reporting structure. The data used to determine key internal management ratios are derived from the IFRS-compliant consolidated financial statements.

Disposal groups and discontinued operations are reported in accordance with criteria defined in IFRS 5. The Group reports the assets and liabilities of a disposal group separately in the statement of financial position. Unless a disposal group qualifies for discontinued operations reporting, the income and expenses of the disposal group remain within continuing operations until the date of disposal. On initial classification as held for sale, noncurrent assets are recognized at the lower of the carrying amount and fair value less costs to sell, and depreciation and amortization ceases.

Changes to the Valuation Methods

No changes were made to the previous year's valuation methods or classifications of items in the financial statements.

Summary of Significant Accounting and Valuation Methods

The significant accounting and valuation methods are summarized in the following overview:

Accounting and Valuation Method

Accounting and Valuation Method	Description
Recognition of sales and income	Sales are recognized on delivery of goods or services and on the transfer of risk to the purchaser.
Expense recognition	Expenses are recognized as incurred and when the service is utilized.
Taxes	Deferred taxes are recognized for temporary differences, for consolidation measures recognized in income and for tax loss carryforwards whenever their realization is sufficiently probable.
Intangible assets and property, plant, and equipment	These are measured at amortized cost. They are generally amortized/depreciated on a straight-line basis.
Government grants	Subsidies provided by government bodies either reduce acquisition or production costs, or are recognized in the statement of income.
Inventories	These are measured at amortized cost, using the average cost method.
Receivables and other assets	These are measured at amortized cost. Risks are accounted for through valuation allowances.
Provisions for pensions and similar obligations	These are determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expenses once they exceed the specified corridor. Actuarial gains and losses arising from the changed or adjusted mortality tables are posted immediately to the statement of income as a reduction or increase in the provision for pensions.
Financial instruments	On initial recognition, financial instruments (other financial assets and financial liabilities) are measured at fair value.

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

€ million	2011	2010
Sales		
Proceeds from deliveries of products and merchandise	4,814.0	4,662.2
Proceeds from other services	95.7	86.2
	4,909.7	4,748.4
Cost of goods sold	–3,747.2	–3,402.1
Cost of goods sold includes the following reversals/recognitions of impairments of inventories:	15.2	–9.9
Other operating income		
Income from currency transactions	167.1	143.2
Income from reversal of provisions	13.2	7.6
Insurance compensation	4.5	0.9
Income from reversal of valuation allowances for receivables	3.3	10.9
Income from disposal of assets	0.9	3.4
Income from subsidies/grants	4.9	5.6
Income from disposal of equity-method investments	–	18.5
Income related to the termination of long-term supply contracts and receipt of advance payments	66.2	8.6
Other operating income	26.5	15.4
	286.6	214.1
Other operating expenses		
Losses from currency transactions	–127.3	–149.4
Losses from valuation allowances for receivables	–1.6	–0.9
Losses from disposal of assets	–1.3	–8.3
Losses from impairment of property, plant and equipment	–41.4	–12.7
Losses from restructuring measures	–49.6	–0.1
Losses from canceled/provisional contracts	–	–9.0
Other operating expenses	–39.3	–29.4
	–260.5	–209.8

The cost of goods sold includes expenses of €18.9 million (2010: €51.8 million) for expected losses from the Group's silicone business in China. These losses stem from long-term purchase commitments involving high transfer prices under long-term agreements in place between WACKER's Chinese subsidiaries and the siloxane-production associate Dow Corning (ZJG) Co. Ltd., China.

The amount of €49.6 million, reported for restructuring expenses, relates to the closure of Siltronic Japan Corporation's silicon wafer plant at Hikari, Japan, resolved in December 2011. The closure, planned for mid-2012, will affect 500 employees.

The losses from impairment of fixed assets include the following:

An impairment of €23.6 million was recognized for the partial shutdown of a granular polysilicon production plant which was written down to fair value.

Due to the decision to close the silicon wafer facility at Hikari, Japan, all of its property, plant and equipment had to be written down to fair value. This led to an impairment loss of €14.8 million.

The remaining impairment losses of €3.0 million related to the planned shutdowns of smaller plants in Germany.

The second reactor at the HDK® facility in China came on stream in 2011, and the first reactor already in operation underwent some technical improvements. These measures required a reassessment of the cash-generating unit (CGU), as the cash flows could not be kept separate any longer. Accordingly, both reactors were combined into one CGU and tested for impairment. Comparison of the present value of the estimated future cash flows of the new CGU with its carrying values did not necessitate a impairment charge. In the test, the cash flows were discounted at an interest rate of 11 percent before tax.

Impairments of noncurrent assets in the previous year related to the following areas:

Due to altered procurement and selling prices for the production and sale of pyrogenic silica (HDK®) in China, an impairment test was updated for the assets tied up in Chinese HDK® production. Comparison of the present value of the estimated future cash flows from HDK® production with the carrying values of the cash-generating unit, production and sales of HDK® necessitated an impairment charge of €7.5 million in 2010. An interest rate of 12 percent before tax was used for discounting purposes.

In addition, impairments totaling €1.7 million were recognized on property, plant and equipment in the USA and China due to reductions in their fair values. Impairments of €3.5 million were taken into account for planned shutdowns of plants in Germany.

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

€ million	2011	2010
Income from investments in joint ventures and associates	–7.7	–38.0
Of which pro rata result attributable to joint ventures	–20.7	–17.2
Net interest income		
Interest income	16.9	7.1
Of which from available-for-sale financial instruments	0.2	1.0
Interest expenses	–13.5	–9.1
	3.4	–2.0
Other financial results		
Other financial income	23.4	49.2
Interest effect of interest-bearing provisions/liabilities/financial leases	–38.8	–28.3
Other financial expenses	–23.8	–51.2
	–39.2	–30.3
Financial result	–35.8	–32.3

The income from investments in joint ventures and associates relates mainly to companies in China and Singapore. This income includes not only the pro rata shares of net results for the year, but also effects from pro rata eliminations of intercompany profits.

Borrowing costs of €11.3 million (2010: €13.5 million) were capitalized during the reporting period, bringing about a corresponding improvement in interest expenses. To the extent that a loan is attributable to a particular investment, the actual borrowing costs are capitalized. If no direct allocation is possible, the Group's average borrowing interest rate during the current period is applied. This rate was 4.1 percent in 2011 (2010: 4.5 percent).

The interest effect of interest-bearing provisions includes expenses from accrued interest on pension provisions of €26.6 million (2010: €22.7 million) and expenses from accrued interest on other provisions of €10.1 million (2010: €3.3 million).

Other financial income and expenses primarily result from currency translation.

03 Income Taxes

The calculation is based on the current legal position in the individual countries regarding applicable or anticipated tax rates as of the realization date. These are generally based on the legal stipulations valid or adopted as of the balance sheet date.

In Germany, a solidarity surcharge is added to corporation tax. Trade income tax, which varies depending on the municipality in which a company is located, must also be paid.

Tax Rates in Germany

%	2011	2010
Weighted average trade income tax rate	11.6	12.2
Corporation tax rate	15.0	15.0
Solidarity surcharge on corporation tax	5.5	5.5

Deferred taxes of German companies are therefore measured based on a total tax rate, including a solidarity surcharge of 27.5 percent (2010: 28.5 percent).

The income from foreign Group companies is subject to taxation at the tax rates valid in the country where the respective company is located. The respective local income tax rates applicable in each country for foreign companies remain unchanged from the previous year at between 12.5 percent and 42.0 percent.

No deferred taxes on undistributed profits of subsidiaries were recognized. It was decided not to determine the possible resulting tax effects as the time and expense involved was unreasonably high. €523.4 million (2010: €570.2 million) is available for distribution.

€ million	2011	2010
Current taxes, domestic	–179.8	–180.5
Current taxes, foreign	–23.4	–39.8
Current taxes	–203.2	–220.3
Deferred taxes, domestic	–2.8	–21.4
Deferred taxes, foreign	–5.3	6.4
Deferred taxes	–8.1	–15.0
Income taxes	–211.3	–235.3
Derivation of the effective tax rate		
Income before taxes	567.4	732.3
Income tax rate for Wacker Chemie AG (%)	27.5	28.5
Expected tax expenses	–156.0	–208.7
Tax rate divergences	6.7	–11.8
Tax effect of non-deductible expenses	–13.1	–8.9
Tax effect of tax-free income	7.8	7.2
Taxes relating to other periods (current earnings)	1.9	–13.7
Changes in the valuation allowances for deferred tax assets[1]	–58.1	–9.5
Group equity result	–2.7	–11.0
Income tax change recognized directly in equity; tax accounts	–	13.7
Other divergences	2.2	7.4
Total income tax	–211.3	–235.3
Effective tax rate (%)	37.2	32.1

[1] The changes in the valuation allowances for deferred tax assets include valuation allowances for impairments on noncurrent assets totaling €4.2 million (2010: €4.2 million).

The tax expenses of €211.3 million reported for fiscal 2011 were €55.3 million higher than the expected tax expenses of €156.0 million that would have resulted from the application of the total tax rate for Germany of 27.5 percent.

Income taxes include current tax expenses for prior years of €9.9 million (2010: €13.2 million). These expenses are offset by deferred tax income from other periods of €3.5 million (2010: €11.6 million).

Allocation of Deferred Taxes

€ million	2011		2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	12.8	–	14.5	–
Property, plant and equipment	1.3	115.3	3.9	105.2
Financial assets	0.5	–	–	0.2
Current assets	7.7	5.4	10.2	11.2
Provisions for pensions	26.9	1.0	17.9	1.3
Other provisions	39.4	9.5	41.1	6.2
Liabilities	17.4	0.5	12.8	0.1
Loss carryforwards	3.5	–	1.3	–
Setting off for companies with profit and loss transfer agreement	–3.5	–3.5	–4.3	–4.3
Total	106.0	128.2	97.4	119.9
Setoffs	–94.4	–94.4	–83.9	–83.9
Statement of financial position item	11.6	33.8	13.5	36.0

Deferred tax assets and liabilities are offset whenever there are future tax amounts imposed on or credited to the same taxpayer by the same tax authority. Furthermore, deferred tax assets are recognized only if it is probable that these tax benefits will be realized.

The changes in deferred tax assets and liabilities recognized in profit or loss amounted to €–8.1 million (2010: €–15.0 million), whereas €8.3 million (2010: €–4.3 million) was recognized directly in equity. The existing tax loss carryforwards can be used as follows:

€ million	2011	2010
Within 1 year	5.8	1.9
Within 2 years	12.3	5.8
Within 3 years	21.6	15.2
Within 4 years	28.3	17.7
Within 5 years or later	194.8	58.7
Total	262.8	99.3
Of which loss carryforwards not expected to be realizable	–250.4	–94.2
Of which loss carryforwards expected to be realizable	12.4	5.1

Tax loss carryforwards generated outside Germany amount to a total of €262.8 million (2010: €99.3 million). A total of €12.4 million (2010: €5.1 million) relates to realizable loss carryforwards. Associated deferred tax income for 2011 amounted to €3.5 million (2010: €1.3 million). Deferred taxes were not recognized on losses that were not realized. In theory, however, an amount of €70.5 million (2010: €24.0 million) would have resulted from such recognition. Of the loss carryforwards that are not realizable for tax purposes, €13.9 million (2010: €5.1 million) are unlimited as to time and amount.

04 Development of Fixed Assets

2010

€ million	Intangible assets	Property, plant and equipment	Investment property	Investment in associates accounted for using the equity method	Financial assets	Total
Acquisition or production cost						
Balance as of Jan. 1, 2010	124.0	8,281.0	14.1	140.2	77.0	8,636.3
Additions	3.7	597.1	–	0.8	12.3	613.9
Disposals	–2.2	–89.3	–2.4	–6.9	–0.5	–101.3
Transfers	1.7	–1.7	–	–	–	–
Changes in scope of consolidation	14.4	38.2	–	–	–	52.6
Other changes[1]	–	–	–	–43.0	2.8	–40.2
Exchange-rate differences	5.2	233.8	–	20.6	11.9	271.5
Balance as of Dec. 31, 2010	146.8	9,059.1	11.7	111.7	103.5	9,432.8
Depreciation						
Balance as of Jan. 1, 2010	102.0	5,502.5	12.4	–	1.9	5,618.8
Additions	10.1	407.0	0.1	–	–	417.2
Impairment	–	12.7	–	–	–	12.7
Disposals	–2.2	–79.8	–2.3	–	–0.2	–84.5
Exchange-rate differences	3.7	191.0	–	–	0.4	195.1
Balance as of Dec. 31, 2010	113.6	6,033.4	10.2	–	2.1	6,159.3
Carrying amounts as of Dec. 31, 2010	33.2	3,025.7	1.5	111.7	101.4	3,273.5
Reduction in cost due to investment grant	–	–	–	–	–	365.2

2011

€ million	Intangible assets	Property, plant and equipment	Investment property	Investment in associates accounted for using the equity method	Financial assets	Total
Acquisition or production cost						
Balance as of Jan. 1, 2011	146.8	9,059.1	11.7	111.7	103.5	9,432.8
Additions	5.2	922.7	–	18.4	34.9	981.2
Disposals	–1.7	–145.5	–	–	–1.6	–148.8
Transfers	2.9	–2.9	–	–	–	–
Other changes[1]	–	–	–	–10.2	3.7	–6.5
Exchange-rate differences	2.6	120.2	–	4.6	2.7	130.1
Balance as of Dec. 31, 2011	155.8	9,953.6	11.7	124.5	143.2	10,388.8
Depreciation						
Balance as of Jan. 1, 2011	113.6	6,033.4	10.2	–	2.1	6,159.3
Additions	11.1	448.5	–	–	–	459.6
Impairment	0.5	40.9	–	–	–	41.4
Disposals	–1.6	–143.9	–	–	–	–145.5
Exchange-rate differences	2.0	74.2	–	–	0.1	76.3
Balance as of Dec. 31, 2011	125.6	6,453.1	10.2	–	2.2	6,591.1
Carrying amounts as of Dec. 31, 2011	30.2	3,500.5	1.5	124.5	141.0	3,797.7
Reduction in cost due to investment grant	–	–	–	–	–	447.2

[1] This item includes the changes resulting from the application of the equity method, as well as noncurrent interest receivables from loans.

05 Intangible Assets

Intangible assets include industrial property rights, similar rights and other assets acquired against payment.

