

# Notes

## Accounting Principles and Methods

The WACKER Group (WACKER) is a globally active chemical group with divisions operating in the following fields: silicone and polymer chemistry, specialty and fine chemistry, polysilicon production and semiconductor technologies. The activities of the individual segments are explained in the management report. For further details, refer to page 86 onward

The Group's parent company, Wacker Chemie AG, is a listed company with headquarters in Munich, Germany. Its address is Wacker Chemie AG, Hanns-Seidel-Platz 4, 81737 München, Germany.

Wacker Chemie AG is registered under the number HRB 159705 at the Munich District Court. The consolidated financial statements, the combined management report and any other documents subject to disclosure requirements are submitted to the publisher of the online German Federal Bulletin. The consolidated financial statements and the combined management report for the WACKER Group and Wacker Chemie AG can also be viewed on the WACKER website. [www.wacker.com](http://www.wacker.com)

The declaration concerning the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) has been submitted and made accessible to the shareholders on WACKER's website. [www.wacker.com](http://www.wacker.com)

Wacker Chemie AG's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and the supplementary rules in Section 315a (1) of the German Commercial Code (HGB). All of the IFRS published by the International Accounting Standards Board (IASB) and valid for the fiscal year in question were adopted by the European Commission for application in the EU. The consolidated financial statements are, therefore, in compliance with the IFRS. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are applicable for the current fiscal year are likewise applied.

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

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

The Executive Board of Wacker Chemie AG authorized the consolidated financial statements on February 21, 2011. They will be submitted to the Supervisory Board for its meeting on March 10, 2011.

## New Accounting Standards

### Accounting Standards Applied for the First Time in 2010

Standard/ Interpretation		Mandatory from	Endorsed by EU	Substantial Changes and Impact on WACKER
Revised IFRS 1	First-Time Adoption of the International Financial Reporting Standards	Jan. 1, 2010	Nov. 25, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRS 1	Additional Exemptions for First-Time Adopters	Jan. 1, 2010	June 23, 2010	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRS 2	Share-Based Payment: Group Cash-Settled Share-Based Payment Transactions in the Statement of Financial Position	Jan. 1, 2010	March 23, 2010	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
IFRS 3	Business Combinations	July 1, 2009	June 3, 2009	If less than 100 percent of the shares are acquired, the purchaser had a new option either to recognize the entire amount of goodwill (including the minority stake) or, as was the case to date, only a pro rata amount for the acquired share. Incidental acquisition costs are to be expensed as incurred. The revised standard leads to different results in the case of business combinations, especially when not all the shares in a company are acquired.
Improvements to IFRS (May 2008)	Amendments to IFRS 5	July 1, 2009	Jan. 24, 2009	The changes had no impact on the statement, presentation, and valuation of the figures in the consolidated financial statements of Wacker Chemie AG.
Improvements to IFRS 2009	Annual Improvements Project	Jan. 1, 2010	March 24, 2010	The changes had no impact on the statement, presentation and valuation of the figures in the consolidated financial statements of Wacker Chemie AG.
IAS 27	Consolidated and Separate Financial Statements	July 1, 2009	June 3, 2009	The revised standard defines acquisitions and disposals of shares without loss of control as transactions between shareholders, and states that they be recognized in equity. In the case of sales involving loss of control, the remaining shares are to be reported at fair value. Any differences from the carrying amount are to be reported in the statement of income. Application of the standard had no substantial impact on the statement, presentation and valuation of the figures in the consolidated financial statements.
Amendments to IAS 39	Eligible Hedged Items (Financial Instruments: Recognition and Measurement)	July 1, 2009	Sept. 15, 2009	Application of the standard had no substantial impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IAS 39	Reclassification of Financial Assets: Effective Date and Transition	July 1, 2009	Sept. 9, 2009	Application of the standard had no substantial impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 12	Service Concession Arrangements	April 1, 2009	March 26, 2009	Application of the standard had no substantial impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 15	Agreements for the Construction of Real Estate	Jan. 1, 2010	July 22, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.

Standard/ Interpretation		Mandatory from	Endorsed by EU	Substantial Changes and Impact on WACKER
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 1, 2009	June 4, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 17	Distributions of Non-Cash Assets to Owners	Nov. 1, 2009	Nov. 26, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 18	Transfers of Assets from Customers	Nov. 1, 2009	Nov. 27, 2009	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.

### Accounting Standards/Interpretations Not Applied Prematurely

The International Accounting Standards Board (IASB) has published the following standards, interpretations, and changes to existing standards of which the application is not yet mandatory and which Wacker Chemie AG is not applying earlier than required.

### Standards, Interpretations, and Changes to Existing Standards Already Endorsed by the EU

Standard/ Interpretation		Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters	July 1, 2010	June 30, 2010	Due to a lack of relevant data, there was no impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IAS 32	Classification of Rights Issues	Feb. 1, 2010	Dec. 23, 2009	Application of the revised standard has no substantial impact on the consolidated financial statements of Wacker Chemie AG.
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010	July 23, 2010	Application of the revised standard has no substantial impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRIC 14	Advance Payments in the Context of Minimum Funding Requirements	Jan. 1, 2011	July 19, 2010	The changes may have an impact on the statement, presentation and valuation of the figures in the consolidated financial statements of Wacker Chemie AG.
IAS 24	Related Party Disclosures	Jan. 1, 2011	July 19, 2010	The revised version clarifies the definition of the term "related party." At the present time, Wacker Chemie AG does not expect this to result in any substantial changes in the representation of the figures in its consolidated financial statements.

## Standards, Interpretations and Changes to Existing Standards Not Yet Endorsed by the EU

Standard/ Interpretation		Publication by IASB	Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 9	Financial Instruments	Nov. 12, 2009	Jan. 1, 2013	Deferred	In the future, financial assets will be measured either at amortized cost or at fair value, depending on the business model of the company in question. At the moment, Wacker Chemie AG cannot conclusively assess what impacts the first-time application of this standard will have, should it be endorsed by the EU in its current form.
Miscellaneous	Improvements to IFRS 2010	May 6, 2010	July 1, 2010	Expected in Q1 2011	The changes may have an impact on the statement, presentation and valuation of the figures in the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRS 7	Financial Instruments: Disclosures in Notes	Sept. 28, 2010	July 1, 2011	Expected in Q2 2011	Application of the revised standard will have no substantial impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	Dec. 20, 2010	Dec. 1, 2012	Expected in Q3 2011	The amendment contains a partial clarification on the treatment of temporary taxable differences in connection with the adoption of IAS 40's fair value model. Investment property often makes it difficult to assess whether existing differences are recovered as part of continuing use or in the wake of a sale. The amendment therefore generally makes it necessary to presume recovery due to a sale. The adoption will have no substantial impact on the consolidated financial statements of Wacker Chemie AG.
Amendments to IFRS 1	Severe Hyper- Inflation and Removal of Fixed Dates for First-Time Adopters	Dec. 20, 2010	July 1, 2011	Expected in Q3 2011	The amendment replaces the existing references to the date of January 1, 2004 by a reference to the timing of the transition to IFRS. This amendment also includes rules for those cases in which hyperinflation makes it impossible for an entity to comply with all IFRS stipulations. The adoption will have no impact on the consolidated financial statements of Wacker Chemie AG.

### Scope of Consolidation

The consolidated financial statements include the financial statements of Wacker Chemie AG and its subsidiaries. Subsidiaries are defined as companies in which Wacker Chemie AG directly or indirectly holds a voting majority or has, in any other way, the power to govern the financial and business policies of an entity in order to benefit from its activities. In assessing control, we take potential voting rights that presently are exercisable or convertible into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Joint ventures and associated companies are defined as companies in which Wacker Chemie AG exercises significant influence. This normally means that it holds 20–50 percent of the voting rights. These companies are included in the consolidated financial statements using the equity method. If joint ventures and associated companies have their own subsidiaries, these are not included in the table below. Companies in which Wacker Chemie AG has a shareholding of less than 20 percent are shown as other investments under noncurrent financial assets.