06 Property, Plant and Equipment

2010

€ million	Land, buildings and similar rights	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
Acquisition or production cost					
Balance as of Jan. 1, 2010	1,296.7	6,028.1	551.1	405.1	**8,281.0**
Additions	26.3	178.1	27.9	364.8	**597.1**
Disposals	–7.1	–61.2	–20.7	–0.3	**–89.3**
Transfers	45.9	250.6	10.9	–309.1	**–1.7**
Changes in scope of consolidation	7.6	28.6	0.1	1.9	**38.2**
Exchange-rate differences	59.0	162.2	5.5	7.1	**233.8**
Balance as of Dec. 31, 2010	1,428.4	6,586.4	574.8	469.5	**9,059.1**
Depreciation					
Balance as of Jan. 1, 2010	772.6	4,288.2	441.6	0.1	**5,502.5**
Additions	39.5	333.9	33.6	–	**407.0**
Impairment	–	11.3	0.1	1.3	**12.7**
Disposals	–5.1	–58.3	–16.4	–	**–79.8**
Transfers	1.1	0.8	–1.9	–	**–**
Exchange-rate differences	39.9	146.9	4.2	–	**191.0**
Balance as of Dec. 31, 2010	848.0	4,722.8	461.2	1.4	**6,033.4**
Carrying amounts as of Dec. 31, 2010	580.4	1,863.6	113.6	468.1	**3,025.7**
Of which assets from finance leases					
Gross values	89.7	52.6	0.1	–	**142.4**
Depreciation	–86.0	–29.1	–	–	**–115.1**
Carrying amounts	3.7	23.5	0.1	–	**27.3**

2011

€ million	Land, buildings and similar rights	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
Acquisition or production cost					
Balance as of Jan. 1, 2011	1,428.4	6,586.4	574.8	469.5	**9,059.1**
Additions	35.9	287.0	43.6	556.2	**922.7**
Disposals	–94.5	–37.6	–13.4	–	**–145.5**
Transfers	29.5	463.2	2.9	–498.5	**–2.9**
Exchange-rate differences	24.8	72.2	1.1	22.1	**120.2**
Balance as of Dec. 31, 2011	1,424.1	7,371.2	609.0	549.3	**9,953.6**
Depreciation					
Balance as of Jan. 1, 2011	848.0	4,722.8	461.2	1.4	**6,033.4**
Additions	39.1	374.4	35.0	–	**448.5**
Impairment	19.0	21.0	0.9	–	**40.9**
Disposals	–94.2	–36.4	–13.3	–	**–143.9**
Transfers	0.2	–0.2	–	–	**–**
Exchange-rate differences	18.1	55.1	1.1	–0.1	**74.2**
Balance as of Dec. 31, 2011	830.2	5,136.7	484.9	1.3	**6,453.1**
Carrying amounts as of Dec. 31, 2011	593.9	2,234.5	124.1	548.0	**3,500.5**
Of which assets from finance leases					
Gross values	0.2	81.9	0.1	–	**82.2**
Depreciation	–0.2	–33.9	–	–	**–34.1**
Carrying amounts	–	48.0	0.1	–	**48.1**

In the reporting year, borrowing costs amounting to €11.3 million (2010: €13.5 million) were capitalized as part of the cost of qualified assets. The average financing cost rate is 4.1 percent (2010: 4.5 percent).

Property, plant and equipment also includes €48.1 million (2010: €23.6 million) in technical machinery and other equipment on the basis of an embedded finance lease. Due to the way the underlying contracts are structured, economic ownership is attributable to WACKER.

07 Investment Property

Wacker Chemie AG owns real estate at its production site in Cologne, Germany. This is comprised of land and infrastructural facilities (such as for energy and waste water). The land is rented out or leased on the basis of long-term agreements. There are no finance leases. These properties and the infrastructure in Cologne are operated, maintained and looked after by third parties who charge any costs incurred directly to the tenants or leaseholders.

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

€ million	2011	2010
Fair value	13.8	13.8
Income from rent / operating leases	0.8	0.8
Costs	–0.2	-0.2

The fair value is based on an external expert opinion and is updated regularly. It was last updated in 2010.

08 Investments in Joint Ventures and Associates/Financial Assets

€ million	Investment in associates accounted for using the equity method	Investments	Other financial assets	Financial assets
Acquisition cost				
Balance as of Jan. 1, 2010	140.2	12.4	64.6	77.0
Additions	0.8	0.6	11.7	12.3
Disposals	–6.9	–0.2	–0.3	–0.5
Other changes	–	–	2.8	2.8
Changes resulting from application of equity method	–43.0	–	–	–
Exchange-rate differences	20.6	0.4	11.5	11.9
Balance as of Dec. 31, 2010	111.7	13.2	90.3	103.5
Depreciation				
Balance as of Jan. 1, 2010	–	1.9	–	1.9
Disposals	–	–0.2	–	–0.2
Exchange-rate differences	–	0.4	–	0.4
Balance as of Dec. 31, 2010	–	2.1	–	2.1
Carrying amounts as of Dec. 31, 2010	111.7	11.1	90.3	101.4
Acquisition cost				
Balance as of Jan. 1, 2011	111.7	13.2	90.3	103.5
Additions	18.4	–	34.9	34.9
Disposals	–	–0.2	–1.4	–1.6
Other changes	–	–	3.7	3.7
Changes resulting from application of equity method	–10.2	–	–	–
Exchange-rate differences	4.6	0.1	2.6	2.7
Balance as of Dec. 31, 2011	124.5	13.1	130.1	143.2
Depreciation				
Balance as of Jan. 1, 2011	–	2.1	–	2.1
Exchange-rate differences	–	0.1	–	0.1
Balance as of Dec. 31, 2011	–	2.2	–	2.2
Carrying amounts as of Dec. 31, 2011	124.5	10.9	130.1	141.0

In 2011, further shareholder loans of €34.9 million (2010: €11.7 million) were issued to Siltronic Samsung Wafer Pte. Ltd., Singapore. These were granted on normal market terms. The addition was shown under other financial assets. Over and above the interest and repayment agreements, the loan agreements grant WACKER the right – as it already the case with existing agreements – to convert the loan into equity (call option). The call options have differing exercise periods of until, at the longest, March 31, 2016.

Investments in joint ventures and associates accounted for using the equity method increased in 2011 following the contribution of capital into the associated company Dow Corning (ZJG) Holding Co. Private Ltd., Singapore, in the amount of €18.4 million.

Further financial information on associated companies and joint ventures is contained in Note 23. See page 238

09 Inventories

€ million	2011	2010
Raw materials and supplies	**182.3**	166.9
Products	**473.1**	319.0
Merchandise	**54.7**	40.5
Services not charged	**–**	0.5
Advance payments	**3.6**	3.8
	713.7	530.7
Of which recorded at fair value less selling expenses	**101.3**	84.5

10 Accounts Receivable/Other Assets/Tax Receivables

€ million	2011			2010		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Trade receivables	566.1	–	566.1	596.0	–	596.0
Other receivables from associated companies	0.6	–	0.6	1.2	–	1.2
Advance payments to associated companies	16.4	–	16.4	–	–	–
Loan and interest receivables	2.0	–	2.0	6.8	–	6.8
Derivative financial instruments	17.9	1.0	16.9	39.5	16.9	22.6
Prepaid expenses and deferred charges	7.2	–	7.2	5.9	–	5.9
Investment fund shares[1]	4.4	4.4	–	10.2	10.2	–
Claims arising from investment grants	38.1	–	38.1	68.9	–	68.9
Claims against suppliers	4.3	0.1	4.2	9.6	0.1	9.5
Assets from excess pension-plan coverage	7.6	7.6	–	10.3	9.7	0.6
Sundry assets	47.6	0.2	47.4	37.9	0.2	37.7
Other assets	146.1	13.3	132.8	190.3	37.1	153.2
Of which noncurrent, falling due >5 years	–	7.7	–	–	9.7	–
Tax receivables	128.2	10.9	117.3	99.8	12.7	87.1
Of which noncurrent, falling due >5 years	–	2.3	–	–	4.7	–

[1] The investment fund shares serve to secure obligations for the phased-early-retirement program and are classified as available for sale. These fund shares are traded on active markets and pledged individually to employees participating in the phased-early-retirement program. Their market value amounts to €4.4 million (2009: €10.2 million).

Receivables are shown at amortized cost, which corresponds to their market values. If not covered by insurance, default risks are taken into account with adequate valuation allowances.

Other receivables from associated companies contain the following receivables from finance leases:

€ million	2011			2010		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Other receivables from associated companies contain receivables from finance leases	0.6	–	0.6	0.5	–	0.5
Associated gross investment	1.1	1.0	0.1	1.0	0.9	0.1
Present value of outstanding minimum payments due	0.4	0.4	–	0.4	0.4	–
As yet unrealized financial income	0.6	0.6	–	0.6	0.6	–

Valuation allowances and overdue debts have developed as follows:

Development of Valuation Allowances/Overdue Debts

€ million	2011			2010		
	Trade receivables	Other assets	Total	Trade receivables	Other assets	Total
Valuation allowances						
As of Jan. 1	12.3	0.9	13.2	20.6	0.9	21.5
Utilization	–2.0	–	–2.0	–1.4	–	–1.4
Additions/reversals	–4.5	–	–4.5	–8.1	–	–8.1
Exchange-rate differences	–0.2	–	–0.2	1.2	–	1.2
As of Dec. 31	5.6	0.9	6.5	12.3	0.9	13.2
Overdue debts						
<=30 days	107.9	0.4	108.3	80.1	11.0	91.1
>31<=45 days	14.3	–	14.3	3.7	–	3.7
>45 days	11.5	0.3	11.8	11.7	5.1	16.8
Total	133.7	0.7	134.4	95.5	16.1	111.6

Valuation allowances are set up for identifiable credit risks and exchange-rate fluctuations. The maximum default risk is equal to the carrying amount of the uninsured receivables. No loans or receivables were renegotiated to prevent an overdue debt or possible impairment. Based on past experience and on the conditions prevailing as of the reporting date, there are no restrictions with regard to credit quality. The additions and reversals in the valuation allowances for receivables in the reporting year mainly relate to companies in the Siltronic Group and to Wacker Chemical Corporation.

11 Cash and Cash Equivalents/Securities

€ million	2011	2010
Securities[1]	399.7	252.2
Of which current	237.2	41.4
Of which noncurrent	162.5	210.8
Cash and cash equivalents (liquid assets)		
Cash equivalents	65.8	60.4
Demand deposits, cash on hand (cash)	408.1	484.8
	473.9	545.2

[1] The securities consist of bonds from various issuers which are classified as “held to maturity” or “available for sale”

Demand deposits and cash on hand are shown at their nominal amounts. Cash and cash equivalents mainly consist of commercial paper (from issuers with first-class credit standing) classified as “held to maturity.” Such paper falls due after a maximum of three months.

12 Equity/Non-Controlling Interests

The subscribed capital (capital stock) of Wacker Chemie AG amounts to €260,763,000. It consists of 52,152,600 no-par-value shares (total). This corresponds to an accounting par value of €5 per share. There are no different classes of shares. All of the shares are common shares.

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

Units	2011	2010
Shares outstanding at the start of the fiscal year	49,677,983	49,677,983
Shares outstanding at the end of the fiscal year	49,677,983	49,677,983
Treasury shares in portfolio	2,474,617	2,474,617
Total shares	52,152,600	52,152,600

For more information on Wacker Chemie AG's shareholder structure, please refer to Note 24 "Related Party Disclosures".

Capital reserves include the amounts generated with share issues over and above their nominal values in previous years, as well as other contributions to equity made by shareholders.

Retained earnings include the amounts formed in previous fiscal years at Wacker Chemie AG, transfers from the Group's earnings for the year, the earnings of the consolidated companies less amounts due to non-controlling interests, changes to consolidated items affecting income, and changes in the scope of consolidation.

The other equity items show both the differences arising from the translation of foreign subsidiaries' financial statements having reporting currencies other than the euro, and the effects of the valuation of financial instruments with no effect on income.

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

€ million	2011	2010
Profits	3.5	6.3
Losses	–	–
Net result attributable to non-controlling interests	3.5	6.3

As part of its capital management, Wacker Chemie AG complies with the legal stipulations on capital maintenance. The company is not subject to any capital requirements set down by its Articles of Association. No special capital terminology is used. Moreover, covenants exist that require a minimum equity level.

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

13 Provisions for Pensions

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

The company pension plan makes a distinction between defined contribution and defined benefit plans. Defined contribution plans lead to no further obligation for the company beyond paying contributions into special-purpose funds. Group companies have both defined contribution and defined benefit plans. They are financed, on the one hand, by funds and Pensionskasse der Wacker Chemie VVaG, and, on the other, by provisions in the form of direct commitments. Pension obligations result from defined benefit plans in the form of entitlements to future pensions and ongoing payments for eligible active and former employees of the WACKER Group and their surviving dependents.

Employees at Wacker Chemie AG and other German Group companies are granted a basic pension plan via Pensionskasse der Wacker Chemie VVaG, a legally independent German pension fund. The pension fund is financed by member and company contributions. Employees who joined the pension fund by the end of 2004 are on a defined benefit model. The pension amount is the same regardless of the employee's age at which he/she starts paying contributions and of the interest generated from assets. Employees who joined the pension fund after January 1, 2005 are on a new basic-pension model. The guaranteed payments there are based on a fixed interest rate and the amount depends on the employee's age when he/she starts paying contributions. In this model, annual profit distributions can increase the future payment.

Additionally, employees in Germany have the option of converting part of their remuneration into direct benefit commitments. Benefit plans taken out by December 31, 2000 are measured (in accordance with the projected unit credit method) at the value of years' service to date/years served to retirement (pro rata temporis), whereas any benefit plans taken out on or after January 1, 2001 are measured at the present value of the defined benefit obligation.

2011 marked the implementation at WACKER of the "Working Life and Demography" collective-bargaining agreement. This will be in the form of additional contributions into a "PK+" supplementary voluntary insurance fund within Pensionskasse der Wacker Chemie VVaG. With this additional pension component, employees can enhance their company pension plan benefits.

In view of their pension-like character, obligations relating to the medical care of retired employees (USA) and severance payments are likewise included under pension provisions.

The obligations from direct benefit plans are calculated using the projected unit credit method, taking account of anticipated future payout and pension adjustments. The current service cost of pension benefit claimants results from the planned development of provisions for anticipated future pension payments. Any differences between those pension obligations calculated as planned and the defined benefit obligation at the end of the year are treated as actuarial gains or losses and, with the exception of effects of changed assumptions regarding probable mortality rates, are spread in subsequent periods over the average remaining service years of the plan participants, insofar as these differences exceed 10 percent of the present value of the defined benefit obligation and the fair value of the plan assets, whichever is higher. WACKER takes the view that, as far as probable mortality rates are concerned, it will be necessary to assume continuous increases in life expectancy. For this reason, it does not make sense to smooth out the expenses for the

period on the basis of changed or adjusted mortality tables. Deviations in the other valuation parameters will be included as actuarial losses or gains using the corridor method.

In compliance with their respective national legislation, some relatively small foreign subsidiaries take on pension-related obligations arising from severance payments after the scheduled termination of employment. These obligations are likewise reported as pension provisions.