Number	Germany	Rest of Europe	The Americas	Asia	Other regions	Total
<b>Fully consolidated subsidiaries (incl. parent company)</b>						
Jan. 1, 2010	15	12	5	20	2	54
Additions	-	1	-	-	-	1
Disposals and mergers	-1	-	-	-4	-	-5
Reclassifications	-	-	-	-	-	-
<b>Dec. 31, 2010</b>	<b>14</b>	<b>13</b>	<b>5</b>	<b>16</b>	<b>2</b>	<b>50</b>
<b>Companies consolidated using the equity method</b>						
Jan. 1, 2010	1	-	1	4	-	6
Disposals and mergers	-	-	-1	-	-	-1
<b>Dec. 31, 2010</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>5</b>
<b>Non-consolidated affiliated companies<sup>1</sup></b>						
Jan. 1, 2010	1	-	-	-	-	1
<b>Dec. 31, 2010</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Total</b>						
Jan. 1, 2010	17	12	6	24	2	61
Additions	-	1	-	-	-	1
Disposals and mergers	-1	-	-1	-4	-	-6
<b>Dec. 31, 2010</b>	<b>16</b>	<b>13</b>	<b>5</b>	<b>20</b>	<b>2</b>	<b>56</b>

<sup>1</sup>Not consolidated on grounds of insignificance (W.E.L.T. Reisebüro GmbH; shareholding: 51 percent; sales in 2010 below €1 million; total assets below €0.5 million)

#### Changes in the Scope of Consolidation

<b>Additions of fully consolidated subsidiaries</b>	
Wacker Chemicals Norway AS, Holla, Norway (founded in 2010)	100%
<b>Disposals/mergers of fully consolidated subsidiaries</b>	
Wacker Silicones Technology (Shanghai) Ltd., China (liquidated as of March 1, 2010)	100%
Wacker Polymer Materials (Shanghai) Ltd., China (merged with Wacker Chemicals China (Holding) Co. Ltd., China, as of September 30, 2010)	100%
Wacker Polymer Systems (Zhangjiagang) Co. Ltd., China (merged with Wacker Chemicals (Zhangjiagang) Silicone Co. Ltd., China, as of September 30, 2010)	100%
Wacker Polysilicon GmbH & Co. KG, Nünchritz, Germany (merged with Wacker Chemie AG as of October 1, 2010)	100%
Wacker Chemicals China Ltd., China (liquidated as of October 29, 2010)	100%
<b>Additions/mergers of companies consolidated using the equity method</b>	
Thin Materials AG, Eichenau, Germany (successive acquisition of shareholding)	35%
<b>Disposals of companies consolidated using the equity method</b>	
Planar Solutions LLC, Adrian, Michigan, USA	50%

The changes in the scope of consolidation had no substantial impact on the Group's earnings, assets or financial position.

### Consolidation Methods

The consolidated financial statements are based on the separate financial statements of Wacker Chemie AG and its consolidated subsidiaries. With one exception, all of the companies have their statement of financial position date on December 31. The company with the divergent reporting date prepares interim financial statements as of December 31 for the purpose of inclusion in the consolidated financial statements.

All of the financial statements included in the consolidated financial statements were audited by independent auditors.

First-time consolidation is carried out in accordance with the purchase method, by setting off the acquisition cost against the Group's share in the equity of the consolidated subsidiaries at the time of their acquisition or first inclusion in the consolidated financial statements. The consolidated subsidiaries' equity is calculated on the basis of all identifiable assets, liabilities and contingencies, while all statement of financial position items are measured at fair value. Any positive difference between the subsidiary's acquisition cost and the pro rata equity ascertained in this way is capitalized as goodwill and subjected to an annual impairment test. Any negative difference is recognized directly as income. The capital consolidation is carried out by setting off the carrying amounts of the investments against the proportional equity of the subsidiaries.

Investments accounted for using the equity method are initially measured at cost when the acquisition is made. If the cost exceeds the pro rata share of equity, the difference (goodwill) is included in the carrying amount of the investment. The carrying amount has to be tested for possible impairment losses as of the statement of financial position date. If the cost is lower than the share of equity at the time of acquisition, this difference is included in the carrying amount and recorded in the statement of income as income from investments in joint ventures and associates. The cost is increased or reduced annually by the changes in equity corresponding to the proportion of the capital held by WACKER.

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

### Acquisitions and Disposals

Acquired businesses are accounted for using the purchase method, which requires that the assets acquired and liabilities assumed be recorded at their respective fair values applicable on the date WACKER gains control.

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

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

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

#### Disclosures on the Acquisition of Holla Metall on July 1, 2010, as per IFRS 3

Wacker Chemie AG concluded its acquisition of the silicon-metal production site in Holla (near Trondheim), Norway, from the FESIL Group (Norway) on July 1, 2010. This strategic investment secures WACKER's long-term supply of silicon metal and makes it more independent of fluctuating raw-material prices. Holla Metall's production capacity is around 50,000 metric tons of silicon metal per year, which corresponds to about a third of WACKER's current annual needs. The purchase price of €66.5 million was fully paid in cash during Q3 2010. There are no contingent considerations or outstanding purchase-price installments.

Silicon metal is one of WACKER's key raw materials. It is primarily used for producing silicones and hyperpure polysilicon. The silicon-metal market is volatile. This is because there are roughly ten silicon-metal manufacturers worldwide and their plant-utilization levels vary. The Holla site is able to supply a very pure grade of silicon metal that meets WACKER's requirements.

As part of an asset deal effective as of July 1, 2010, WACKER acquired all of FESIL's production facilities in Holla, including the related real estate and working capital. WACKER has taken on the 129 employees at Holla. The purchase price allocation complied with IFRS 3 because the acquisition of the site meets IFRS 3 criteria. First-time consolidation of the transaction took effect July 1, 2010.

The values determined at the time of acquisition and the fair values of the assets acquired and liabilities assumed pursuant to IFRS 3 are as follows:

€ million	Value determined on July 1, 2010	Purchase price allocation (PPA)	Fair value
Other intangible assets	–	10.7	10.7
Land, buildings	3.1	3.1	6.2
Property, plant and equipment	15.9	15.9	31.8
Inventories	13.0	–	13.0
Trade receivables	14.2	–	14.2
Other current financial assets	0.1	–	0.1
Cash and cash equivalents	0.4	–	0.4
<b>Total assets acquired</b>	<b>46.7</b>	<b>29.7</b>	<b>76.4</b>
Provisions for pensions and similar obligations	0.5	–	0.5
Finance lease obligations	2.3	–	2.3
Trade payables	3.5	–	3.5
Other current financial liabilities	2.5	–	2.5
Other provisions and non-financial obligations	1.1	–	1.1
<b>Total obligations assumed</b>	<b>9.9</b>	<b>–</b>	<b>9.9</b>
<b>Total net assets acquired</b>	<b>36.8</b>	<b>29.7</b>	<b>66.5</b>

The hidden reserves, reported as intangible assets in the purchase price allocation, mainly consist of the acquired technological expertise and acquired order backlog from existing supply contracts.

A minor negative difference of €24,000 is retained from the purchase of Holla. This difference has been reported under other operating income. No contingent liabilities or contingent assets have been recognized. Trade receivables were measured at fair value at the time of acquisition. No impairments were applied to the contractual receivables.

Since the time of acquisition, the Holla production site contributed €-1.8 million to the Group's EBITDA. The Holla site posted sales to external third parties of €25.5 million for the period July 1 through December 31, 2010. If the transaction had taken place as of January 1, 2010, consolidated sales would have been around €17 million higher and consolidated EBIT would have increased by about €1.1 million.

In addition, as part of an asset deal, WACKER acquired the South Korean brand Lucky-Silicone and its production facilities, including the related real estate, effective as of December 6, 2010. The inventories and receivables related to this business were also assumed. On the whole, silicone sealants are manufactured and marketed in South Korea under the Lucky-Silicone brand. The purchase price was €14.7 million and was fully paid in cash. At the time of the acquisition, the carrying amount of the acquired assets was €9.2 million, compared to liabilities of €0.3 million. The difference between the carrying amount of the acquired net assets and the purchase price is mainly accounted for by the hidden reserves in the fixed assets (€0.9 million), acquired intangible assets derived from trademark rights and the customer base (€4.5 million), and a small amount of goodwill (€0.4 million). The purchase price allocation was concluded on December 31, 2010. No substantial impact on the Group's sales and earnings resulted from the purchase. Had this transaction taken place as per January 1, 2010, consolidated sales would have been around €20 million higher and EBIT would have been up some €2 million.

The transaction costs attributable to the acquisition totaled €0.3 million and were reported in the statement of income.

In December 2010, WACKER sold its 50-percent stake in the joint venture Planar Solutions LLC, USA, for €25.4 million to its joint venture partner FUJIFILM Electronic Materials. The carrying amount of the equity investment was €6.9 million. Profit from the sale is reported under other operating income. The disposal proceeds of \$34.5 million were paid entirely in cash.

### Foreign Currency Translation

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

The financial statements of consolidated companies which are prepared in foreign currencies are translated on the basis of the functional currency principle using the modified reporting date rate method, in which balances are translated from the functional currency to the reporting currency using the average rates of exchange prevailing on the statement of financial position date, while income statement amounts are translated using the period's average exchange rates. As the Group's subsidiaries conduct their business along autonomous lines financially, commercially and organizationally, the functional currency is basically identical to the company's local currency. Any currency differences arising from the translation of equity are recognized in the other equity items. Translation differences resulting from divergent exchange rates in the statement of income are likewise included there. If any Group companies are removed from the scope of consolidation, any translation difference is reclassified from equity to profit or loss.



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

	ISO Code	Exchange rate as of		Average exchange rate	
		Dec.31,2010	Dec.31,2009	2010	2009
US dollar .....	USD	1.33	1.44	1.33	1.39
Japanese yen .....	JPY	108.46	132.98	116.36	130.14
Singapore dollar .....	SGD	1.71	2.02	1.81	2.02
Chinese renminbi .....	CNY	8.79	9.84	8.98	9.52

### Estimates and Assumptions Used in Preparing the Consolidated Financial Statements

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

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

The expected useful life and depreciation of intangible assets, property, plant and equipment are based on past experience, plans and estimates. This includes estimates of the period and allocation of future cash inflows derived from the investments made and from future technical advancements.

Impairment tests are performed for assets if specific indicators point toward a possible impairment loss or reversal of an impairment loss. In the case of a possible impairment, an estimate must be made of the recoverable amount of the affected asset that corresponds to the higher value of the fair value less cost to sell or the value in use. To ascertain the value in use, the discounted future cash flows of the affected asset must be determined. The estimate of the discounted future cash flows contains significant assumptions such as, in particular, those regarding future selling prices and sales volumes, costs, and discount rates. Although WACKER is assuming that the estimates of the relevant expected useful lives and of discounted future cash flows, as well as the assumptions regarding the general economic conditions and the development of the economic sectors are reasonable, a change in the assumptions or circumstances might necessitate a change in the analysis. This could result in additional impairments or reversals of impairment losses in the future.

Significant risks inherent in the environmental protection provisions and in provisions stemming from claims for damages and onerous contracts are possible changes in the cost estimates, changes in the likelihood of their utilization, and enhanced statutory provisions concerning the elimination and prevention of environmental damage. [See Note 14](#)

The accounting of pensions and similar obligations is in accordance with actuarial valuations. These valuations are based on statistical and other factors in order to anticipate future events. The factors include the discount rate, the expected return on plan assets, expected salary and pension increases, the mortality rate and rate increases for preventive healthcare. These assumptions could, due to changed market and economic conditions, vary considerably from actual developments, consequently leading to essential changes to pension and similar obligations, as well as the associated future expenses.

[Refer to Note 13](#)

At the end of each reporting period, the Group assesses whether the probability of future tax benefits being realized is sufficient to recognize deferred taxes. Among other things, this requires that management evaluate the tax benefits resulting from currently available tax strategies and future taxable income, as well as taking additional positive and negative factors into account.

### Accounting Principles

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

The Group's consolidated financial statements are based on the principle of the historical cost of acquisition and production, with the exception of the items reflected at fair value, such as available-for-sale financial assets and derivatives.

Except for the circumstances described in the explanatory notes under changes in valuation methods, the accounting methods correspond to those used for the last consolidated financial statements as of the end of the previous fiscal year. There may be limits to comparability in the case of significant acquisitions of fully consolidated companies. This topic is dealt with in the explanation of the scope of consolidation. Insofar as amounts from the previous year are adjusted, these are explained in the relevant Notes.

**Sales** encompass the counterperformance or claim received for the fair values for the sale of goods and services within the scope of ordinary activities. These are reported without VAT and other taxes incurred in connection with sales and without discounts and price reductions. The sales are deemed to be recognized when the deliveries and services owed have been rendered and the main opportunities and risks of ownership have passed to the purchaser. Sales from services are recognized once services are rendered. Information on the development of sales by division and region is provided in the section on segment reporting.

WACKER does not conduct any business that requires using the percentage-of-completion method for recognizing sales of long-term construction contracts.

**Cost of goods sold** shows the costs of the products, merchandise and services sold. In addition to directly attributable costs, such as material costs, personnel expenses and energy costs, they encompass overheads including depreciation and inventory write-downs. This item also includes the cost of outward freight.

**Selling expenses** include costs incurred by the sales organization, advertising, market research, and application support on customers' premises. This item also includes commission expenses.

**Research and development expenses** include costs incurred in the development of products and processes. Research costs in the narrower sense are recognized as expenses when they are incurred. They are not capitalized. Development costs are capitalized only when all the prescribed recognition criteria have been met cumulatively, the research phase can be separated clearly from the development phase, and the costs incurred can be allocated to the individual project phases without any overlaps. Due to the many interdependencies within the development projects and the uncertainty about which products will ultimately become marketable, not all of the capitalization criteria in IAS 38 are currently satisfied.

**General administrative expenses** include the pro rata payroll and material costs of corporate control functions, human resources, accounting and information technology, unless they have been charged as an internal service to other cost centers and hence, in certain circumstances, to other functional areas.

Operating expenses are reported as expenses when the performance is utilized, i.e. when the expense is incurred. Interest income is valued pro rata temporis, taking account of the outstanding loan amount and the effective interest rate to be applied. Dividend income from financial investments is reported when the legal claim to payment arises.

**Intangible assets acquired against payment** are measured at cost and, if their useful lives can be determined, are amortized regularly on a straight-line basis. The useful life is taken to be between four and 15 years unless otherwise indicated, e.g. by the life of a patent. Amortization of intangible assets (apart from goodwill) is allocated to the functional areas that use them. Intangible assets with indefinite useful lives undergo an annual impairment test. At present, no intangible assets with indefinite useful lives have been capitalized.

**Internally generated intangible assets** are capitalized if it is probable that a future economic benefit can be associated with the use of the asset and the costs of the asset can be determined reliably. They are recognized at cost and amortized regularly using the straight-line method. Their stated useful lives correspond to those of the intangible assets acquired against payment. If development costs are capitalized, they consist of the costs directly attributable to the development process. Capitalized development costs are amortized regularly over the useful life of the corresponding production facilities as from the start of production.

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

**Property, plant and equipment** is capitalized at cost and depreciated regularly using the straight-line method over its expected economic useful life. In addition to the purchase price, acquisition costs include incidental acquisition costs as well as any costs incurred in the demolition, dismantling, and/or removal of the asset in question from its site and in the restoration of that site. Any reductions in the price of acquisition reduce the acquisition costs. There was no revaluation of property, plant and equipment on the basis of the provisions in IAS 16. Day-to-day maintenance and repair costs are expensed as incurred. Costs for replacing parts or for major overhauls are capitalized if items of property, plant and equipment embody future economic benefits that are likely to flow to the Group and if the costs can be measured reliably.

**Grants from third parties** reduce acquisition and production costs. Unless otherwise indicated, these grants (investment subsidies) are provided by government bodies. Income grants that are not offset by future expenses are recognized as income. Until the funds have been received, grants are recognized as separate assets. For grants involving a legal claim, the claim to the grant is posted in profit or loss if the company has, on the reporting date, fulfilled the material requirements for provision of such a grant and has, by the closing date, submitted the necessary application form or is highly likely to do so by this date.

**Financing costs** which were incurred in connection with particular, qualified assets and can be attributed directly to them are recognized as part of acquisition or production costs until the assets are used for the first time. In addition, financing costs are not reported as part of acquisition or production costs. WACKER accounts for financing costs as per IAS 23 (Borrowing Costs) if they concern major, long-term investments in production plants.

The cost of **internally generated assets** includes all costs directly attributable to the production process, as well as appropriate portions of the production-related overheads.

If **property, plant and equipment is shut down, sold or abandoned**, the gain or loss from the difference between the sale proceeds and the residual carrying amount is recognized under other operating income or expenses. The acquisition or production costs, and the accumulated depreciation, are derecognized.

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

The **depreciation** of property, plant and equipment is generally carried out in accordance with the following useful lives:

	Useful life in years
Production buildings .....	20 to 40
Other buildings .....	10 to 30
Plant and machinery .....	6 to 12
Motor vehicles .....	4 to 6
Factory and office equipment .....	6 to 10

If, having been measured in accordance with the above principles, the carrying amounts of intangible assets or items of property, plant and equipment that were amortized or depreciated are higher than their recoverable amounts as of the reporting date, corresponding **impairment losses** are recognized as an expense.

The impairment is tested when relevant events or changes in circumstances indicate that it might no longer be possible to realize the net carrying amount. At the end of every reporting period, WACKER checks whether there are triggering events for recognizing (or reversing) impairments. An impairment loss is recognized, corresponding to the net carrying amount that exceeds the recoverable amount. The recoverable amount is the higher amount of the fair value less cost to sell, and the value in use. The value in use results from the present value of the estimated future cash flows from the use of the asset. In assessing this value, risk-adjusted pre-tax interest rates are used in a segment-specific manner. For the Group, an average rate of 12 percent (2009: 12 percent) was applied. In order to determine the cash flow, assets are, if required, combined at the lowest level for which cash flows can be identified separately (cash-generating units). If the impairment loss no longer exists or has decreased, impairment losses are fully or partially reversed. The revised amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. Impairments are reported under other operating expenses and reversals of impairment losses under other operating income.

**Investment property** is measured in accordance with the acquisition cost model. Investment property consists of land and buildings that are held to earn rental income or for capital appreciation, rather than for use in captive production, supply of goods or services, for administrative purposes or for sale in the normal course of business. The fair value of this property is regularly measured through external property valuations.