The obligations are only partially funded by means of provisions. The Group's pension obligations are funded to a considerable degree by externally invested plan assets. In the case of both Wacker Chemie AG and the German Group companies, these assets are handled by Pensionskasse der Wacker Chemie VVaG.

The funding of Pensionskasse der Wacker Chemie VVaG by the German Group companies is included in expenses for pensions. The pension obligations resulting from the application of the projected unit credit method are reduced by the fair value of the plan assets and by still unrecognized actuarial losses, or increased by still unrecognized actuarial gains, provided that these do not concern effects from changes in probable mortality rates. Actuarial gains or losses from changed or adjusted mortality tables reduce or increase, respectively, the pension obligation reported.

If the fund's assets exceed the obligation from the pension commitment, an asset is generally recognized. Such recognition, however, is permitted only on the condition that the reporting entity can draw an economic benefit from these assets, e.g. in the form of refunds from the plan or reductions in future contributions to the plan ("asset ceiling" pursuant to IAS 19.58 et seq.).

As Pensionskasse der Wacker Chemie VVaG sets its contributions in the manner stipulated by supervisory bodies, there is no access to the surplus fund assets in Germany. Surplus amounts are, therefore, not capitalized. Unless the fund assets cover the obligation, the net obligation is shown as a liability under pension provisions.

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

Parameters

%	Germany		USA	
	2011	2010	**2011**	2010
Actuarial interest rate	**4.50**	4.50	**4.50**	5.50
Payment trend	**3.00**	3.00	**3.0/3.5**	3.0/3.5
Expected return on assets	**4.20**	4.75	**7.50**	7.50

The discount rates and salary increase rates underlying the calculation of the pension obligations were determined in line with the general economic situation and applying uniform standards. The actuarial interest rate is derived from the returns of top-rated fixed-interest government bonds of the respective country, with maturities corresponding to those of the post-employment obligations to be settled.

Assumptions regarding the expected return on plan assets are made based on detailed analyses performed by financial experts and actuaries. Both historic actual returns and future expected long-term returns were taken into account. Interest income may vary in the funds' individual asset classes. The percentage chosen corresponds to the average rate across all types of investment.

To arrive at the amount recognized as a defined benefit liability, the plan assets transferred into funds are balanced against the defined benefit obligation at the end of the year (financial status). Provisions for pensions and assets from excess pension-plan coverage are obtained after the actuarial profits and losses not yet recognized are deducted or added as appropriate.

€ million	Germany 2011	Foreign 2011	**Total 2011**	Total 2010
Change in defined benefit obligation (DBO)				
DBO as of Jan. 1	1,962.1	165.4	**2,127.5**	1,863.6
Current service cost	47.6	5.3	**52.9**	43.0
Past service cost	–	–0.5	**–0.5**	1.1
Interest cost	86.9	8.4	**95.3**	93.0
Contributions by beneficiaries	9.3	0.2	**9.5**	9.7
Actuarial profits (–) and losses (+)	21.1	26.2	**47.3**	167.7
Pension payments	–62.3	–4.9	**–67.2**	–64.7
Change in scope of consolidation	–	–	**–**	1.8
Exchange-rate differences	–	6.3	**6.3**	12.3
Other changes	–	–22.2	**–22.2**	–
DBO as of Dec. 31	2,064.7	184.2	**2,248.9**	2,127.5
Change in fund assets				
Fund assets at present value as of Jan. 1	1,257.6	119.7	**1,377.3**	1,292.1
Return on fund assets	54.0	–0.4	**53.6**	82.6
Employer contributions	23.2	2.1	**25.3**	31.2
Contributions by beneficiaries	9.3	0.2	**9.5**	9.7
Pension payments	–43.8	–4.8	**–48.6**	–47.2
Change in scope of consolidation	–	–	**–**	1.4
Exchange-rate differences	–	3.8	**3.8**	7.5
Other changes	–	1.3	**1.3**	–
Fund assets at present value as of Dec. 31	1,300.3	121.9	**1,422.2**	1,377.3
Financial status	764.4	62.3	**826.7**	750.2
Actuarial profits/losses not yet included	–255.0	–56.8	**–311.8**	–289.8
Other	2.6	2.0	**4.6**	4.7
Provisions for pensions	512.0	7.5	**519.5**	465.1
Of which assets from pension plans with surplus coverage	–	7.6	**7.6**	10.3
Of which pension provisions	512.0	15.1	**527.1**	475.4
Extent to which provisions financed the DBO	764.4	62.3	**826.7**	750.2
Of which German-based companies in 2010				704.5
Of which foreign subsidiaries in 2010				45.7

Reported under other changes is the elimination of the pension provision in connection with the closure of the Hikari facility at Siltronic Japan Corporation, in the amount of €24.0 million. In light of its expected payout in 2012, the obligation in question was reclassified from pension provisions to liabilities.

In fiscal 2011, pension payments were made under plans in Germany totaling €62.3 million (2010: €60.1 million) and under plans in the remaining countries totaling €4.9 million (2010: €4.6 million). WACKER anticipates that payments under pension plans will reach approximately €70.0 million in the coming fiscal year. Employer contributions to fund assets are expected to amount to about €35.0 million in 2012.

The pension expenses incurred as a result of defined benefit plans and the sum total of all pension expenses consist of the following:

€ million	2011	2010
Service cost	–52.9	–43.0
Interest cost	–95.3	–93.0
Expected return on fund assets	68.6	70.2
Amortization of actuarial profits and losses	–36.8	–4.7
Repayment amount for retroactive pension-plan changes	–3.0	–1.1
Other	0.7	0.1
Pension expenses from defined benefit plans	–118.7	–71.5
Pension expenses from defined contribution plans	–2.6	–2.1
Other pension expenses	–5.8	–4.6
Pension expenses	–127.1	–78.2
Contributions to state pensions	–64.0	–58.8
Expenses for post-employment benefits	–191.1	–137.0
Of which included in payroll expenses (functional costs)	–164.5	–114.3
Of which included in other financial result	–26.6	–22.7

An adjustment of mortality assumptions in 2011 resulted in actuarial losses of €29.9 million. They are included in the expense from amortization of actuarial gains and losses.

Deviations between obligations and plan assets due to differences between assumptions and actual developments:

€ million	2011	2010	2009	2008	2007
Defined benefit obligation	2,248.9	2,127.5	1,863.6	1,568.9	1,488.2
Of which experience-based adjustments	9.9	6.2	–1.9	–206.7	12.6
Fund assets	1,422.2	1,377.3	1,292.1	1,201.5	1,292.1
Of which experience-based adjustments	–10.8	–1.8	–22.4	186.8	34.3
Financial status	826.7	750.2	571.5	367.4	196.1

The following table shows the composition of pension-fund assets:

Composition of Fund Assets

%	2011			2010		
	Total	Of which third parties	Of which Group[1]	Total	Of which third parties	Of which Group[2]
Real estate	16.1	10.7	5.4	14.2	9.7	4.5
Loans/fixed-interest securities	59.1	59.1	–	55.5	55.5	–
Shares/funds[2]	21.9	21.9	–	26.8	26.8	–
Cash and cash equivalents	2.9	2.9	–	3.5	3.5	–
Total	100.0	94.6	5.4	100.0	95.5	4.5

[1] Those items used by Group companies are posted here.
[2] Pensionskasse der Wacker Chemie VVaG has agreed with an investment company on an arrangement approved by the German Federal Financial Supervisory Authority (BaFin) which hedges any share price fluctuations affecting Pensionskasse's share portfolio.

14 Other Provisions/Tax Provisions

€ million	2011			2010		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Personnel	99.3	96.8	2.5	138.5	116.0	22.5
Sales/purchasing	106.7	38.3	68.4	68.0	53.1	14.9
Environmental protection	52.4	49.4	3.0	52.6	49.3	3.3
Restructuring	2.8	–	2.8	6.0	0.2	5.8
Sundry	47.4	9.4	38.0	47.7	9.0	38.7
Other provisions	308.6	193.9	114.7	312.8	227.6	85.2
Tax provisions	68.5	61.3	7.2	105.0	42.8	62.2

Provisions for Personnel

These provisions contain obligations for anniversary payments, working-life accounts, other deferrals, and provisions relating to early retirement and phased-early-retirement plans. There is a continuous outflow of noncurrent provisions for anniversary payments. The provision for phased-early-retirement plans will be exhausted by 2016 at the latest. The outflow will be continuous until that date.

Sales/Purchasing Provisions

These provisions cover warranty and product-liability obligations, as well as discounts, cash bonuses and other price reductions still to be granted, commissions payable to sales agents, and contingent losses from contractual agreements. The noncurrent provisions for contingent losses from contractual agreements essentially lead to cash outflows within a period of three years.

Provisions for Environmental Protection

Provisions for environmental protection are formed for anticipated obligations regarding contaminated-site remediation, water pollution control, recultivation of landfills, the clean-up of contaminated storage and production sites, and similar environmental measures. These provisions also include environmental protection charges likely to be imposed by government bodies. Most noncurrent provisions for environmental protection will be utilized over a period of 10 to 20 years.

Restructuring Provisions

The provisions for restructuring are comprised of severance payments for departing employees, anticipated site closure expenses, demolition obligations, and similar charges.

Sundry Provisions

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

Tax Provisions

Tax provisions contain amounts for current income tax obligations, risks from tax audits, and legal action. The existing noncurrent tax provisions will largely be used over the next three to five years.

Other Provisions

€ million	Jan. 1, 2011	Utilization	Reversal	Addition / interest effect	Exchange-rate differences	Scope of consolidation / Other[1]	Dec. 31, 2011
Personnel	138.5	–26.9	–	6.9	–0.1	–19.1	99.3
Sales / purchasing	68.0	–	–2.0	33.5	7.2	–	106.7
Environmental protection	52.6	–1.9	–1.7	3.4	–	–	52.4
Restructuring	6.0	–1.6	–1.6	–	–	–	2.8
Sundry	47.7	–2.8	–7.7	10.1	0.1	–	47.4
	312.8	–33.2	–13.0	53.9	7.2	–19.1	308.6
Of which interest effect	–	–	–	10.1	–	–	–

[1] In 2011, provisions for phased early retirement were offset against the corresponding capitalized hedging amounts.

Interest rates during the fiscal year ranged between 3.0 percent and 6.2 percent (2010: between 3.0 percent and 6.9 percent). They primarily related to provisions associated with purchasing and to environmental provisions. The interest effects from sales/purchasing provisions amount to €8.1 million.

Tax Provisions

€ million	Jan. 1, 2011	Utilization	Reversal	Addition / interest effect	Exchange-rate differences	Scope of consolidation/Other	Dec. 31, 2011
Taxes	105.0	–43.6	–12.8	20.6	–0.7	–	68.5
Of which interest effect	–	–	–	–	–	–	–

15 Financial Liabilities

€ million	2011			2010		
	Total	**Of which noncurrent**	**Of which current**	Total	Of which noncurrent	Of which current
Liabilities to banks	**720.7**	**617.3**	**103.4**	494.8	385.6	109.2
Of which > 5 years	–	**281.0**	–	–	304.7	–
Liabilities from lease obligations[1]	**51.5**	**44.8**	**6.7**	34.4	21.5	12.9
Of which > 5 years	–	**17.2**	–	–	5.1	–
Other financial liabilities	**5.7**	–	**5.7**	4.2	–	4.2
Financial liabilities	**777.9**	**662.1**	**115.8**	533.4	407.1	126.3
Of which > 5 years	–	**298.2**	–	–	309.8	–

[1] Liabilities from leasing arrangements mainly include liabilities relating to leasing the Burghausen plant's CCGT power station, as well as for technical facilities.

The second installment (€200 million) of an investment loan from the European Investment Bank was drawn in the fourth quarter of 2011.

No collateral exists for financial liabilities. Financial liabilities are not secured through liens or similar rights. Some of the liabilities to banks are fixed-interest and others have variable interest rates. Moreover, some of the liabilities to banks were granted on condition that particular covenants be complied with.

The following are the most significant liabilities to banks:

€ million	2011			2010		
	Currency	Carrying amount in € million	Residual term in years	Currency	Carrying amount in € million	Residual term in years
Development loan	EUR	200.0	Up to 6	EUR	–	–
Development loan	EUR	200.0	Up to 5	EUR	200.0	Up to 6
Loans	EUR	50.0	Up to 2	EUR	50.0	Up to 3
Club Deals	CNY	81.0	Up to 8	CNY	59.1	Up to 9
Club Deals	CNY	66.9	Up to 1	CNY	74.6	Up to 1
Promissory notes	EUR	19.0	Up to 2	EUR	29.0	Up to 3
Other loans		103.8	Up to 2		82.1	Up to 1
Total		720.7			494.8	

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

€ million	2011		2010	
	Nominal value	Present value	Nominal value	Present value
Minimum lease payment within a year	8.9	6.7	14.4	12.9
Minimum lease payment within one and five years	33.1	27.6	19.4	16.4
Minimum lease payment over five years	18.8	17.2	5.5	5.1
	60.8	51.5	39.3	34.4
Total expected minimum lease payments from subtenancies	2.0	–	2.5	–

There are no conditional lease payments from finance leases.

The finance lease for the headquarters building in Munich expired in 2011. In November 2011, a new lease agreement was concluded with PK Wacker GSG GmbH & Co. KG, the company that purchased the building. The lease arrangement covers the land and the building. An evaluation has revealed that the new lease is not a finance lease with respect to the land or the building.

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

WACKER also has leasing agreements for several technical facilities that qualify as finance leases and were capitalized accordingly.

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

16 Liabilities

€ million	2011			2010		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Tax liabilities	22.7	–	22.7	16.6	–	16.6
Trade payables	402.6	–	402.6	335.2	–	335.2
Payables relating to social security	2.7	–	2.7	3.8	–	3.8
Payroll liabilities	3.0	–	3.0	3.2	–	3.2
Profit-sharing and other bonuses	111.3	–	111.3	119.3	–	119.3
Other personnel liabilities	90.2	–	90.2	27.5	–	27.5
Derivative financial instruments	23.5	6.2	17.3	16.1	1.8	14.3
Deferred income	4.8	0.6	4.2	3.7	1.2	2.5
Advance payments received (third parties)	1,202.6	1,000.9	201.7	1,032.2	869.9	162.3
Sundry liabilities	28.0	0.1	27.9	34.2	0.1	34.1
Other liabilities	1,466.1	1,007.8	458.3	1,240.0	873.0	367.0
Of which > 5 years	–	123.4	–	–	218.7	–

In addition to those tax amounts for which Group companies are liable, tax liabilities include taxes paid for the account of third parties. Payables relating to social security refer in particular to social-insurance contributions that have yet to be paid. The other payroll liabilities include, in particular, vacation and flextime credits, as well other HR-related liabilities.

In 2011, other personnel liabilities contained severance payments in the amount of €47.5 million, and payment claims for employee pensions in the amount of €19.1 million in connection with the closure of the silicon wafer facility in Japan.

The advance payments received relate primarily to future polysilicon deliveries.

17 Contingencies, Other Financial Obligations and Other Risks

Contingencies

Contingencies are potential obligations based on past events, the existence of which will not be confirmed until the occurrence of one or more uncertain future events that are beyond the Group's influence. Present obligations, moreover, can likewise be contingencies if the likelihood of an outflow of resources is not strong enough to justify the formation of a provision and/or the amount of the obligations cannot be estimated with sufficient reliability. The values assigned to contingencies correspond to the degree of liability that exists on the statement of financial position date.

The contingencies and other obligations shown below are nominal values.

€ million	2011	2010
Guarantees	114.0	119.6

The guarantees essentially concern the external financing of associated companies. In addition, there are guarantees for customers' advance payments to former subsidiaries or joint ventures from which WACKER was released by the purchaser but for which no transfer to the purchaser has occurred.

In view of the present financial situation of the companies for which WACKER has taken on guarantees, utilization of these guarantees is unlikely.

Other Financial Obligations and Other Risks

€ million	2011	2010
Obligations from rent and operating leases		
Due within one year	18.6	16.3
Due between one and five years	48.8	30.6
Due after five years or more	38.4	18.6
Total	105.8	65.5
Lease payments occasioned by operating leases	19.4	15.2

Under rental agreements and operating leases, the Group leases property, plant and equipment, motor vehicles and IT equipment. These leases generally have terms of between three and five years. Tenancy agreements for office space, property, plant and equipment, etc. have considerably longer terms.

€ million	2011	2010
Obligations from orders for planned investment projects (commitments)	580.2	301.4

Obligations from orders for planned investments (commitments) amount to €580.2 million (2010: €301.4 million) and mainly concern investments in the polysilicon segment. WACKER has earmarked $1,800 million in investment spending to build new production facilities in the Americas.

In addition, the Group has undertaken to provide guarantees for borrowed funds at a joint venture amounting to around $300 million. WACKER has also signed an agreement with its partners Dow Corning and Samsung to make investments in future years and to provide the necessary equity funds and/or loans. Through long-term purchasing commitments of some €150 million annually (2010: €120 million), the Group ensures that capacity at the companies.

Within the framework of its raw-material supply, WACKER has entered into long-term agreements to purchase strategic raw materials, electricity and gas. As a result, the company has, on balance, other financial obligations in connection with minimum purchasing obligations in the amount of €1.85 billion (2010: €1.14 billion). The increase over the previous year's figure is due to new long-term supply contracts to secure raw materials and energy. The agreements have terms of between one and nine years.

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

18 Other Disclosures

€ million	2011	2010
Cost of materials	–2,205.0	–1,787.7
Personnel expenses		
Wages and salaries	–1,025.2	–921.5
Social benefits and financial aid funds	–156.8	–158.7
State pension contributions	64.0	58.8
Social security contributions	–92.8	–99.9
Pension expenses	–100.5	–55.5
Contributions to state pensions	–64.0	–58.8
Expenses for post-employment benefits	–164.5	–114.3
Total	–1,282.5	–1,135.7

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

Expenses for Auditors' Fees

€ million	2011	2010
Audit	0.7	0.8
Other certification services	0.3	0.3
Total	1.0	1.1

The other certification services consist primarily of the cost of interim reviews. The expenses for auditors' fees in the amount of €0.9 million concern KPMG AG Wirtschaftsprüfungsgesellschaft, of which €0.7 million is for financial statement audit services and €0.2 million for certification services.

19 Earnings per Share/Dividend

	2011	2010
Average number of outstanding common shares (units)	49,677,983	49,677,983
Number of common shares outstanding at the end of the year (units)	49,677,983	49,677,983
Dividend per dividend-bearing common share (€)	2.20	3.20
Net result for the year after non-controlling interests (€ million)	352.6	490.7
Earnings due to common shares (€ million)	352.6	490.7
Earnings per common share (average, €)	7.10	9.88
Earnings per common share (as of reporting day, €)	7.10	9.88

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

In the absence of relevant circumstances, earnings per share relating to results from continuing or discontinued operations, and the effect on earnings per share of changes in accounting and valuation methods, are not reported.

The dividend payout for 2010 amounted to €159.0 million, or €3.20 per dividend-bearing share.

For 2011, the Executive Board of Wacker Chemie AG has proposed the above-mentioned dividend. The proposed dividend relates solely to dividend-bearing shares, i.e. excluding treasury shares. The acceptance or rejection of this proposal is incumbent on the Annual Shareholders' Meeting of Wacker Chemie AG. Subject to acceptance of the proposal, an amount of €109,291,562.60 will be distributed for the 49,677,983 no-par-value shares that are not held by the company.

20 Financial Instruments

The following table shows a presentation of financial assets and liabilities by measurement categories and classes. Also presented are liabilities from finance leases and derivatives for which hedge accounting is used, even though they do not belong to any of the IAS 39 measurement categories.

Financial Assets and Liabilities by Measurement Category and Class 2011

€ million	Balance sheet carrying amount Dec. 31, 2011	Measurement pursuant to IAS 39			Measurement pursuant to IAS 17	
		(Amortized) cost	Fair value, recognized in profit or loss	Fair value, recognized in other comprehensive income	(Amortized) cost	Fair value Dec. 31, 2011
Trade receivables	**566.1**	566.1	–	–	–	566.1
Loans and receivables	**–**	566.1	–	–	–	566.1
Other financial assets[1]	**679.6**	573.9	94.2	11.5	–	658.4
Held-to-maturity securities	**–**	316.3	–	–	–	306.0
Available-for-sale securities	**–**	–	87.8	–	–	87.8
Loans and receivables	**–**	246.7	–	–	–	246.7
Available-for-sale financial assets[2]	**–**	10.9	–	–	–	–
Derivatives for which hedge accounting is not used (assets held for trading)	**–**	–	6.4	–	–	6.4
Derivatives for which hedge accounting is used (hedge accounting)	**–**	–	–	11.5	–	11.5
Cash and cash equivalents (liquid assets)	**473.9**	473.9	–	–	–	473.9
Held-to-maturity securities	**–**	65.8	–	–	–	65.8
Loans and receivables	**–**	408.1	–	–	–	408.1
Total financial assets	**1,719.6**	–	–	–	–	1,698.4
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	**1,220.9**	1,220.9	–	–	–	1,220.9
Held-to-maturity securities	**382.1**	382.1	–	–	–	371,8
Available-for-sale financial assets	**98.7**	10.9	87.8	–	–	87.8
Derivatives for which hedge accounting is not used (assets held for trading)	**6.4**	–	6.4	–	–	6.4
Derivatives for which hedge accounting is used (hedge accounting)	**11.5**	–	–	11.5	–	11.5
Financial liabilities	**726.4**	726.4	–	–	–	726.4
Financial liabilities recognized at amortized cost	**–**	726.4	–	–	–	726.4
Liabilities from finance leases	**51.5**	–	–	–	51.5	51.5
Trade payables	**402.6**	402.6	–	–	–	402.6
Financial liabilities recognized at amortized cost	**–**	402.6	–	–	–	402.6
Other financial liabilities[3]	**258.8**	235.2	8.4	15.2	–	258.8
Financial liabilities recognized at amortized cost	**–**	235.2	–	–	–	235.2
Derivatives for which hedge accounting is not used (financial liabilities held for trading)	**–**	–	8.4	–	–	8.4
Derivatives for which hedge accounting is used (hedge accounting)	**–**	–	–	15.2	–	15.2
Total financial liabilities	**1,439.3**	–	–	–	–	1,439.3
Of which pursuant to IAS 39 measurement categories:						
Financial liabilities recognized at amortized cost	**1,364.2**	1,364.2	–	–	–	1,364.2
Derivatives for which hedge accounting is not used (financial liabilities held for trading)	**8.4**	–	8.4	–	–	8.4
Derivatives for which hedge accounting is used (hedge accounting)	**15.2**	–	–	15.2	–	15.2

[1] Does not include tax receivables or prepaid expenses and deferred charges.
[2] This item contains available-for-sale financial assets of which the market values cannot be calculated reliably and which have been recognized at cost. This item, along with noncurrent loans, is shown in the statement of financial position under noncurrent financial assets.
[3] Includes sundry liabilities shown in the statement of financial position, with the exception of advance payments received and deferred income.

Financial Assets and Liabilities by Measurement Category and Class 2010

€ million	Balance sheet carrying amount Dec. 31, 2010	Measurement pursuant to IAS 39: (Amortized) cost	Measurement pursuant to IAS 39: Fair value, recognized in profit or loss	Measurement pursuant to IAS 39: Fair value, recognized in other comprehensive income	Measurement pursuant to IAS 17: (Amortized) cost	Fair value Dec. 31, 2010
Trade receivables	596.0	596.0	–	–	–	596.0
Loans and receivables	–	596.0	–	–	–	596.0
Other financial assets [1]	538.0	488.3	14.8	34.9	–	524.3
Held-to-maturity securities	–	252.2	–	–	–	249.6
Available-for-sale securities	–	–	10.2	–	–	10.2
Loans and receivables	–	225.0	–	–	–	225.0
Available-for-sale financial assets [2]	–	11.1	–	–	–	–
Derivatives for which hedge accounting is not used (assets held for trading)	–	–	4.6	–	–	4.6
Derivatives for which hedge accounting is used (hedge accounting)	–	–	–	34.9	–	34.9
Cash and cash equivalents (liquid assets)	545.2	545.2	–	–	–	545.2
Held-to-maturity securities	–	59.0	–	–	–	59.0
Loans and receivables	–	486.2	–	–	–	486.2
Total financial assets	1,679.2	–	–	–	–	1,665.5
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	1,307.2	1,307.2	–	–	–	1,307.2
Held-to-maturity securities	311.2	311.2	–	–	–	308.6
Available-for-sale financial assets	21.3	11.1	10.2	–	–	10.2
Derivatives for which hedge accounting is not used (assets held for trading)	4.6	–	4.6	–	–	4.6
Derivatives for which hedge accounting is used (hedge accounting)	34.9	–	–	34.9	–	34.9
Financial liabilities	499.0	499.0	–	–	–	499.0
Financial liabilities recognized at amortized cost	–	499.0	–	–	–	499.0
Liabilities from finance leases	34.4	–	–	–	34.4	34.4
Trade payables	335.2	335.2	–	–	–	335.2
Financial liabilities recognized at amortized cost	–	335.2	–	–	–	335.2
Other financial liabilities [3]	204.1	188.0	7.4	8.7	–	204.1
Financial liabilities recognized at amortized cost	–	188.0	–	–	–	188.0
Derivatives for which hedge accounting is not used (financial liabilities held for trading)	–	–	7.4	–	–	7.4
Derivatives for which hedge accounting is used (hedge accounting)	–	–	–	8.7	–	8.7
Total financial liabilities	1,072.7	–	–	–	–	1,072.7
Of which pursuant to IAS 39 measurement categories:						
Financial liabilities recognized at amortized cost	1,022.2	1,022.2	–	–	–	1,022.2
Derivatives for which hedge accounting is not used (financial liabilities held for trading)	7.4	–	7.4	–	–	7.4
Derivatives for which hedge accounting is used (hedge accounting)	8.7	–	–	8.7	–	8.7

[1] Does not include tax receivables or prepaid expenses and deferred charges.
[2] This item contains available-for-sale financial assets of which the market values cannot be calculated reliably and which have been recognized at cost. This item, along with noncurrent loans, is shown in the statement of financial position under noncurrent financial assets.
[3] Includes sundry liabilities shown in the statement of financial position, with the exception of advance payments received and deferred income.

The held-to-maturity securities category includes current and noncurrent fixed-interest securities which are measured at amortized cost in accordance with the effective interest method.

The loans and receivables reported include trade receivables and other loans, as well as cash and cash equivalents. Cash and cash equivalents in foreign currency are measured at the conversion rate prevailing on the reporting date. Their carrying amounts correspond to their fair values. The fair value of the loans corresponds to their present value and represents the present value of expected future cash flows. Discounting is carried out on the basis of the interest rates valid on the reporting date. Available-for-sale financial assets include securities, fund shares aimed at securing phased-early-retirement commitments, and investments in joint ventures and associates. The fair values of the fund shares correspond to their stock market prices on the reporting date. Investments in joint ventures and associates are measured at cost, as no observable prices on active markets are available. The carrying amounts of the financial liabilities, trade payables, and other liabilities correspond to their fair values. The fair values of financial liabilities constitute the cash value of the cash flows expected in the future. Discounting is carried out on the basis of the interest rates valid on the reporting date. All other liabilities are valued at cost as no observable prices for them are available.

Loans and receivables resulted in net profits of €21.3 million (2010: €114.7 million). These net profits were primarily due to exchange-rate effects, interest income from demand deposits and valuation allowances. Net profits from financial instruments that are held to maturity amounted to €6.9 million (2010: €1.1 million). This mainly involved interest income from noncurrent and current corporate bonds that are posted under securities. The category of held-to-maturity financial assets includes investment losses of €–0.2 million, countered by profits from fixed-interest securities of the same amount. In 2010, equity investments generated €0.6 million. The category of assets held for trading resulted in a net loss of €–4.2 million (2010: €–12.0 million). These concern changes in the fair value of foreign-currency exchange rates, interest rates and commodity derivatives that did not fulfill the requirements of IAS 39 for hedge accounting and are posted as derivatives for which hedge accounting is not used.

Net losses of €–24.3 million (2010: €–14.5 million) were incurred in the category of financial liabilities measured at amortized cost, which principally consist of interest expenses from bank liabilities.

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

Financial assets and liabilities that are measured at fair value must be allocated to one of the three levels of the fair value hierarchy. The hierarchical levels distinguish between the input data being used to determine fair value, and the extent to which they are observable in a market. The following are the levels of the hierarchy:

Level 1: quoted prices in active markets for identical assets or liabilities
Level 2: directly or indirectly observable input data that are not quoted prices according to Level 1
Level 3: unobservable market data

The financial assets and liabilities are allocated to the three levels of the measurement hierarchy as follows:

Fair Value Hierarchy as of Dec. 31, 2011

	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Fair value through profit or loss				
Available-for-sale financial assets	87.8	–	–	87.8
Derivatives for which hedge accounting is not used (assets held for trading)	–	6.4	–	6.4
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used (hedge accounting)	–	11.5	–	11.5
Total	87.8	17.9	–	105.7
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (liabilities held for trading)	–	8.4	–	8.4
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used (hedge accounting)	–	15.2	–	15.2
Total	–	23.6	–	23.6

Fair Value Hierarchy as of Dec. 31, 2010

	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Fair value through profit or loss				
Available-for-sale financial assets	10.2	–	–	10.2
Derivatives for which hedge accounting is not used (assets held for trading)	–	4.6	–	4.6
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used (hedge accounting)	–	34.9	–	34.9
Total	10.2	39.5	–	49.7
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (liabilities held for trading)	–	7.4	–	7.4
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used (hedge accounting)	–	8.7	–	8.7
Total	–	16.1	–	16.1

Financial Risks

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

The risks connected with the procurement, financing and selling of WACKER's products and services are described in detail in the management report. WACKER counters financial risks via its implemented risk management system, which is monitored by the Supervisory Board. The principles follow the aim of identifying, analyzing, coordinating, monitoring and communicating risks in a timely manner. The Executive Board receives regular analyses on the extent of those risks. The analyses focus on market risks, in particular on the potential impact of raw-material-price risks, foreign-currency exchange risks, and interest-rate risks on EBITDA and net interest income.