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

**Shares in non-consolidated affiliated companies and investments** are measured at cost, unless divergent market values are available. Changes in market values are posted to the statement of income upon realization by disposal or if the market value falls below the

acquisition cost. Loans are valued at amortized cost, except for non-interest-bearing and low-interest loans, which are measured at their present value.

**Investments in joint ventures and associates** are accounted for using the equity method, with the carrying amount generally reflecting the Group's pro rata share of equity. In the process, pro rata net results are posted to the consolidated income statement and increase or decrease the carrying amount. Any changes in equity recognized directly in the investee's equity are also recognized directly under equity in the consolidated financial statements. Dividends paid by joint ventures and associates reduce their equity and, therefore, reduce the carrying amount without affecting profit. If a joint venture or associate faces losses that have exhausted its equity, the carrying amount of the investment is written off in full in the consolidated statement of financial position. Further losses are taken into account only if there are noncurrent unsecured receivables against the associated company or the Group has entered into additional obligations or made payments for the associated company. The carrying amount is not increased until the loss carryforward has been set off and the equity is positive again.

A **financial instrument** is a contract that gives rise to a financial asset at one company and a financial liability or equity instrument at another company. Financial instruments are recognized in the consolidated financial statements at the time that WACKER becomes a contracting party to the financial instrument.

In the case of purchase or sale on usual market terms (purchase or sale within the framework of a contract of which the terms require delivery of the asset within the timeframe generally established by regulations or conventions prevailing on the market in question), the settlement date is relevant to the initial recognition or derecognition. This is the date on which the asset is delivered to or by WACKER. In general, financial assets and financial liabilities are not offset. A net amount is presented in the statement of financial position when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis. Where financial instruments are combined, borrowed capital and equity components are separated and shown separately by the issuer.

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

The **fair value** of financial instruments is generally equal to the amount the Group would receive or pay if it exchanged or settled the financial instruments on the statement of financial position date. If available, quoted market prices are used for financial instruments. Otherwise, fair values are calculated based on the market conditions prevailing on said reporting date – interest rates, exchange rates, commodity prices – using average exchange rates. In doing so, fair values are calculated using option pricing models for currency and interest rate options or the discounted cash flow method for interest rate swaps. The fair values of some derivatives are based on external valuations by our financial partners.

**Financial assets** at WACKER encompass, in particular, cash and cash equivalents, trade receivables and loans and receivables issued, held-to-maturity financial investments, and original and derivative financial assets held for trading. WACKER makes no use of its optional right to value financial assets at fair value through profit and loss when they are reported for the first time.

**Financial liabilities** must be regularly settled in cash or another financial asset. This includes, in particular, the Group's own bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes (Schuldscheine) and derivative financial liabilities. WACKER does not use the option to categorize financial liabilities at fair value through profit or loss when they are initially recognized.

The manner in which financial assets and liabilities are subsequently valued depends on whether a financial instrument is held for trading purposes or until it matures, whether it is available for sale or whether it concerns loans and receivables granted by the company.

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

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

**Loans and receivables** are non-derivative financial instruments that are not quoted in an active market. They are accounted for at amortized cost using the effective interest method. This category comprises trade receivables, the financial receivables and loans included in other financial assets, the additional financial receivables and loans recognized in other receivables, and cash and cash equivalents.

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

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



**Derivative financial instruments** are used for hedging purposes with the sole aim of reducing the Group's exposure to foreign-currency exchange rates, interest rates, and commodity price risks arising from operating activities and the resultant financing requirements.

Derivative financial instruments are recorded as of the trading date. Derivative financial instruments are always measured at fair value, irrespective of the purpose or intention for which they were concluded. Positive market values are recognized as a receivable and negative current values as a liability. Changes in the market values of financial instruments used to limit the risk of lower future cash inflows or higher cash outflows (cash flow hedges) are recognized under other equity items while taking account of any related tax effects when their efficiency is adequate and documented as such. The profit contribution of the hedging instrument is not released to the statement of income until the hedged item is realized. If such a derivative is sold or the hedging relationship is discontinued, the change in its value continues to be recognized in other equity until the underlying transaction occurs. Steps taken to hedge the risk of changes in the market values of recognized assets or liabilities lead to fair value hedges. Changes in fair values are recorded for both the hedged underlying transaction and the derivative financial instruments used for hedging, and these changes are presented in the statement of income under other financial result. At the moment, WACKER does not hedge any net investments in foreign operations.

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

Changes in the values of forward exchange contracts and currency options are reflected in other operating income and expenses, while changes in the value of interest rate swaps and interest rate options are recognized in net interest income. Changes in fair values of commodity futures and commodity options are recognized in cost of goods sold. The hedging of planned transactions in foreign currencies is included in other operating income and expenses. The expenses and income are not set off.

**Inventories** are measured at cost using the average cost method. Lower net disposal values or realizable prices as of the statement of financial position date are taken into account by means of write-downs to their fair value less selling costs. The cost of goods sold includes directly attributable costs, appropriate parts of the indirect materials and indirect labor costs, and straight-line depreciation. Due to the relatively short-term production processes, financing costs are not included as part of acquisition or production costs. The overhead cost markups are determined on the basis of average capacity utilization. Write-downs are recognized for inventory risks resulting from extended periods of storage and reduced usability and to reflect other reductions in the recoverable amount. In the statement of income, the cost of unused production capacity is also included in the cost of goods sold. For production-related reasons, unfinished and finished goods are combined and reported under products.



**Trade receivables and other assets including tax receivables**, with the exception of financial derivatives, are basically stated at amortized cost. Risks are taken into account through appropriate depreciation posted as valuation allowances. Allowances for uninsured receivables – or for the deductible in the case of insured receivables – are made whenever legal action is taken. If an incoming receivable is no longer expected, even though an appeal has been lodged, the gross receivable is derecognized and any valuation allowances made are reversed. Noncurrent receivables which are non-interest-bearing or low-interest-bearing are discounted. WACKER is not a contractor for long-term production orders.

**Receivables from finance lease agreements** where WACKER acts as the lessor are reported under other assets. In the process, the gross value of the outstanding lease payments, less the still unrealized borrowed amounts, is capitalized as a receivable. The lease installments received are apportioned into the respective interest amount and the repayment of the outstanding receivable in such a way that the interest amount reflects the constant interest-bearing of the still outstanding receivable. The interest amount is reported in the statement of income under other financial result.

**Cash and cash equivalents** encompass cash in hand, demand deposits, and financial assets that can be converted into cash at any time and are only subject to a slight fluctuation in value. They have a residual period of up to three months upon their addition and are measured at amortized cost, which is equivalent to their nominal amount.

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

**Pension provisions** are set up in accordance with the projected unit credit method. This method takes account not only of pensions and entitlements to future pensions known as of the statement of financial position date, but also of estimated increases in salaries and pensions. The calculation is based on actuarial valuations, taking account of biometric calculation principles. Except for the effects from adjusted likely mortality rates, actuarial gains and losses are recognized as income or expenses only once they move outside a margin of 10 percent of the higher amount from the present value and the defined benefit obligation. If this happens, the excess amounts are distributed over the average future residual working lives of the employees. Actuarial gains and losses arising from the changed or adjusted mortality tables are posted immediately to the statement of income as a reduction or increase in the provision for pensions. The expense incurred in funding the pension provisions (service costs) is allocated to the costs of the functional areas concerned. The interest costs are reported under other financial result. If assets are invested externally (plan assets) to finance pension obligations, the fair values of these assets are set off against the present value of the obligations. The expected income from plan assets is likewise reported under other financial result.

In the statement of financial position, **provisions** are established for current legal or factual obligations if an outflow of resources to cover these obligations is probable and its amount can be estimated reliably. The assigned value of the provisions is based on the amounts that will be required to cover future payment obligations, identifiable risks and Group contingencies. As a rule, all those cost components which are also capitalized under inventories are included in the measurement of other provisions. Noncurrent provisions are measured at the discounted present value as of the reporting date. The interest rate corresponds to risk-equivalent market interest rates. Expected refunds, provided that they are sufficiently secure or legally enforceable, are not balanced against provisions. Instead, they are capitalized as separate assets if their realization is virtually certain.

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

If a reduction of the scope of the obligation results from a changed estimate, then the provision will be proportionately dissolved and the earnings allocated to the functional area originally charged with the expense when the provision is recognized.

**Emission certificates** assigned free of charge are measured at a nominal value of zero. Provisions are formed if the available portfolio of emission certificates does not cover the anticipated obligations. Proceeds from the sale of emission certificates allotted free of charge are included under other operating income.

**Financial liabilities** are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are likewise taken into account. Liabilities from finance lease agreements are shown as financial liabilities at the present value of the future lease installments.

**Trade payables and other liabilities (including tax liabilities)** are, as a general rule, recognized at amortized cost using the effective interest method.