Credit Risk (Default Risk)

In terms of financial instruments, the Group is exposed to a default risk should a contractual party fail to fulfill its commitments. This risk is, therefore, at a maximum in the amount of the respective financial instrument's positive fair value. To limit the risk of default, transactions are conducted only within defined limits and with partners of very high credit standing. To make efficient risk management possible, the market risks within the Group are controlled centrally. The conclusion and handling of transactions comply with internal guidelines and undergo monitoring procedures that take account of the separation of duties. As for operations, outstanding receivables and default risks are continually monitored and hedged against via trade credit insurance. Receivables from major customers are not so high as to pose an extraordinary concentration of risks. Default risks are covered by impairments.

Liquidity Risk

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

To limit this risk, WACKER keeps liquid reserves in the form of current investments and credit lines. Furthermore, WACKER has concluded agreements with a number of banks for long-term syndicated loans and bilateral loans. The aggregate volume of these loans is significantly higher than the planned financial liabilities.

Market Risk

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

Foreign Exchange Risk

The potential currency exposure to be hedged with derivative financial instruments is determined based on the major foreign-currency income and expenditure. The greatest risk is posed by the US-dollar, whose income is taken to mean all sales invoiced in US-dollars, while all US-dollar purchasing as well as site costs incurred in US-dollars are reported under US-dollar expenditure. The evaluation of potential risks includes not only the direct US-dollar income and expenditure, but also the indirect US-dollar impact of WACKER's main raw materials (methanol and natural gas). At the same time, indirect euro-denominated sales are deducted from currency exposure. The US-dollar is the exclusive relevant risk variable for the sensitivity analysis in accordance with IFRS 7, since the largest share of foreign-currency cash flows is in US-dollars. Increases in the euro exchange rate against the Singapore dollar, Chinese renminbi and Japanese yen, in contrast, have

a minor impact. In determining sensitivity, we simulate a 10-percent US-dollar devaluation against the euro, which would have had an EBITDA effect of €–50 million as per December 31, 2011, and €–62 million as per December 31, 2010. The effect from cash-flow-hedge designated items would have increased equity before income taxes by €62.3 million (2010: €81.2 million). The Group's currency exposure amounted to €549.7 million as per December 31, 2011 (2010: €677 million).

Interest Rate Risk

The interest rate risk results mainly from financial debt and interest-bearing investments. Each year, the Executive Board determines the mixture of fixed and variable-interest net financial liabilities. Depending on the structure involved, interest rate derivatives are concluded as required. Depending on whether the instrument in question (financial liabilities, investments or interest rate derivatives) has a fixed or variable interest rate, the interest rate risks are measured on the basis of either market-value sensitivity or cash-flow sensitivity. Financial liabilities and fixed-interest investments are measured at amortized cost and are therefore, in accordance with IFRS 7, not subject to any interest-rate risk. Hedge accounting is not used for any of the interest rate derivatives. Changes in market interest rates have an impact on the net interest income generated by variable-interest financial instruments, and are, therefore, included in the calculation of earnings-related sensitivity. Changes in the market interest rates of interest rate derivatives affect the financial result, and are, therefore, included in any earnings-related sensitivity analysis. If current interest rates had been 100 base points higher (lower) on average, net interest income would have been €1.1 million (2010: €0.9 million) higher (lower).

Raw-Material-Price Risk

Potential combinations of factors in the natural gas or ethylene segments make it impossible to exclude the risk that the company's supply of raw materials might be insufficient. Ethylene-related risks, however, will be reduced in the future by the EPS pipeline currently under construction in Germany. In general, potential increases in raw-material prices pose a risk to results. An increase of 1 percent would have a negative effect of €10.4 million (2010: €8.4 million) on EBITDA.

Derivative Financial Instruments

Financial risks are also hedged using derivative financial instruments. The raw-material price risks that WACKER hedges against result principally from the precious metals (platinum, gold, silver and palladium) that are used as catalysts or for other purposes in the production process, as well as ongoing energy procurement. In 2011, precious-metal-related risks were partially hedged using derivative financial instruments. Electricity-supply price hedging takes place via contractual stipulations, for which IAS 39's "own-use exemption" can essentially be used. These contracts, which are concluded for purposes of receiving or delivering non-financial goods according to WACKER's own needs, are not recognized as derivatives, but rather as pending transactions.

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

Foreign exchange hedging is carried out mainly for the US-dollar, Japanese yen and Singapore dollar. In the case of foreign exchange hedging in the financing area, the maturities of the receivables and liabilities are taken into account. Interest rate hedging is carried out primarily for the euro, with the maturities of the underlying transactions being the most important factor.

Operational hedging in the foreign exchange area relates to the receivables and liabilities already recognized, and generally encompasses time horizons of between three and four months. The time horizon of strategic hedging is between four and a maximum of 31 months. The hedged cash flows influence the statement of income at the time when sales are realized. The cash inflows are usually recorded shortly afterward, depending on the payment deadline. As well as receivables from, and liabilities to, third parties, inter-company financial receivables and liabilities are hedged.

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

The derivatives are recognized at their market values, irrespective of their stated purpose. They are reported in the statement of financial position under other assets or other liabilities. Where permissible, cash flow hedge accounting is applied for the strategic hedging of currency exchange risks from future foreign exchange positions. In such cases, the changes in the market values of foreign exchange contracts and the changes in the intrinsic values of currency options are recognized under equity with no effect on net income until the underlying transaction takes place, insofar as the hedge is effective. When future transactions are realized, the effects accumulated under equity are reversed through profit or loss. The changes in the fair values of the currency options are posted to the statement of income.

For strategic hedging purposes, graduated hedging ratios are used of between 25 and 60 percent in relation to the expected net exposure in US$ and JPY. In doing so, the expected net exposure for 2012 is some 60 percent hedged and the expected net exposure for 2013 around 50 percent hedged. Expected semiconductor-business net exposure for the first half of 2014 is about 25 percent hedged.

In the fiscal year, the accumulated income and expenses recorded directly under equity included an unrealized result amounting to €–30.4 million (before tax) (2010: €11.5 million). In the result for the period, no gains or losses from hedge accounting ineffectivities were recorded, as the hedging relationships were almost entirely effective.

In a small number of cases, there are embedded derivatives. These are generally measured at market values, or at amortized cost if market values cannot be derived. They, too, are reported under other assets or other liabilities, respectively.

Depending on the nature of the underlying transaction, they are posted in the statement of income either under the operating result or, if financial liabilities are being hedged, under net interest income.

€ million	Dec. 31, 2011		Dec. 31, 2010	
	Nominal values	**Market values**	Nominal values	Market values
Foreign exchange derivatives	**1,422.4**	**–3.7**	1,502.4	21.2
Other derivatives	**43.7**	**–1.8**	115.6	2.2
Market values for derivative financial instruments within the framework of hedge accounting	**–**	**–5.0**	–	25.2

The foreign exchange derivatives contain forward exchange contracts amounting to US$1,447.3 million, ¥8.2 billion and SG$305.2 million.

Other derivatives principally involve interest-rate swaps with a notional sum of €25.0 million (2010: €100.0 million) and electricity futures traded on the Norwegian market with a notional amount of €17.4 million (2010: €15.6 million). The electricity futures are used to limit the risk of rising spot-market prices for energy via structured price setting on the electricity market. The hedged amount represents 90 percent of the Holla, Norway, site's future silicon-production power needs. The futures fall due after a maximum of one year.

21 Notes to the Statement of Cash Flows

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

Cash flow from investing activities shows the actual outflow of funds, so these figures also cannot be reconciled with the additions to investments in the consolidated statement of financial position. If subsidiaries or business activities are acquired or sold, the influences ensuing from these transactions are shown as separate items in the statement of cash flows. Financial investment in securities falling due in more than three months is reported separately under cash flow from investing activities, as these transactions must instead be attributed to liquidity in economic terms.

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

For more details on the composition of funds made up of cash and cash equivalents, see Note 11

Other Non-Cash Expenses and Income

€ million	2011	2010
Silicones	–13.3	–7.3
Polymers	–0.3	–1.2
Biosolutions	–0.3	–1.1
Polysilicon	0.9	–2.1
Siltronic	3.3	–18.4
Other	–35.9	–28.6
	–45.6	–58.7

22 Explanatory Notes on Segment Reporting

The Group's segment reporting is geared toward the internal organizational and reporting structure. WACKER reports on five operating segments (Siltronic, Silicones, Polymers, Polysilicon and Biosolutions), which are organized and managed autonomously on the basis of the type of products they offer and their different risk and income structures. Any activities not assigned to an operating segment are shown under "Other." Currency translation results which cannot be assigned to a segment are likewise shown in this item. Although the Biosolutions segment does not exceed the threshold values stipulated by IFRS 8, WACKER decided to report it as a segment subject to reporting requirements due to its specific product and customer structure.

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

WACKER measures the segments' success by the segment profitability variables EBIT and EBITDA. EBIT consists of the gross result from sales, selling and general administrative expenses, research and development expenses, and other operating income and expenses less investments in joint ventures and associates and other income from investments. EBITDA is produced by adding depreciation and amortization, impairments, and write-ups to EBIT.

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

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

The liabilities shown for the segments represent all of their liabilities – except deferred tax liabilities, shown under "Other." The Group's financial liabilities are allocated to individual segments in proportion to the segment assets. The Siltronic segment prepares its own sub-group consolidated financial statements.

Of the valuation changes recognized with no effect on income, €11.9 million (2010: €–4.3 million) are attributable to the Siltronic segment and €9.8 million (2010: €6.0 million) to "Other." The valuation changes essentially relate to the changes in the market values of derivative financial instruments from cash flow hedging.

In addition to Germany, the USA and China are the only countries in which WACKER generates significant sales from a Group viewpoint. Measured in relation to the headquarters of the selling unit in the USA, sales amounted to €739.6 million (2010: €735.6 million). Measured by the respective customer headquarters in the USA and China, the sales generated were €707.0 million (2010: €682.7 million) and €706.2 million (2010: €616.0 million) respectively. There are no customers with whom significant sales are generated.

The reconciliation of the segments' aggregate results with the net result for the year is derived from the following list:

Reconciliation of Segment Results

€ million	2011	2010
Operating result of reporting segments (EBIT)	**602.8**	766.5
Consolidation	**0.4**	–1.9
Group EBIT	**603.2**	764.6
Financial result	**–35.8**	–32.3
Income before tax	**567.4**	732.3
Income taxes	**–211.3**	–235.3
Net income for the year	**356.1**	497.0

23 Breakdown of Shareholdings/Key Indicators of Joint Ventures and Associated Companies

Unless otherwise stated, the following figures for international subsidiaries are IFRS results.

Affiliated Companies

Serial number		Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
	Germany					
1	Alzwerke GmbH, Munich	a), b)	7,160	–	100.00	0
2	DRAWIN Vertriebs-GmbH, Hohenbrunn	a), b)	5,014	–	100.00	0
3	W.E.L.T. Reisebüro GmbH, Munich[2]		88	18	51.00	0
4	Wacker-Chemie Versicherungsvermittlung GmbH, Munich	a), b)	26	–	100.00	0
5	Wacker-Chemie Beteiligungsfinanzierungs GmbH, Munich		30	–	100.00	22
6	Wacker Polysilicon Geschäftsführungs GmbH, Nünchritz		27	–	100.00	0
7	Wacker-Chemie Erste Venture GmbH, Munich		80	–	100.00	22
8	Wacker-Chemie Zweite Venture GmbH, Munich		36	–	100.00	0
9	Wacker-Chemie Dritte Venture GmbH, Munich	a), b)	387,727	–	100.00	0
10	Wacker-Chemie Sechste Venture GmbH, Munich		28	–	100.00	0
11	Wacker Biotech GmbH, Jena	a), b)	290	–	100.00	0
12	Wacker-Chemie Siebte Venture GmbH, Munich		25	–	100.00	0
13	Wacker-Chemie Achte Venture GmbH, Munich	a)	264,405	–	100.00	30
14	Siltronic AG, Munich	a)	718,048	–	90.00	9
					10.00	0
	Rest of Europe					
15	Wacker Chemicals Finance B.V., Krommenie/Amsterdam, Netherlands		439,982	733	100.00	0
16	Wacker-Chemicals Ltd., Egham, Surrey, Great Britain		678	539	100.00	0
17	Wacker-Chemie Italia S.r.L., Peschiera Borromeo/Milan, Italy		2,464	855	100.00	0
18	Wacker-Chemie Benelux B.V., Krommenie/Amsterdam, Netherlands		325	306	100.00	15
19	Wacker Chimie S.A.S., Lyon, France		370	183	100.00	0
20	Wacker-Kemi AB, Solna, Sweden		507	434	100.00	0
21	Wacker Química Ibérica, S.A., Barcelona, Spain		288	150	100.00	0
22	Siltronic Holding International B.V., Krommenie/Amsterdam, Netherlands		416,074	–50,870	100.00	14
23	Wacker-Chemie S.r.o., Prague, Czech Republic		3,266	77	100.00	0
24	Wacker-Chemie Polska Sp. z o.o., Warsaw, Poland		418	307	100.00	0
25	Wacker-Chemie Hungária Kft., Budapest, Hungary		355	193	100.00	0
26	OOO Wacker Chemie RUS, Moscow, Russia		853	493	100.00	0
27	Wacker Chemicals Norway AS, Holla, Norway		36,955	–709	100.00	15
	The Americas					
28	Wacker Química do Brasil Ltda., São Paulo, Brazil		7,476	–2,067	100.00	0
29	Wacker Mexicana S.A. de C.V., Mexico, D.F., Mexico		1,244	894	100.00	0
30	Wacker Chemical Corp., Adrian, Michigan, USA		472,767	10,965	100.00	15
31	Wacker Polysilicon North America L.L.C., Cleveland, Tennessee, USA		185,783	–20,220	100.00	13
32	Siltronic Corp., Portland, Oregon, USA		56,612	16,452	100.00	22

Affiliated Companies

Serial number		Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
	Asia					
33	Wacker Chemicals (South Asia) Pte. Ltd., Singapore		1,668	288	100.00	0
34	Wacker Chemicals Hongkong Ltd., Hong Kong, China		2,744	128	100.00	0
35	Wacker Metroark Chemicals Pvt. Ltd., Parganas, India		25,513	6,843	51.00	0
36	Wacker Chemicals Korea Inc., Seoul, South Korea		17,882	1,907	100.00	15
37	Wacker Chemicals East Asia Ltd., Tokyo, Japan		660	431	100.00	0
38	Wacker Chemicals Trading (Shanghai) Co. Ltd., Shanghai, China		8,711	1,961	100.00	34
39	Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore		47,960	–15	51.00	0
40	Wacker Chemicals Fumed Silica (ZJG) Co. Ltd., Zhangjiagang, China		28,065	232	51.00	39
41	Wacker Chemicals (Zhangjiagang) Co. Ltd., Zhangjiagang, China		22,225	1,349	100.00	43
42	Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi, China		3,102	1,082	100.00	43
43	Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, China		1,878	–48,760	100.00	0
44	Wacker Polymer Systems (Nanjing) Co. Ltd., Nanjing, China		38,125	–1,814	100.00	43
45	Wacker Chemicals India Ltd., Mumbai, India		3,100	109	100.00	15
46	Siltronic Singapore Pte. Ltd., Singapore		103,856	25,363	100.00	22
47	Siltronic Asia Pte. Ltd., Singapore		3,831	3,688	100.00	22
48	Siltronic Japan Corp., Hikari, Japan		–38,106	–58,266	100.00	22
	Other Regions					
49	Wacker Chemicals Australia Pty. Ltd., Melbourne, Australia		39	–265	100.00	0
50	Wacker Chemicals Middle East Ltd., Dubai, UAE		2,520	635	100.00	0

Joint Ventures/Associated Companies[3]

Serial number		Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number[1]
51	Thin Materials AG, Eichenau, Germany		345	–461	32.68	0
52	Wacker Asahi Kasei Silicone Co. Ltd., Tokyo, Japan		16,078	3,008	50.00	0
53	Dow Corning (ZJG) Holding Co. Private Ltd., Singapore		184,540	51,509	25.00	0
54	Wacker Dymatic (Shunde) Co. Ltd., Guangdong, China		15,687	3,334	50.00	43
55	Siltronic Samsung Wafer Pte. Ltd., Singapore		89,784	–48,864	50.00	22

Special-Purpose Entity

Serial number		Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %[4]	Held by serial number[1]
56	WMM-Universal-Fonds, Germany		100,336	639	100.00	0

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

[1] Serial number 0: Wacker Chemie AG
[2] Prior-year figures
[3] Only direct holdings in the relevant parent company are listed
[4] Share of special assets

Key Figures for Joint Ventures

€ million	2011		2010	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Sales	271.1	135.6	304.3	152.2
Operating result	–24.2	–12.1	–15.9	–7.9
Result after taxes	–42.6	–21.3	–32.9	–16.4
Noncurrent assets	479.1	239.7	520.1	260.1
Current assets	169.0	84.5	132.3	66.3
	648.1	324.2	652.4	326.4
Equity	121.6	60.9	166.3	83.2
Noncurrent liabilities	406.9	203.4	385.5	192.8
Current liabilities	119.6	59.9	100.6	50.4
	648.1	324.2	652.4	326.4

For the period from January 1, 2010 until its disposal on December 4, 2010, the Planar Solutions, LLC joint venture is included in the 2010 figures for sales (€48.8 million), operating result (€9.2 million) and result after taxes (€9.2 million).

Key Figures for Associated Companies

€ million	2011		2010	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Sales	375.7	94.0	157.2	39.3
Operating result	95.0	23.8	–39.0	–9.8
Result after taxes	51.0	12.8	–79.7	–20.0
Noncurrent assets	965.8	241.4	938.1	234.5
Current assets	171.6	42.9	109.7	27.4
	1,137.4	284.3	1,047.8	261.9
Equity	184.8	46.2	120.5	30.1
Noncurrent liabilities	544.5	136.1	637.0	159.3
Current liabilities	408.1	102.0	290.3	72.5
	1,137.4	284.3	1,047.8	261.9

24 Related Party Disclosures

IAS 24 stipulates that parties which control, or are controlled by, Wacker Chemie AG must be disclosed unless they are already included in Wacker Chemie AG's consolidated financial statements as a consolidated company. Control in this sense is held to apply when a shareholder has more than half of the voting rights in Wacker Chemie AG or, by virtue of provisions in the Articles of Association or contractual arrangements, has the possibility of controlling the financial and business policy of the WACKER Group's Executive Board.

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

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

Provision of services between Wacker Chemie AG and its majority shareholder Dr. Alexander Wacker Familiengesellschaft mbH, as well as with the shareholders of Dr. Alexander Wacker Familiengesellschaft mbH and their close family members, is of subordinate importance. These concern, to a minor degree, the renting of office space and exchange of services. The provision of services takes place at standard market terms.

Furthermore, WACKER Group companies did not conduct any significant transactions whatsoever with members of Wacker Chemie AG's Executive or Supervisory Board or with any other key management personnel or with companies of which these persons are members of executive or supervisory bodies. The same applies to close relatives of the aforementioned persons.

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

On December 14, 2011, BlackRock Inc. (New York, USA) reported holding just over three percent of the voting shares in Wacker Chemie AG. Further detailed information has been published in the German register of companies. www.unternehmensregister.de

Pensionskasse der Wacker Chemie VVaG is also considered a related party pursuant to IAS 24. Provisions of services take place between the two entities in the area of company pension plan benefits. Wacker Chemie AG also rents the headquarters building, and the property on which it stands, from a subsidiary of Pensionskasse der Wacker Chemie VVaG.

Business with joint ventures and associates, the pension fund, and non-consolidated subsidiaries is, as a rule, conducted under conditions that are customary between outside third parties. For joint-venture and associated-company product shipments, contractually agreed transfer-price formulas have been defined that include start-up costs and financing elements, among others. The following table shows the volume of trade receivables with related parties:

Related Party Disclosures

€ million	2011				2010			
	Income	**Expenses**	**Trade receivables**	**Liabilities**	Income	Expenses	Trade receivables	Liabilities
Associated companies	**2.9**	**–108.1**	**16.5**	**–6.0**	2.5	–42.8	–	–
Joint ventures	**72.2**	**–43.6**	**14.9**	**–5.2**	86.7	–33.4	18.2	–2.4
Pension fund	**0.4**	**27.6**	**35.2**	**0.1**	0.1	25.5	25.1	0.5
Other	**0.1**	**–**	**–**	**0.3**	–	–0.2	0.2	–

Transactions with joint ventures and associates relate to supplies and services during the normal course of business in connection with sales revenue, license revenue and administrative expense allocations. Joint ventures and associates submitted invoices for material purchases and commissions. Any guarantees or other security pledges are reported under other financial obligations. See Note 17

In addition, there are loans to joint ventures totaling €130.0 million (2010: €88.8 million).

Furthermore, valuation allowances have been established for receivables from joint ventures in the amount of €0.2 million (2010: €0.3 million).

Information Regarding Compensation of the Supervisory and Executive Boards:

Compensation for the Executive and Supervisory Boards

€	Fixed compensation	Variable compensation	Pensions[1]	Total
Executive Board compensation 2011	2,583,852	3,722,400	1,781,282	**8,087,534**
Executive Board compensation 2010	2,597,871	4,176,000	1,511,168	**8,285,039**
Pension commitments for active members of the Executive Board 2011				**19,098,475**
Pension commitments for active members of the Executive Board 2010				**17,433,247**
Compensation for former members of the Executive Board and their surviving dependents 2011				**809,481**
Compensation for former members of the Executive Board and their surviving dependents 2010				**791,559**
Pension commitments for former members of the Executive Board and their surviving dependents 2011				**19,987,205**
Pension commitments for former members of the Executive Board and their surviving dependents 2010				**19,179,121**
Supervisory Board compensation 2011	1,755,323	–		**1,755,323**
Supervisory Board compensation 2010	717,000	656,250		**1,373,250**

[1] Pensions include the interest cost as well as the service cost.

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

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

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

Munich, Germany, February 28, 2012
Wacker Chemie AG

Rudolf Staudigl **Wilhelm Sittenthaler**

Joachim Rauhut **Auguste Willems**

Supervisory Board

Dr. Peter-Alexander Wacker[1, 4, 5]
Chairman
Starnberg
Business studies graduate (Diplom-Kaufmann)

Chairman of the Supervisory Board and Advisory Council
Giesecke & Devrient GmbH

Managing Director
Dr. Alexander Wacker Familiengesellschaft mbH

Chairman of the Administrative Council and Board of Trustees
ifo Institute – Leibniz Institute for Economic Research at the University of Munich
(since June 29, 2011)

Anton Eisenacker*[1, 4, 5]
Deputy Chairman
Perach
Certified Chemical Technologist

Peter Áldozó*
Burghausen
HR Specialist

Dr. Konrad Bachhuber* (until December 31, 2011)
Cleveland, Tennessee, USA
Chemistry Graduate (Diplom-Chemiker)
Site manager Charleston, Tennessee

Chairman of the Board of Directors
(until December 31, 2011)
Wacker Chemicals Fumed Silica (Zhangjiagang) Co. Ltd.**
Wacker Polymer Systems (Wuxi) Co. Ltd.**

Member of the Board of Directors
(until December 31, 2011)
Wacker Chemicals (Zhangjiagang) Co. Ltd.**
Wacker Polymer Systems (Nanjing) Co. Ltd.**
Wacker Chemicals Fumed Silica (Zhangjiagang) Holding Co. Private Ltd.**

* Employee representative
** Affiliated company

[1] Mediation Committee: Chairman Dr. Peter-Alexander Wacker
[2] Mediation Committee until May 31, 2011
[3] Mediation Committee from June 30, 2011
[4] Executive Committee: Chairman Dr. Peter-Alexander Wacker
[5] Audit Committee: Chairman Dr. Bernd W. Voss

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

Dr. Werner Biebl
Munich
Chief Public Prosecutor (retired)

Managing Director
Dr. Alexander Wacker Familiengesellschaft mbH

Marko Fartelj*
Kirchdorf
Machine Operator

Uwe Fritz*[2] (until May 31, 2011)
Julbach
Altötting District Chairman of the IG BCE labor union

Member of the Supervisory Board
Siltronic AG**
(until May 31, 2011)

Konrad Kammergruber* (since January 1, 2012)
Burghausen
Business studies graduate (Diplom-Kaufmann)
Director of Material & Services Procurement

Eduard-Harald Klein*
Neuötting
Operator

Manfred Köppl*[3] (since June 30, 2011)
Kirchdorf
Industrial Mechanic

Franz-Josef Kortüm[1, 4]
Munich

Chairman of the Executive Board
Webasto AG

Member of the Advisory Council
Brose Fahrzeugteile GmbH & Co. KG
ERGO Versicherungsgruppe AG

Member of the Supervisory Board
Schaeffler AG

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

Member of the Supervisory Board
Hexal AG
Novartis Deutschland GmbH

Harald Sikorski* (since June 1, 2011)
Munich
Altötting District Chairman of the IG BCE labor union

Member of the Supervisory Board
Siltronic AG**
(since June 1, 2011)

Member of the Supervisory Board
Gerresheimer AG
Südsalz GmbH
(until October 20, 2011)

Dr. Thomas Strüngmann
Tegernsee
Business studies graduate (Diplom-Kaufmann)
Co-Managing Director, ATHOS Service GmbH

Dr. Bernd W. Voss[5]
Kronberg i. T.
Former member of the Board of Managing Directors Dresdner Bank AG

Member of the Board of Directors
ABB Ltd. (until April 29, 2011)

Member of the Supervisory Board
Continental AG

Member of the Central Advisory Board
Commerzbank AG

Dr. Susanne Weiss
Munich
Attorney

Chairwoman of the Supervisory Board
ROFA AG

Member of the Supervisory Board
UniCredit Bank AG
Strenesse AG (until November 11, 2011)

Member of the Supervisory Board and Advisory Council
Giesecke & Devrient GmbH

Prof. Dr. Ernst-Ludwig Winnacker
Munich
Professor Emeritus of Biochemistry at LMU, Munich
Secretary General HFSP Human Frontier Science Program, Strasbourg

Chairman of the Supervisory Board
MediGene AG

Member of the Supervisory Board
Bayer AG

Executive Board

Dr. Rudolf Staudigl

President & CEO

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

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

Member of the Supervisory Board
Groz-Beckert KG

Member of the Advisory Council
Deutsche Bank AG

Dr. Joachim Rauhut

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

Member of the Supervisory Board
Siltronic AG*
Pensionskasse der Wacker Chemie VVaG
MTU Aero Engines Holding AG
MTU Aero Engines GmbH
B. Braun Melsungen AG
(since March 24, 2011)

Member of the Advisory Council
J. Heinrich Kramer Holding GmbH

Dr. Wilhelm Sittenthaler

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

Member of the Supervisory Board
Siltronic AG*
Pensionskasse der Wacker Chemie VVaG

Auguste Willems

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

Member of the Bavarian State Branch Advisory Committee
TÜV Süd AG

* Subsidiary

Corporate Governance Report and Declaration on Corporate Management

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

Declaration of Conformity and Corporate Governance Reporting

The Executive and Supervisory Boards dealt intensively with the company's corporate governance and the alterations to the Code in the 2011 fiscal year. The Executive Board and the Supervisory Board have resolved to issue the following annual Declaration of Conformity as per Section 161 of the German Stock Corporation Act (AktG). The Declaration of Conformity was made permanently available to the general public on the company's website.

The 2011 Declaration of Conformity Issued by Wacker Chemie AG's Executive and Supervisory Boards

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

In December 2010, the Executive Board and the Supervisory Board of Wacker Chemie AG issued their last declaration of conformity pursuant to Section 161 of the German Stock Corporation Act and supplemented this with Item f) in May 2011. Since that time, Wacker Chemie AG has complied with the recommendations of the German Corporate Governance Code in the version dated May 26, 2010, with the following exceptions, and will continue to comply with the recommendations of the Code except as follows:

Exceptions

a) D&O Insurance Deductible for Supervisory Board Members

German law and a company's Articles of Association set clear limits in regards to the Supervisory Board's ability to exert influence on the business activities of a stock corporation. Pursuant to Section 76 (1) of the German Stock Corporation Act, an Executive Board is responsible for independently managing the corporation. A Supervisory Board is instrumental in defining the main features of corporate strategy. However, beyond this contribution, the Supervisory Board's abilities are limited in terms of influencing the implementation of corporate strategy or operative business. The same applies to measures taken to avert damage or loss to the company. Since the Supervisory Board members receive a relatively low representation allowance when compared to the Executive Board members' compensation, we do not deem the agreement of a deductible reasonable for members of the Supervisory Board.

b) Severance Pay Cap
We will comply with this recommendation of the Code on new appointments to the Executive Board, as well as the re-appointment of Executive Board members.

c) Appropriate Representation of Women on the Executive Board
The considerable importance that Wacker Chemie AG attaches to diversity extends to Executive Board membership. Nonetheless, expertise – including experience gained abroad – and qualifications are the key criteria here. For this reason, we do not consider it expedient to prioritize "the aim of appropriate representation of women" over expertise and qualifications.

d) Formation of a Nomination Committee within the Supervisory Board
The Supervisory Board is to establish a Nomination Committee that is exclusively composed of shareholder representatives and whose task it is to make recommendations to the Supervisory Board with regard to suitable candidates for proposal to the Annual Shareholders' Meeting.