**Contingencies** are potential obligations based on past events of which the existence depends on uncertain future events which are beyond the Group's influence, and on existing obligations that cannot be carried as liabilities because either an outflow of resources is unlikely or the amount of the obligation cannot be estimated with sufficient reliability. The values assigned to contingencies correspond to the degree of liability that exists on the statement of financial position date.

In accordance with the "management approach," **segment reporting** at WACKER is based on an internal organizational and reporting structure. The data used to determine key internal management ratios are derived from the IFRS-compliant consolidated financial statements.

**Disposal groups and discontinued operations** are reported in accordance with criteria defined in IFRS 5. The Group reports the assets and liabilities of a disposal group separately in the statement of financial position. Unless a disposal group qualifies for discontinued operations reporting, the income and expenses of the disposal group remain within continuing operations until the date of disposal. On initial classification as held for sale, noncurrent assets are recognized at the lower of the carrying amount and fair value less costs to sell, and depreciation and amortization ceases.

#### **Changes to the Valuation Methods**

No changes were made to the previous year's valuation methods or classifications of items in the financial statements.

## 01 Sales/Functional Costs/Other Operating Income/Other Operating Expenses

€ million	2010	2009
<b>Sales</b>		
Proceeds from deliveries of products and merchandise .....	4,662.2	3,634.3
Proceeds from other services .....	86.2	85.0
-----	4,748.4	3,719.3
<b>Cost of goods sold</b> .....		
-----	-3,402.1	-2,875.8
Cost of goods sold includes the following reversals/recognitions of impairments of inventories: .....	-9.9	7.1
<b>Other operating income</b>		
Income from currency transactions .....	143.2	123.2
Income from reversal of provisions .....	7.6	11.3
Insurance compensation .....	0.9	6.3
Income from reversal of valuation allowances for receivables .....	10.9	3.2
Income from disposal of assets .....	3.4	0.3
Subsidies/grants .....	5.6	6.2
Income from disposal of equity-method investments .....	18.5	-
Income from receipt of advance payments .....	8.6	29.3
Other operating income .....	15.4	28.0
-----	214.1	207.8
<b>Other operating expenses</b>		
Losses from currency transactions .....	-149.4	-150.2
Losses from valuation allowances for receivables .....	-0.9	-2.4
Losses from disposal of assets .....	-8.3	-2.0
Impairment of property, plant and equipment .....	-12.7	-182.1
Restructuring measures .....	-0.1	-21.1
Losses from canceled/provisional contracts .....	-9.0	-18.3
Other operating expenses .....	-29.4	-15.2
-----	-209.8	-391.3

The cost of goods sold includes an addition of €51.8 million to provisions for expected losses from the Group's silicone business in China as a result of a long-term purchase obligation involving higher transfer prices from long-term agreements between WACKER's Chinese subsidiaries and its siloxane-production joint venture with Dow Corning.

The other operating expenses include those expenses which are not attributable to functional costs.

Due to altered procurement and selling prices for the production and sale of pyrogenic silica (HDK®) in China, an impairment test was updated for the assets tied up in Chinese HDK® production. During comparison of the present value of the estimated future cash flows from HDK® production with the carrying values of the cash-generating unit, production and sales of HDK®, there was a renewed need to recognize an impairment of €7.5 million. An interest rate of 12 percent before tax was used for discounting purposes.

In addition, impairments on property, plant and equipment amounting to €1.7 million were carried out for the USA and China due to reductions in their fair values. Impairments of €3.5 million were taken into account for planned shutdowns of plants in Germany.

The impairments of the assets from the previous year impacted the following areas:

As the sales and earnings position at Siltronic deteriorated significantly and structural measures were agreed upon, impairment tests were conducted for the fixed assets tied up in this division. In the process, the present value of the estimated future cash flows from the use of the assets was compared with the carrying amounts. The companies included within the Siltronic segment were identified as the cash-generating units. An average interest rate of 12 percent before tax was used for discounting purposes. The total impairment was €139.2 million. €74.0 million of this sum was primarily accounted for by the cash-generating unit Siltronic AG, €38.8 million by Siltronic Japan Corp., and €26.2 million by Siltronic Corp. (USA).

In connection with substantial overcapacity in the pyrogenic silica (HDK®) area and an accompanying sharp price drop in China, an impairment test was carried out for the assets tied up in Chinese HDK® production. To do this, the present value of the estimated cash flow from HDK® production was compared with the carrying amounts of the cash-generating unit, production and sale of HDK®. The cash flows were discounted at an interest rate of 11 percent before tax. The total impairment amounted to €31.4 million.

In addition, impairments amounting to €4.3 and €3.5 million, respectively, were carried out for planned shutdowns of plants in China and Germany due to reductions in their fair values. A further impairment of €1.6 million concerned the grandstand at the stadium in Burghausen that is held as investment property.

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

€ million	2010	2009
<b>Income from investments in joint ventures and associates</b> .....	<b>-38.0</b>	-127.4
Of which pro rata result attributable to joint ventures .....	-17.2	-108.2
<b>Other investment income</b>		
Income from investments .....	-	0.1
Impairment of investments .....	-	-
.....	-	0.1
<b>Net interest income</b>		
Interest income .....	7.1	6.3
Of which from available-for-sale financial instruments .....	1.0	1.4
Interest expenses .....	-9.1	-2.0
.....	-2.0	4.3
<b>Other financial results</b>		
Other financial income .....	49.2	13.4
Interest effect of interest-bearing provisions/liabilities/financial leases .....	-28.3	-29.2
Other financial expenses .....	-51.2	-12.0
.....	-30.3	-27.8
<b>Financial result</b> .....	<b>-32.3</b>	-23.5

The income from investments in joint ventures and associates relates mainly to companies in Germany, the USA, China and Singapore. This income includes not only the pro rata shares of net results for the year, but also sums from the reversal of differences between the acquisition cost of the investment and the proportion of equity at the time of acquisition, as well as effects from pro rata eliminations of intercompany profits.

Borrowing costs of €13.5 million (2009: €12.9 million) were capitalized during the reporting period, bringing about a corresponding improvement in interest expenses. To the extent that a loan is attributable to a particular investment, the actual borrowing costs are capitalized. If no direct allocation is possible, the Group's average borrowing interest rate during the current period is applied. This rate was 4.5 percent in 2010 (2009: 5.3 percent).

The interest effect of interest-bearing provisions includes interest expenses from accumulated interest on pension provisions of €22.7 million (2009: €24.0 million).

Other financial income and expenses primarily result from currency translation.

### 03 Income Taxes

The calculation is based on the current legal position in the individual countries regarding applicable or anticipated tax rates as of the realization date. These are generally based on the legal stipulations valid or adopted as of the statement of financial position date.

In Germany, a solidarity surcharge is added to corporation tax. Trade income tax must also be paid, which varies depending on the municipality in which the company is located.

Tax Rates in Germany		
%	2010	2009
Weighted average trade income tax rate .....	12.2	12.4
Corporation tax rate .....	15.0	15.0
Solidarity surcharge on corporation tax .....	5.5	5.5

The income from foreign Group companies is subject to taxation at the tax rates valid in the country where the respective company is located. No deferred taxes on undistributed profits of subsidiaries were recognized. It was decided not to determine the possible resulting tax effects as the time and expense involved was unreasonably high. €570.2 million (2009: €563.4 million) is available for distribution.

€ million	2010	2009
Current taxes .....	-220.3	-101.5
Deferred taxes .....	-15.0	23.7
<b>Income taxes</b> .....	<b>-235.3</b>	<b>-77.8</b>
<b>Derivation of the effective tax rate</b>		
Income before taxes .....	732.3	3.3
Income tax rate for Wacker Chemie AG (%) .....	28.5	28.5
<b>Expected tax expenses</b> .....	<b>-208.7</b>	<b>-0.9</b>
Tax rate divergences .....	-11.8	2.1
Tax effect of non-deductible expenses .....	-3.3	-2.5
Tax effect of tax-free income .....	7.2	7.4
Taxes relating to other periods (current earnings) .....	-19.3	1.0
Changes in the valuation allowances for deferred tax assets <sup>1</sup> .....	-9.5	-47.1
Group equity result .....	-11.0	-36.2
Income tax change recognized directly in equity; tax accounts .....	13.7	-
Other divergences .....	7.4	-1.6
<b>Total income tax</b> .....	<b>-235.3</b>	<b>-77.8</b>
<b>Effective tax rate (%)</b> .....	<b>32.1</b>	<b>&gt; 100</b>

<sup>1</sup> The changes in the valuation allowances for deferred tax assets include valuation allowances for the impairment of fixed assets totaling €4.2 million (2009: €34.6 million).

Income taxes include current tax expenses of €13.2 million for prior years. These expenses are offset by deferred tax income of €11.6 million from other periods.

Allocation of Deferred Taxes		2010		2009	
€ million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	
Intangible assets .....	14.5	–	12.5	–	
Property, plant and equipment .....	3.9	105.2	8.7	90.0	
Financial assets .....	–	0.2	–	4.6	
Current assets .....	10.2	11.2	5.8	4.5	
Provisions for pensions .....	17.9	1.3	18.8	1.1	
Other provisions .....	41.1	6.2	33.8	0.3	
Liabilities .....	12.8	0.1	14.1	0.1	
Loss carryforwards .....	1.3	–	2.5	–	
Setting off for companies with profit and loss transfer agreement .....	–4.3	–4.3	–15.8	–15.8	
	97.4	119.9	80.4	84.8	
Setoffs .....	–83.9	–83.9	–71.2	–71.2	
Statement of financial position item .....	13.5	36.0	9.2	13.6	

The change in deferred tax assets and liabilities has been recognized in profit or loss with €–15.0 million (2009: €23.7 million), whereas €–4.4 million (2009: €–7.8 million) was recognized directly in equity. The existing tax loss carryforwards can still be used as follows:

€ million	2010	2009
Within 1 year .....	1.9	0.8
Within 2 years .....	5.8	0.5
Within 3 years .....	15.2	0.9
Within 4 years .....	17.7	0.1
Within 5 years or later .....	58.7	46.5
	99.3	48.8
Of which loss carryforwards not expected to be realizable .....	–94.2	–38.3
Of which loss carryforwards expected to be realizable .....	5.1	10.5



## 04 Development of Fixed Assets

€ million	Intangible assets	Property, plant and equipment	Investment property	Investment in associates accounted for using the equity method	Financial assets	Total
<b>Cost</b>						
Balance as of Jan. 1, 2009	130.0	7,707.0	14.1	191.8	74.6	8,117.5
Additions	3.9	703.5	–	32.1	0.6	740.1
Disposals	–11.0	–90.6	–	–	–0.7	–102.3
Transfers	2.0	–2.0	–	–	–	–
Other changes <sup>1</sup>	–	–	–	–83.7	2.4	–81.3
Exchange rate differences	–0.9	–36.9	–	–	0.1	–37.7
<b>Balance as of Dec. 31, 2009</b>	<b>124.0</b>	<b>8,281.0</b>	<b>14.1</b>	<b>140.2</b>	<b>77.0</b>	<b>8,636.3</b>
<b>Depreciation</b>						
Balance as of Jan. 1, 2009	105.3	5,047.4	10.5	–	2.6	5,165.8
Additions	8.4	388.7	0.7	–	–	397.8
Impairment	–	180.9	1.2	–	–	182.1
Disposals	–10.9	–86.3	–	–	–0.6	–97.8
Exchange rate differences	–0.8	–28.2	–	–	–0.1	–29.1
<b>Balance as of Dec. 31, 2009</b>	<b>102.0</b>	<b>5,502.5</b>	<b>12.4</b>	<b>–</b>	<b>1.9</b>	<b>5,618.8</b>
<b>Net carrying amounts as of Dec. 31, 2009</b>	<b>22.0</b>	<b>2,778.5</b>	<b>1.7</b>	<b>140.2</b>	<b>75.1</b>	<b>3,017.5</b>
Reduction in cost due to investment grant	–	–	–	–	–	352.1

<sup>1</sup>This item includes the changes resulting from the application of the equity method, as well as noncurrent interest receivables from loans.

€ million	Intangible assets	Property, plant and equipment	Investment property	Investment in associates accounted for using the equity method	Financial assets	Total
<b>Cost</b>						
Balance as of Jan. 1, 2010	124.0	8,281.0	14.1	140.2	77.0	8,636.3
Additions	3.7	597.1	–	0.8	12.3	613.9
Disposals	–2.2	–89.3	–2.4	–6.9	–0.5	–101.3
Transfers	1.7	–1.7	–	–	–	–
Changes in scope of consolidation	14.4	38.2	–	–	–	52.6
Other changes <sup>1</sup>	–	–	–	–43.0	2.8	–40.2
Exchange rate differences	5.2	233.8	–	20.6	11.9	271.5
<b>Balance as of Dec. 31, 2010</b>	<b>146.8</b>	<b>9,059.1</b>	<b>11.7</b>	<b>111.7</b>	<b>103.5</b>	<b>9,432.8</b>
<b>Depreciation</b>						
Balance as of Jan. 1, 2010	102.0	5,502.5	12.4	–	1.9	5,618.8
Additions	10.1	407.0	0.1	–	–	417.2
Impairment	–	12.7	–	–	–	12.7
Disposals	–2.4	–79.8	–2.3	–	–0.2	–84.7
Exchange rate differences	3.9	191.0	–	–	0.4	195.3
<b>Balance as of Dec. 31, 2010</b>	<b>113.6</b>	<b>6,033.4</b>	<b>10.2</b>	<b>–</b>	<b>2.1</b>	<b>6,159.3</b>
<b>Net carrying amounts as of Dec. 31, 2010</b>	<b>33.2</b>	<b>3,025.7</b>	<b>1.5</b>	<b>111.7</b>	<b>101.4</b>	<b>3,273.5</b>
Reduction in cost due to investment grant	–	–	–	–	–	365.2

<sup>1</sup>This item includes the changes resulting from the application of the equity method, as well as noncurrent interest receivables from loans.

## 05 Intangible Assets

Intangible assets include industrial property rights and similar rights and assets acquired at a charge. Changes in the scope of consolidation in fiscal 2010 also include the goodwill from the purchase of Lucky-Silicone in South Korea as an addition of €0.4 million.

In 2009, the goodwill from the acquisition of Wacker Biotech GmbH, which was written down to zero, was shown as a disposal originally amounting to €7.7 million. This means that, as of December 31, 2009, goodwill under intangible assets was included neither under cost nor under amortization.

## 06 Property, Plant and Equipment

€ million	Land, buildings and similar rights	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
<b>Cost</b>					
Balance as of Jan. 1, 2009	1,220.4	5,480.9	541.2	464.5	7,707.0
Additions	55.8	298.2	22.6	326.9	703.5
Disposals	-14.6	-50.2	-24.8	-1.0	-90.6
Transfers	45.5	323.6	12.2	-383.3	-2.0
Exchange rate differences	-10.4	-24.4	-0.1	-2.0	-36.9
<b>Balance as of Dec. 31, 2009</b>	<b>1,296.7</b>	<b>6,028.1</b>	<b>551.1</b>	<b>405.1</b>	<b>8,281.0</b>
<b>Depreciation</b>					
Balance as of Jan. 1, 2009	696.7	3,923.0	427.6	0.1	5,047.4
Additions	38.7	314.2	35.8	-	388.7
Impairment	59.2	119.2	2.5	-	180.9
Disposals	-13.1	-49.0	-24.2	-	-86.3
Transfers	-1.3	1.3	-	-	-
Exchange rate differences	-7.6	-20.5	-0.1	-	-28.2
<b>Balance as of Dec. 31, 2009</b>	<b>772.6</b>	<b>4,288.2</b>	<b>441.6</b>	<b>0.1</b>	<b>5,502.5</b>
<b>Net carrying amounts as of Dec. 31, 2009</b>	<b>524.1</b>	<b>1,739.9</b>	<b>109.5</b>	<b>405.0</b>	<b>2,778.5</b>
<b>Of which assets from finance leases</b>					
Gross values	89.7	49.2	0.1	-	139.0
Depreciation	-81.5	-25.3	-	-	-106.8
<b>Net carrying amounts</b>	<b>8.2</b>	<b>23.9</b>	<b>0.1</b>	<b>-</b>	<b>32.2</b>

€ million	Land, buildings and similar rights	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
<b>Cost</b>					
Balance as of Jan. 1, 2010	1,296.7	6,028.1	551.1	405.1	8,281.0
Additions	26.3	178.1	27.9	364.8	597.1
Disposals	-7.1	-61.2	-20.7	-0.3	-89.3
Transfers	45.9	250.6	10.9	-309.1	-1.7
Changes in scope of consolidation	7.6	28.6	0.1	1.9	38.2
Exchange rate differences	59.0	162.2	5.5	7.1	233.8
<b>Balance as of Dec. 31, 2010</b>	<b>1,428.4</b>	<b>6,586.4</b>	<b>574.8</b>	<b>469.5</b>	<b>9,059.1</b>
<b>Depreciation</b>					
Balance as of Jan. 1, 2010	772.6	4,288.2	441.6	0.1	5,502.5
Additions	39.5	333.9	33.6	-	407.0
Impairment	-	11.3	0.1	1.3	12.7
Disposals	-5.1	-58.3	-16.4	-	-79.8
Transfers	1.1	0.8	-1.9	-	-
Exchange rate differences	39.9	146.9	4.2	-	191.0
<b>Balance as of Dec. 31, 2010</b>	<b>848.0</b>	<b>4,722.8</b>	<b>461.2</b>	<b>1.4</b>	<b>6,033.4</b>
<b>Net carrying amounts as of Dec. 31, 2010</b>	<b>580.4</b>	<b>1,863.6</b>	<b>113.6</b>	<b>468.1</b>	<b>3,025.7</b>
<b>Of which assets from finance leases</b>					
Gross values	89.7	52.6	0.1	-	142.4
Depreciation	-86.0	-29.1	-	-	-115.1
<b>Net carrying amounts</b>	<b>3.7</b>	<b>23.5</b>	<b>0.1</b>	<b>-</b>	<b>27.3</b>

In the reporting year, borrowing costs amounting to €13.5 million (2009: €12.9 million) were capitalized as part of the cost of qualified assets. The average financing cost rate is 4.5 percent (2009: 5.3 percent).