We do not comply with this recommendation because, in view of our shareholder structure, we do not believe that the formation of such a committee is appropriate. Due to the majority situation, nominations to the Supervisory Board must be agreed with the majority shareholder in any case, so that an additional nomination committee would not serve to increase efficiency.

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

f) Performance-Oriented Compensation for Supervisory Board Members
The members of the Supervisory Board do not receive performance-oriented compensation to ensure that they maintain a high level of independence. On the one hand, the Supervisory Board only has limited potential for impacting the operative business. On the other hand, both work load and the risk of liability for Supervisory Board members generally do not progress parallel to the company's business success. Particularly in difficult times, when variable compensation might be decreased, it can be essential for the Supervisory Board members to thoroughly fulfill their monitoring and advisory functions.

Corporate Governance Reporting

Shareholders and Annual Shareholders' Meeting

Transparent Information for Shareholders and the Public

WACKER's aim is to inform all of the company's target groups – whether shareholders, shareholder representatives, analysts, media, or the interested general public – promptly and with equality of access. We regularly publicize important dates for the company in a financial calendar published in our Annual Report, in the interim reports and on our website. The capital market participants are in close contact with our Investor Relations team. We inform investors and analysts about the current and future development of business in telephone conferences held whenever a quarterly report is published. We regularly attend roadshows and investors' conferences. We organize a "Capital Markets Day" once a year. Important presentations can be viewed freely on the internet. All of the press releases and ad-hoc disclosures in both German and English, the online version of the Annual Report, all interim reports and the Sustainability Report can also be found there. Further information is provided by our online customer magazine, media library and Podcast Center. www.wacker.com

Annual Shareholders' Meeting

The Annual Shareholders' Meeting provides an efficient and extensive venue for informing shareholders about the company's situation. Even before the Annual Shareholders' Meeting begins, shareholders receive important information about the last fiscal year in the Annual Report. The agenda items are described and the conditions of attendance explained in the invitation to the Annual Shareholders' Meeting. All of the documents are posted on our website. After the Annual Shareholders' Meeting, we publish the attendance figures and the results of the votes on the internet. All these communication measures contribute to the regular exchange of information with our shareholders. WACKER helps its shareholders to exercise their rights either in person or by proxy. Proxies are available to exercise shareholders' voting rights as instructed and can also be contacted during the Annual Shareholders' Meeting.

Working Methods of the Executive and Supervisory Boards

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

Executive Board

The Executive Board currently consists of four members. For further details, see page 246

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

The members of the Executive Board bear joint responsibility for managing the company. In addition to this, the individual members of the Executive Board are fully responsible for managing their respective units. All Executive Board decisions generally require a simple majority. In the case of a tie of votes, the president & CEO has the deciding vote. However, he does not have the right to veto Executive Board resolutions.

Close Cooperation between the Executive and Supervisory Boards

The Executive and Supervisory Boards cooperate closely with one another in the interests of the company. Their common goal is the sustainable development of the company and its value. The Executive Board reports to the Supervisory Board regularly, promptly and comprehensively about all issues of planning, business development, the risk situation and risk management that are relevant to the company. It explains to the Supervisory Board any deviations from the approved plans and objectives shown by the course of business, and specifies the reasons for them.

Certain transactions defined in Wacker Chemie AG's constitution require the Supervisory Board's approval prior to their conclusion. These include, among others, approving the annual budget (including financial and investment planning), acquiring and disposing of shares in companies, establishing new production or business units, or suspending existing ones, and concluding sizeable long-term loans. The Executive Board also provides the Supervisory Board with regular reports on compliance.

Supervisory Board

The Supervisory Board appoints, oversees and advises the Executive Board and is directly involved in any decisions of crucial importance to WACKER. Fundamental decisions on the company's development require Supervisory Board approval. For further details, see page 244

The Supervisory Board comprises 16 members. In compliance with the German Co-Determination Act (MitbestG), it has an equal number of shareholder and employee representatives. The Supervisory Board appoints the members of the Executive Board and oversees and advises it on the management of the company.

As members of the Supervisory Board cannot simultaneously sit on the Executive Board, this structure ensures a high degree of independence in monitoring the Executive Board.

Committees Increase the Supervisory Board's Efficiency

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

The Executive Committee prepares the Supervisory Board's personnel decisions, especially the appointment and dismissal of Executive Board members and the nomination of the president & CEO. In addition, it develops the system for Executive Board compensation, on the basis of which the meeting of the full Supervisory Board determines the compensation payable to Executive Board members. The Executive Committee consists of the Chairman of the Supervisory Board, Dr. Peter-Alexander Wacker, and Supervisory Board members Anton Eisenacker and Franz-Josef Kortüm.

The Audit Committee does the groundwork for the Supervisory Board's decisions on the adoption of the annual financial statements and the approval of the consolidated financial statements. Its work also includes an audit of the consolidated interim financial statements for the first half-year, discussion of the quarterly reports, and issues involving risk management.

In connection with this, the committee is obliged to pre-audit the annual financial statements, the consolidated financial statements, the combined management report and the proposal for the appropriation of profits. In particular, the Committee monitors the accounting processes and the effectiveness of the internal control, risk management and auditing systems. It performs these tasks in close cooperation with the external auditors. The Audit Committee also prepares the agreement with the external auditors and takes suitable steps to establish and monitor the auditing company's independence. On this basis, it gives the Supervisory Board a recommendation as to whom it should propose as auditor to the Annual Shareholders' Meeting. The members of this committee are Dr. Bernd W. Voss, Dr. Peter-Alexander Wacker and Anton Eisenacker. The committee is chaired by Dr. Bernd W. Voss, who has special knowledge and experience in the fields of accounting and auditing.

The Group also has a statutory Mediation Committee, the tasks of which are stipulated by German law. Chaired by Dr. Peter-Alexander Wacker, this committee also consists of Anton Eisenacker, Franz-Josef Kortüm and Uwe Fritz (until May 31, 2011) and Manfred Köppl (since June 30, 2011), respectively.

Key Corporate Management Practices

Compliance as a Key Managerial Duty of the Executive Board

At WACKER, managerial and monitoring duties include ensuring that the company complies with legal requirements and that employees observe internal company regulations. The Group's compliance policy is regularly reviewed and adapted.

WACKER's compliance organization is responsible in this regard. The company has appointed and trained compliance officers in Germany, Norway, the USA, China, Japan, India, South Korea, Brazil and Singapore. These hold regular training courses to inform employees of key legal provisions and internal regulations. Moreover, they serve as contacts whenever employees have questions or need advice about compliance. One major compliance-management focus in 2011 was on international sites. More employees there were included in both online and classroom-based training.

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

Two voluntary global initiatives form the basis for sustainable corporate management at WACKER: Responsible Care® (the chemical-industry initiative) and the UN's Global Compact. WACKER has been an active member of the Responsible Care® initiative since 1991. Program participants commit themselves to securing continuous improvements to health, safety and environmental performance on a voluntary basis – irrespective of legal requirements.

WACKER is equally committed to the UN's Global Compact initiative. We observe the Global Compact's ten principles, which deal with social and environmental standards, anticorruption and the protection of human rights. We also expect our suppliers to respect the principles of the Global Compact and we evaluate them on this point in our risk assessments.

In 2011, we established an internal Corporate Sustainability department. It guides the implementation of WACKER's voluntary commitments under Responsible Care® and the Global Compact and coordinates our sustainability activities worldwide.

Social Commitments

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

Further Information on Corporate Governance at WACKER

Compliance with the Provisions of Section 15 of the German Securities Trading Act (WpHG)

We comply with the statutory provisions of Section 15 of the German Securities Trading Act. For a number of years, we have maintained an "ad-hoc publicity" coordination unit in which representatives of various specialist areas examine issues for their ad-hoc relevance. In this way, we guarantee that potential insider information is handled in accordance with the law. Employees whose functions necessitate access to insider information are listed in an insider directory.

Share Dealings by the Executive and Supervisory Boards

Section 15a of the German Securities Trading Act stipulates that members of the Executive and Supervisory Boards and certain dependents are obliged to notify the German Federal Financial Supervisory Authority (BaFin) and the company of any purchase or sale of WACKER shares or any further rights related to such shares if an amount of €5,000 is exceeded within one calendar year.

In 2011, members of the Executive and Supervisory Boards and their dependents subject to reporting requirements gave notification of 13 purchasing transactions involving between eight to 2,000 WACKER shares. The volumes of the individual transactions ranged from €1,274 to €159,840.

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

Dealing Responsibly with Opportunities and Risks

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

Accounting and Auditing

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

D&O Insurance

WACKER has concluded a financial liability insurance policy that also covers the activities of the Executive and Supervisory Board members (i.e. D&O insurance). As of July 1, 2010, this insurance has included the statutory deductible for the members of the Executive Board.

Targets for Supervisory Board Composition

WACKER has always placed importance on having highly qualified individuals sit on its Supervisory Board. Pursuant to Item 5.4.1 of the German Corporate Governance Code, WACKER's Supervisory Board aims to have its composition meet the following targets in the future. Not only are Supervisory Board members to be highly qualified, but they should also be internationally experienced. A further aim is to achieve an appropriate number of female Supervisory Board members.

At its meeting of December 9, 2010, the Supervisory Board approved the following targets:

1. An appropriate number of Supervisory Board members – at least one – should have international experience.

2. The Supervisory Board's Rules of Procedure already deal extensively with members' conflicts of interest. In general, the Supervisory Board strives to prevent such conflicts of interest and will also take this goal into account when making recommendations to the Annual Shareholders' Meeting.

3. To achieve ever-greater diversity, the Supervisory Board wishes to increase the number of female Supervisory Board members to at least two over the next two terms. In its bid to meet this goal, the Supervisory Board strives for at least one female employee representative and at least one female shareholder representative.

The Supervisory Board's Rules of Procedure already define an age limit.

In 2011, the composition of the Supervisory Board did not change with regard to the above targets. The next Supervisory Board elections are scheduled for 2013.

Report on Executive Board Compensation

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

The full Supervisory Board, following preparation by the Executive Committee, is responsible for determining the individual compensation paid to members of Wacker Chemie AG's Executive Board.

The compensation system in effect since January 1, 2010 is in accordance with the legal requirements of the German Act on the Appropriateness of Management Board Compensation (VorstAG) as per August 2009.

The Executive Board's compensation was comprised of the following key components:

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

(II) A variable, performance-related bonus:
The amount of the variable bonus, which is paid annually and retrospectively, depends on the attainment of agreed annual Group targets set by the Supervisory Board for all Executive Board members with regard to the following key indicators: business value contribution, cash flow and target return. The bonus is calculated based on goal achievement in 2011, as well as on average overall target attainment for 2010 and 2009. The calculated goal bonus in the event of 100-percent target attainment during the evaluation period amounts to 180 percent of the average annual base salary in the last year of the evaluation period, whereas the maximum bonus totals 220 percent of the average annual base salary in the last year of the evaluation period. Thus, the Supervisory Board has the discretion to increase or reduce the calculated bonus based on overall recognition of all circumstances, including individual performance within a specified framework. The Executive Board members are obligated to purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus. A holding period of two years is in effect for these shares. In 2010, shares already held were eligible for inclusion in this mandatory share investment.

(III) A contribution to retirement benefits:
The members of the Executive Board become entitled to the payment of an annual retirement pension should the event insured against occur, i.e. when the member in question reaches retirement age or becomes afflicted by permanent occupational disability. Before the event insured against occurs, Dr. Rudolf Staudigl, Dr. Joachim Rauhut and Dr. Wilhelm Sittenthaler have a basic entitlement to the premature payment of an annual pension if they leave the Executive Board against their will without good cause or if they, of their own accord, cease their activity for good cause, the company being responsible for said cause. The amount of the retirement pension, which, like the fixed annual salary, is not performance related, is determined by the amount of the last annual salary to be drawn and the duration of Executive Board membership. A percentage of the base salary is defined as a basic amount and adjusted by means of an annual percentage rate of increase for each year of service.

The company grants the members of the Executive Board appropriate insurance coverage, in particular D&O insurance, with a deductible in accordance with "VorstAG" stipulations.

The table below lists the current level of each Executive Board member's compensation:

Executive Board Compensation

€	Fixed compensation[1]	Variable compensation	Expenses for post-employment benefits[2]	Total
Dr. Rudolf Staudigl				
2011	801,549	1,163,250	683,208	**2,648,007**
2010	800,709	1,305,000	602,117	**2,707,826**
Dr. Joachim Rauhut				
2011	604,053	853,050	279,644	**1,736,747**
2010	603,951	957,000	249,020[3]	**1,809,971**
Dr. Wilhelm Sittenthaler				
2011	579,702	853,050	439,755	**1,872,507**
2010	594,760	957,000	318,082	**1,869,842**
Auguste Willems				
2011	598,548	853,050	378,675	**1,830,273**
2010	598,451	957,000	341,949	**1,897,400**
Total				
2011	2,583,852	3,722,400	1,781,282	**8,087,534**
2010	2,597,871	4,176,000	1,511,168	**8,285,039**

[1] The fixed compensation additionally includes the use of a company car.
[2] The pension includes the interest cost, as well as the service cost. The interest cost amounts to €784,497 (2010: €591,016)
[3] In 2010, the start of pension entitlement was synchronized with the employment contact expiration date.

Compensation for Former Executive Board Members and Their Surviving Dependents

€	Total
2011	**809,481**
2010	**791,559**

Pension Provisions for Executive Board Members

€	Total
Pension Provisions for Active Members of the Executive Board	
2011	**19,098,475**
2010	17,433,247
Pension Provisions for Former Executive Board Members and Their Surviving Dependents	
2011	**19,987,205**
2010	19,179,121

Report on Supervisory Board Compensation

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

In accordance with the compensation system in effect until December 31, 2010, the members of the Supervisory Board received for their work fixed annual compensation in the amount of €25,000 payable upon the fiscal year's expiration. Supervisory Board members who joined, or departed from, the Supervisory Board during the ongoing fiscal year under review received the appropriate pro rata compensation.

In addition to their fixed compensation, the members of the Supervisory Board received performance-related compensation for the past fiscal year based on the percentage return on assets[1] after the annual financial statements had been adopted. The performance-related compensation could have been between zero and 125 percent of the fixed annual compensation.