### 07 Investment Property

Wacker Chemie AG owns real estate at its production site in Cologne, Germany. This is comprised of premises and infrastructural facilities (such as for energy and waste water). The premises are rented out or leased on the basis of long-term agreements. There is no finance lease. This real estate is subject to the same principles regarding depreciation method and useful life as assets that we use for our own purposes. These premises and the infrastructure in Cologne are operated, maintained and looked after by third parties who charge any costs incurred directly to the tenants or leaseholders.

In the reporting year, those sections of the Burghausen soccer stadium which Wacker Chemie AG had held as an investment were sold to Wirtschaftsbeteiligungsgesellschaft Burghausen mbH.

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

€ million	2010	2009
Fair value	13.8	14.1
Income from rent/operating leases	0.8	1.1
Costs	-0.2	-0.1

The fair value is based on an external expert opinion and is updated regularly. It was last updated in 2010.

### 08 Investments in Joint Ventures and Associates / Financial Assets

€ million	Investment in associates accounted for using the equity method	Investments	Other financial assets	Financial assets
<b>Cost</b>				
Balance as of Jan. 1, 2009	191.8	12.4	62.2	74.6
Additions	32.1	0.6	-	0.6
Disposals	-	-0.6	-0.1	-0.7
Other changes	-	-	2.4	2.4
Changes resulting from application of equity method	-83.7	-	-	-
Exchange rate differences	-	-	0.1	0.1
<b>Balance as of Dec. 31, 2009</b>	<b>140.2</b>	<b>12.4</b>	<b>64.6</b>	<b>77.0</b>
<b>Depreciation</b>				
Balance as of Jan. 1, 2009	-	2.6	-	2.6
Disposals	-	-0.6	-	-0.6
Exchange rate differences	-	-0.1	-	-0.1
<b>Balance as of Dec. 31, 2009</b>	<b>-</b>	<b>1.9</b>	<b>-</b>	<b>1.9</b>
<b>Net carrying amounts as of Dec. 31, 2009</b>	<b>140.2</b>	<b>10.5</b>	<b>64.6</b>	<b>75.1</b>
<b>Cost</b>				
Balance as of Jan. 1, 2010	140.2	12.4	64.6	77.0
Additions	0.8	0.6	11.7	12.3
Disposals	-6.9	-0.2	-0.3	-0.5
Other changes	-	-	2.8	2.8
Changes resulting from application of equity method	-43.0	-	-	-
Exchange rate differences	20.6	0.4	11.5	11.9
<b>Balance as of Dec. 31, 2010</b>	<b>111.7</b>	<b>13.2</b>	<b>90.3</b>	<b>103.5</b>
<b>Depreciation</b>				
Balance as of Jan. 1, 2010	-	1.9	-	1.9
Disposals	-	-0.2	-	-0.2
Exchange rate differences	-	0.4	-	0.4
<b>Balance as of Dec. 31, 2010</b>	<b>-</b>	<b>2.1</b>	<b>-</b>	<b>2.1</b>
<b>Net carrying amounts as of Dec. 31, 2010</b>	<b>111.7</b>	<b>11.1</b>	<b>90.3</b>	<b>101.4</b>

The disposal at the investments in associates accounted for using the equity method in 2010 concerns the sale of Planar Solutions LLC, Adrian (Michigan), USA.

In December 2010, a shareholder loan was granted to Siltronic Samsung Wafer Pte. Ltd., Singapore, in the amount of €11.7 million on normal market terms. The addition was shown under other financial assets. Over and above the interest and repayment agreements, the loan agreement grants WACKER the right to convert the loan into equity (call option). The exercise period for this option starts on January 1, 2016 and ends on March 31, 2016. In January 2011, the other joint-venture shareholder (Samsung) issued a loan of the same amount and at the same conditions, to which a call option is attached, as well.

The addition to the investments in associates accounted for using the equity method in 2009 mainly related to a capital payment into the joint venture Dow Corning (ZJG) Holding Co. Private Ltd., Singapore.

For more financial information on associated companies and joint ventures, [see Note 23](#)

### 09 Inventories

€ million	2010	2009
Raw materials and supplies .....	166.9	126.1
Products .....	319.0	279.6
Merchandise .....	40.5	32.3
Services not charged .....	0.5	0.5
Advance payments .....	3.8	2.7
.....	530.7	441.2
Of which recorded at fair value less selling expenses .....	84.5	89.1

## 10 Accounts Receivable/Other Assets/Tax Receivables

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
<b>Trade receivables</b> .....	<b>596.0</b>	-	<b>596.0</b>	<b>466.8</b>	-	<b>466.8</b>
Of which noncurrent, falling due >5 years .....	-	-	-	-	-	-
Other receivables from associated companies .....	<b>1.2</b>	-	<b>1.2</b>	<b>8.8</b>	<b>0.1</b>	<b>8.7</b>
Loan and interest receivables .....	<b>6.8</b>	-	<b>6.8</b>	<b>1.0</b>	-	<b>1.0</b>
Derivative financial instruments .....	<b>39.5</b>	<b>16.9</b>	<b>22.6</b>	<b>17.8</b>	<b>4.2</b>	<b>13.6</b>
Prepaid expenses and deferred charges .....	<b>5.9</b>	-	<b>5.9</b>	<b>40.3</b>	<b>31.0</b>	<b>9.3</b>
Investment fund shares <sup>1</sup> .....	<b>10.2</b>	<b>10.2</b>	-	<b>38.2</b>	<b>38.2</b>	-
Claims arising from investment grants ..	<b>68.9</b>	-	<b>68.9</b>	<b>28.7</b>	-	<b>28.7</b>
Claims against suppliers .....	<b>9.6</b>	<b>0.1</b>	<b>9.5</b>	<b>8.4</b>	-	<b>8.4</b>
Assets from excess pension-plan coverage .....	<b>10.3</b>	<b>9.7</b>	<b>0.6</b>	<b>7.3</b>	-	<b>7.3</b>
Sundry assets .....	<b>37.9</b>	<b>0.2</b>	<b>37.7</b>	<b>28.6</b>	<b>7.7</b>	<b>20.9</b>
<b>Other assets</b> .....	<b>190.3</b>	<b>37.1</b>	<b>153.2</b>	<b>179.1</b>	<b>81.2</b>	<b>97.9</b>
Of which noncurrent, falling due >5 years .....	-	<b>9.7</b>	-	-	<b>16.8</b>	-
<b>Tax receivables</b> .....	<b>99.8</b>	<b>12.7</b>	<b>87.1</b>	<b>64.5</b>	<b>12.3</b>	<b>52.2</b>
Of which noncurrent, falling due >5 years .....	-	<b>4.7</b>	-	-	<b>5.8</b>	-

<sup>1</sup> The investment fund shares serve to secure obligations for the phased-early-retirement program and are classified as available for sale. These fund shares are traded on active markets and pledged individually to employees participating in the phased-early-retirement program. Their market value amounts to €10.2 million (2009: €38.2 million).

Accounts receivable are shown at amortized cost, which corresponds to their market values. If not covered by insurance, default risks are taken into account with adequate valuation allowances.