The compensation system in effect until the end of fiscal 2010 was revised by a resolution of the Annual Shareholders' Meeting of May 18, 2011, effective January 1, 2011, and the Articles of Association were adjusted accordingly.

The aim was to ensure that Supervisory Board members maintain a high level of independence and take account of the work load – irrespective of business success – and the risk of liability for Supervisory Board members. For further details, refer to page 248: "Declaration of Conformity" – section f

The following changes were enacted:

i) The performance-related compensation for Supervisory Board members was rescinded.
ii) The fixed compensation for Supervisory Board members and flat fees were increased.

In return for their work, the members of the Supervisory Board receive fixed annual compensation in the amount of €70,000 payable when the fiscal year expires. Supervisory Board members who join, or depart from, the Supervisory Board during the ongoing fiscal year receive the appropriate pro rata compensation.

[1] Definition of the return on assets for this purpose: the percentage ratio of earnings before interest and taxes to the capital employed in accordance with IFRS consolidated financial statements, with the capital employed corresponding to the total of current and noncurrent assets less liquidity.

According to both the old and new arrangement, compensation is multiplied by a factor of 3 for the Chairman of the Supervisory Board, by a factor of 2 for the Vice Chairman and for committee chairmen, and by a factor of 1.5 for members of committees. This arrangement does not take account of double and multiple functions.

The members of the Supervisory Board are compensated for any outlays incurred in connection with the execution of their duties with an annual lump sum of €18,000 (2010: €12,000). They are additionally refunded any VAT payable on their compensation.

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

Supervisory Board Compensation

€	Fixed compensation[1]	Variable compensation	**Total**
2011	1,755,323	–	**1,755,323**
2010	717,000	656,250	**1,373,250**

[1] Fixed compensation includes the aforementioned annual lump sum.

Declaration by the Executive Board on the Accounting Methods and Auditing

The Executive Board is responsible for preparing Wacker Chemie AG's consolidated financial statements and combined management report. WACKER's consolidated financial statements were prepared in compliance with the rules published in London by the International Accounting Standards Board (IASB) and endorsed by the European Union. WACKER has set up effective internal monitoring and steering systems to guarantee that the combined management report and the consolidated financial statements comply with the applicable rules and procedures of proper corporate reporting. The reliability and workability of the monitoring and steering systems are examined continuously by the internal auditing division on a worldwide basis. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Wacker Chemie AG's consolidated financial statements and Group management report and granted them an unqualified certificate. WACKER's consolidated financial statements, its combined management report and the auditors' report were discussed in detail by the Supervisory Board's audit committee at its meeting on February 27, 2012. For information about the Supervisory Board's audit, please refer to its report.

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

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

Munich, Germany, February 28, 2012
Wacker Chemie AG

Rudolf Staudigl **Wilhelm Sittenthaler**

Joachim Rauhut **Auguste Willems**

Auditors' Report

We have audited the consolidated financial statements prepared by Wacker Chemie AG – comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes – together with the report on the position of the Company and the Group for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the report on the position of the Company and the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the report on the position of the Company and the Group based on our audit.

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

Our audit has not led to any reservations.

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

Munich, Germany, February 28, 2012
KPMG AG Wirtschaftsprüfungsgesellschaft

Kozikowski
Auditor

Dr. Grottel
Auditor

Multiyear Overview

Multiyear Overview

€ million	2011	Change in %	2010	2009	2008	2007
Sales	**4,909.7**	3.4	4,748.4	3,719.3	4,298.1	3,781.3
Income before tax	**567.4**	–22.5	732.3	3.3	641.8	632.1
Net income for the year	**356.1**	–28.4	497.0	–74.5	438.3	422.2
EBITDA	**1,104.2**	–7.6	1,194.5	606.7	1,055.2	1,001.5
EBIT	**603.2**	–21.1	764.6	26.8	647.9	649.6
Fixed assets	**3,797.7**	16.0	3,273.5	3,017.5	2,951.7	2,401.9
Intangible assets	**30.2**	–9.0	33.2	22.0	24.7	10.1
Property, plant and equipment	**3,502.0**	15.7	3,027.2	2,778.5	2,659.6	2,123.4
Financial assets	**265.5**	24.6	213.1	217.0	267.4	268.4
Current assets, incl. deferred taxes + prepaid expenses and deferred charges	**2,439.3**	9.5	2,227.7	1,524.4	1,673.4	1,516.2
Liquid funds	**473.9**	–13.1	545.2	363.6	204.2	366.5
Equity	**2,629.7**	7.5	2,446.8	1,942.4	2,082.8	1,865.6
Subscribed capital	**260.8**	–	260.8	260.8	260.8	260.8
Capital reserves	**157.4**	–	157.4	157.4	157.4	157.4
Treasury shares	**–45.1**	–	–45.1	–45.1	–45.1	–45.1
Retained earnings / consolidated net income / other equity items	**2,230.3**	8.8	2,049.0	1,552.4	1,695.3	1,477.2
Non-controlling interests	**26.3**	6.5	24.7	16.9	14.4	15.3
Borrowed capital	**3,607.3**	18.1	3,054.4	2,599.5	2,542.3	2,052.5
Provisions	**904.2**	1.2	893.2	867.8	719.5	651.6
Liabilities, incl. deferred taxes + prepaid expenses and deferred charges	**2,703.1**	25.1	2,161.2	1,731.7	1,822.8	1,400.9
Total assets	**6,237.0**	13.4	5,501.2	4,541.9	4,625.1	3,918.1
Employees (average for the year)	**16,934**	5.6	16,033	15,719	15,798	14,926
Employees (Dec. 31)	**17,168**	5.2	16,314	15,618	15,922	15,044
Employees (total)	**17,168**	5.2	16,314	15,618	15,922	15,044

€ million	2011	Change in %	2010	2009	2008	2007
Key profitability figures						
Return on sales (EBIT) = EBIT / sales (%)	**12.3**	–23.6	16.1	0.7	15.1	17.2
Return on sales (EBITDA) = EBITDA / sales (%)	**22.5**	–10.7	25.2	16.3	24.6	26.5
Return on equity = net income for the year / equity (as of Dec. 31) (%)	**13.5**	–33.3	20.3	–3.8	21.0	22.6
ROCE – return[1] on capital employed = EBIT / capital employed (%)	**18.1**	–27.0	24.8	0.9	25.7	25.3
Key statement of financial position figures						
Investment intensity of the fixed assets = fixed assets / total assets (%)	**60.9**	2.4	59.5	66.4	63.8	61.3
Equity ratio = equity / total assets (%)	**42.2**	–5.2	44.5	42.8	45.0	47.6
Capital structure = equity / borrowed capital (%)	**72.9**	–9.0	80.1	74.7	81.9	90.9
Cash flow and investments						
Cash flow from operating activities	**867.0**	–21.4	1,103.1	767.5	1,005.4	1,322.5
Cash flow from long-term investment activities	**–831.5**	22.0	–681.5	–800.4	–983.7	–678.8
Cash flow from financing activities	**37.4**	>100.0	3.7	92.5	–87.7	–318.9
Net cash flow = operating cash flow + investment cash flow + additions from finance leases	**6.2**	–98.5	421.6	–32.9	21.7	643.7
Investments (incl. financial assets)	**981.2**	41.2	695.1	740.1	916.3	699.3
Share and valuation						
Consolidated net income	**352.6**	–28.1	490.7	–70.8	439.4	422.0
Earnings per share (€) = consolidated net income / number of shares	**7.1**	–28.1	9.9	–1.4	8.8	8.5
Market capitalization (total number of shares without treasury shares)	**3,087.5**	–52.4	6,487.9	6,066.7	3,711.4	9,821.3
Number of shares	**49,677,983**	–	49,677,983	49,677,983	49,677,983	49,677,983
Price as of reporting date Dec. 31	**62.2**	–52.4	130.6	122.1	74.7	197.7
Dividend per share (€)	**2.20**	–31.3	3.20	1.20	1.80	3.00
Dividend yield (%)	**2.0**	–28.6	2.8	1.4	1.5	2.0
Capital employed[1]	**3,328.6**	8.1	3,078.9	2,878.4	2,520.6	2,566.9

[1] 2011: average value throughout the quarters. 2010 and before: half-year average

Chemical Glossary

B

Biologics
Therapeutically effective proteins (pharmaceutical proteins) that, unlike traditional pharmaceutical actives, are bioengineered and can help in the diagnosis, cure or prevention of diseases.

Biopolymers
Polymers that are derived from renewable raw materials, or biodegradable bio-based and petroleum-based polymers. Biopolymers offer alternatives to conventional petrochemical products.

Biotechnology
Biotech processes use living cells or enzymes to transform and produce substances. Depending on the application, a distinction is made between red, green and white biotechnology. Red biotechnology: medical and pharmaceutical applications. Green biotechnology: agricultural applications. White biotechnology: biotech-based products and industrial processes, e.g. in the chemical, textile and food industries.

C

Chlorosilanes
Compounds of silicon, chlorine and hydrogen. The semiconductor industry mainly uses trichlorosilane to make polysilicon and for the epitaxial deposition of silicon.

Cyclodextrins
Cyclodextrins belong to the family of cyclic oligosaccharides (i.e. ring-shaped sugar molecules). They are able to encapsulate foreign substances, such as fragrances, and to release active ingredients at a controlled rate. WACKER BIOSOLUTIONS produces and markets cyclodextrins.

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

D

Dispersible Polymer Powders
Created by drying dispersions in spray or disc dryers. VINNAPAS® polymer powders from WACKER are recommended as binders in the construction industry, e.g. for tile adhesives, self-leveling compounds and repair mortars. The powders improve adhesion, cohesion, flexibility and flexural strength, as well as water retention and processing properties.

Dispersion
Binary system in which one component is finely dispersed in another. VINNAPAS® dispersions from WACKER are vinyl-acetate-based binary copolymers and terpolymers in liquid form. They are mainly used as binders in the construction industry, e.g. for grouts, plasters and primers.

E

Elastomers
Polymers that exhibit almost perfectly elastic behavior, i.e. they deform when acted upon by an external force and return to their exact original shape when the force is removed. While the duration of the force has no effect on perfectly elastic behavior, the temperature does.

Ethylene
Ethylene is a colorless, highly reactive gas and a key raw material in the chemical industry.

G

Good Manufacturing Practice (GMP)
GMP is a general term used to describe a collection of rules and stipulations that must be complied with when specific products are manufactured and handled in order to safeguard their quality. GMP guidelines are issued by bodies such as the US Food and Drug Administration (FDA) and the EU.

H

Hybrid Compounds

Materials created by chemically linking silicones and organic polymers. They combine the typical properties of both substance classes.

I

Ingredients

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

P

Polymer

A polymer is a large molecule made up of smaller molecular units (monomers). It contains between 10,000 and 100,000 monomers. Polymers can be long or ball-shaped.

Polymer Blends

Mixtures of synthetic and natural products in which the renewable raw material forms the main component comprising at least 65 percent. The VINNEX® binder system allows polymer blends to be produced from renewable raw materials such as starch, polylactic acid (PLA) or polyhydroxyalkanoates (PHA).

Polysilicon

Hyperpure polycrystalline silicon from WACKER POLYSILICON is used for manufacturing wafers for the electronics and solar industries. To produce it, metallurgical-grade silicon is converted into liquid trichlorosilane, highly distilled and deposited in hyperpure form at 1,000 °C.

Pyrogenic Silica

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

Silanes

Silanes are used as monomers for the synthesis of siloxanes or sold directly as reagents or raw materials. Typical applications include surface treatment, reagents in pharmaceutical synthesis or coupling agents for coatings.

Silicon

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

Silicon Wafer

A silicon wafer is a disc with a thickness of between approximately 200 and 800 µm and is used by the semiconductor industry for the manufacture of semiconductor devices, i.e. integrated circuits and discrete components.

Silicones

General term used to describe compounds of organic molecules and silicon. According to their areas of application, silicones can be classified as fluids, resins or rubber grades. Silicones are characterized by a myriad of outstanding properties. Typical areas of application include construction, the electrical and electronics industries, shipping and transportation, textiles and paper coatings.

Siloxanes

Systematic name given to compounds comprising silicon atoms linked together via oxygen atoms and with the remaining valences occupied by hydrogen or organic groups. Siloxanes are the building blocks for the polymers (polysiloxane and polyorganosiloxane) that form silicones.

V

VINNAPAS®

VINNAPAS® is the name of WACKER's product line of dispersions, polymer powders, solid resins and their associated product solutions. VINNAPAS® dispersions and polymer powders are primarily used in the construction industry as polymeric binders, e.g. in tile adhesives, exterior insulation and finish systems, self-leveling compounds, and plasters.

Financial Glossary

B

Business Value Contribution (BVC)

BVC is a financial performance measurement that determines the value created by the WACKER Group and its units once all capital costs have been deducted. BVC is the difference between profit (EBIT) and the cost of capital (WACC 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)

Capital employed is made up of average noncurrent fixed assets, inventories, and trade receivables less trade payables and advance payments received.
It is a variable used in calculating the cost of capital.

Cash Flow

Cash flow represents the movement of cash and cash equivalents into or out of a business activity during a finite period. Net cash flow is the sum of cash flow from operating activities and noncurrent investment activities, before securities, including additions from finance leases.

E

EBIT

Earnings before interest and taxes: EBIT is a good indicator for comparing companies' profitability, since it is widely used across the corporate world.

EBITDA

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

Equity Ratio

The equity ratio is calculated from the ratio of equity to a company's total assets. It indicates the level of economic and financial stability at a company.

I

IFRS

The International Financial Reporting Standards (until 2001 International Accounting Standards, IAS) are compiled and published by the London-based International Accounting Standards Board (IASB). Since 2005, publicly-listed EU-based companies have been required to use IFRS in accordance with IAS regulations.

R

ROCE

Return on capital employed is the profitability ratio relating to the capital employed.

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Our Annual Report was published on March 14, 2012. It is available in German and English and you can access both versions online.
www.wacker.com/annual-report

This Annual Report contains forward-looking statements based on assumptions and estimates of WACKER's Executive Board. Although we assume the expectations in these forward-looking statements are realistic, we cannot guarantee they will prove to be correct. The assumptions may harbor risks and uncertainties that may cause the actual figures to differ considerably from the forward-looking statements. Factors that may cause such discrepancies include, among other things, changes in the economic and business environment, variations in exchange and interest rates, the introduction of competing products, lack of acceptance for new products or services and changes in corporate strategy. WACKER does not plan to update the forward-looking statements, nor does it assume the obligation to do so.

The English-language Annual Report is a translation of the German version. Only the original German version is binding.

Financial Calendar 2012

May 4
Interim Report
on the 1st Quarter

May 16
Annual Shareholders' Meeting 2012
Munich

July 25
Interim Report
on the 2nd Quarter

Sep. 11
Capital Markets Day
Dresden

Oct. 24
Interim Report
on the 3rd Quarter

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