Other receivables from associated companies contain the following receivables from finance leases:

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Other receivables from associated companies contain receivables from finance leases .....	<b>0.5</b>	-	-	<b>0.5</b>	-	-
Associated gross investment .....	<b>1.0</b>	<b>0.9</b>	<b>0.1</b>	<b>1.0</b>	<b>0.9</b>	<b>0.1</b>
Present value of outstanding minimum payments due .....	<b>0.4</b>	<b>0.4</b>	-	<b>0.5</b>	<b>0.4</b>	<b>0.1</b>
As yet unrealized financial income .....	<b>0.6</b>	<b>0.6</b>	-	<b>0.5</b>	<b>0.5</b>	-

The development of valuation allowances is as follows:

Development of Valuation Allowances						
€ million	2010			2009		
	Trade receivables	Other assets	Total	Trade receivables	Other assets	Total
As of Jan. 1	20.6	0.9	21.5	31.7	0.9	32.6
Utilization	-1.4	-	-1.4	-1.4	-	-1.4
Additions / reversals	-8.1	-	-8.1	-9.5	-	-9.5
Exchange rate differences	1.2	-	1.2	-0.2	-	-0.2
<b>As of Dec. 31</b>	<b>12.3</b>	<b>0.9</b>	<b>13.2</b>	<b>20.6</b>	<b>0.9</b>	<b>21.5</b>
<b>Overdue debts</b>						
<= 30 days	80.1	11.0	91.1	81.3	2.7	84.0
>31 <= 45 days	3.7	-	3.7	3.3	0.2	3.5
>45 days	11.7	5.1	16.8	25.9	13.1	39.0
<b>Total</b>	<b>95.5</b>	<b>16.1</b>	<b>111.6</b>	<b>110.5</b>	<b>16.0</b>	<b>126.5</b>

Valuation allowances are set up in the event of identifiable credit risks and exchange rate fluctuations. The maximum default risk is equal to the carrying amount of the uninsured receivables. No loans or receivables were renegotiated to prevent an overdue debt or possible impairment. Based on past experience and on the conditions prevailing as of the reporting date, there are no restrictions with regard to credit quality. The additions / reversals in the valuation allowances for receivables in the reporting year mainly relate to companies in the Siltronic group and Wacker Chemie AG.

## 11 Cash and Cash Equivalents / Securities

€ million	2010	2009
<b>Securities</b>	<b>252.2</b>	-
Of which current	41.4	-
Of which noncurrent	210.8	-
The securities mainly consist of bonds from various issuers which are classified as "held to maturity."		
<b>Cash and cash equivalents (liquid assets)</b>		
Cash equivalents	60.4	119.9
Demand deposits, cash on hand (cash)	484.8	243.7
	<b>545.2</b>	<b>363.6</b>

Demand deposits and cash on hand are shown at their nominal amounts. Cash and cash equivalents mainly consist of commercial papers (from issuers with first-class credit standing) which are classified as "held to maturity." They fall due after a maximum of three months.

## 12 Equity / Non-Controlling Interests

The subscribed capital (capital stock) of Wacker Chemie AG amounts to €260,763,000. It consists of 52,152,600 no-par-value shares (total). This corresponds to an accounting par value of €5 per share. There are no different classes of shares. All of the shares are common shares.

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

Units	2010	2009
Shares outstanding at the start of the fiscal year	49,677,983	49,677,983
<b>Shares outstanding at the end of the fiscal year</b>	<b>49,677,983</b>	49,677,983
Treasury shares in portfolio	2,474,617	2,474,617
<b>Total shares</b>	<b>52,152,600</b>	52,152,600

For more information on Wacker Chemie AG's shareholder structure, please refer to [Note 24](#)

Capital reserves include the amounts generated with share issues over and above their nominal values in previous years, as well as other contributions to equity made by shareholders.

Retained earnings include the amounts formed in previous fiscal years at Wacker Chemie AG, transfers from the Group's earnings for the year, the earnings of the consolidated companies less amounts due to minority shareholders, changes to consolidated items affecting income, and changes in the scope of consolidation.

The other equity items show both the differences arising from the translation of foreign subsidiaries' financial statements having reporting currencies other than the euro, and the effects of the valuation of financial instruments with no impact on income.

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

€ million	2010	2009
Profits	6.3	2.4
Losses	-	-6.1
<b>Net result attributable to non-controlling interests</b>	<b>6.3</b>	-3.7

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

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



### 13 Provisions for Pensions

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

The company pension plan makes a distinction between defined contribution and defined benefit plans. Defined contribution plans lead to no further obligation for the company beyond paying contributions into special-purpose funds. Group companies have both defined contribution and defined benefit plans. They are financed, on the one hand, by funds and Pensionskasse der Wacker Chemie VVaG, and, on the other, by provisions in the form of direct commitments. Pension obligations result from defined benefit plans in the form of entitlements to future pensions and ongoing payments for eligible active and former employees of the WACKER Group and their surviving dependents.

Employees at Wacker Chemie AG and other WACKER Germany subsidiaries are granted a basic pension plan via Wacker Chemie VVaG's legally independent pension fund. This is financed by member and company contributions. Employees who joined the pension fund by the end of 2004 are on a defined benefit model. The pension amount is the same regardless of the employee's age at which he/she starts paying contributions and of the interest generated from assets. Employees who joined the pension fund after January 1, 2005 are on a new basic-pension model. The guaranteed payments there are based on a fixed interest rate and the amount depends on the employee's age when he/she starts paying contributions. In this model, annual profit distributions can increase the future payment.

Additionally, employees in Germany have the option of converting part of their remuneration into direct benefit commitments. Benefit plans taken out by December 31, 2000 are measured (in accordance with the projected unit credit method) at the value of years' service to date/years served to retirement (pro rata temporis), whereas any benefit plans taken out on or after January 1, 2001 are measured at the present value of the defined benefit obligation.

In view of their pension-like character, obligations relating to the medical care of retired employees (USA) and severance payments are likewise included under pension provisions.

The obligations from direct benefit plans are calculated using the projected unit credit method, taking account of anticipated future payout and pension adjustments. The current service cost of pension benefit claimants results from the planned development of provisions for anticipated future pension payments. Any differences between those pension obligations calculated as planned and the defined benefit obligation at the end of the year are treated as actuarial gains or losses and, with the exception of effects of changed assumptions regarding probable mortality rates in the follow-up periods, are spread over the average remaining service years of the plan participants, insofar as these differences exceed 10 percent of the greater of the market value of the defined benefit obligation and the present value of the plan assets. WACKER takes the view that, as far as probable mortality rates are concerned, it will be necessary to assume continuous increases in life expectancy. For this reason, it does not make sense to smooth out the expenses for the period on the basis of changed or adjusted mortality tables. Deviations in the other valuation parameters will be included as actuarial losses or gains using the corridor method. An adjustment to the mortality tables in 2009 led, as a result of the change in the method used, to additional expenses of €47.9 million.

In compliance with their respective national legislation, some relatively small foreign subsidiaries take on pension-related obligations arising from severance payments after the scheduled termination of employment. These obligations are likewise reported as pension provisions.

The obligations are financed only in part by means of provisions. Group pension obligations are financed to a considerable degree by externally invested plan assets. In the case of both Wacker Chemie AG and the German Group companies, these assets are handled by Pensionskasse der Wacker Chemie VVaG.

The funding of Pensionskasse der Wacker Chemie VVaG by the German Group companies is included in expenses for pensions. The pension obligations resulting from the application of the projected unit credit method are reduced by the fair value of the plan assets and by still unrecognized actuarial losses, or increased by still unrecognized actuarial gains, provided that these do not concern effects from changes in likely mortality rates. Actuarial gains or losses from changed or adjusted mortality tables reduce or increase, respectively, the pension obligation reported.

If the fund assets exceed the obligation from the pension commitment, an asset is generally recorded. It can, however, be capitalized only on the condition that the reporting entity can draw commercial benefits from these assets, e.g. in the form of refunds from the plan or reductions in future contributions to the plan ("asset ceiling" pursuant to IAS 19.58 et seq.).

As Pensionskasse der Wacker Chemie VVaG sets its contributions in the manner stipulated by supervisory bodies, there is no access to the surplus fund assets in Germany. Surplus amounts are, therefore, not capitalized. Unless the fund assets cover the obligation, the net obligation is shown as a liability under pension provisions.

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

Parameters	Germany		USA		Japan	
	2010	2009	2010	2009	2010	2009
	%					
Actuarial interest rate .....	4.50	5.00	5.5	6.00	2.00	2.00
Payment trend .....	3.00	3.00	3.0/3.5	3.0/3.5	-	-
Expected return on assets .....	4.75	5.25	7.50	7.50	-	-

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

To arrive at the amount recognized as a defined benefit liability, the plan assets transferred into funds are balanced against the defined benefit obligation at the end of the year (financial status). Provisions for pensions and assets from excess pension-plan coverage are obtained after the actuarial profits and losses not yet recognized are deducted or added as appropriate.

€ million	Germany 2010	Foreign 2010	Total 2010	Total 2009
<b>Change in defined benefit obligation (DBO)</b>				
DBO as of Jan. 1	1,733.2	130.4	1,863.6	1,568.9
Current service cost	38.9	4.1	43.0	35.0
Past service cost	–	1.1	1.1	–
Interest cost	85.2	7.8	93.0	88.2
Contributions by beneficiaries	9.4	0.3	9.7	9.6
Actuarial profits (–) and losses (+)	155.5	12.2	167.7	227.3
Pension payments	–60.1	–4.6	–64.7	–62.4
Change in scope of consolidation	–	1.8	1.8	–
Exchange rate differences	–	12.3	12.3	–3.0
<b>DBO as of Dec. 31</b>	<b>1,962.1</b>	<b>165.4</b>	<b>2,127.5</b>	<b>1,863.6</b>
<b>Change in fund assets</b>				
Fund assets at present value as of Jan. 1	1,198.9	93.2	1,292.1	1,201.5
Return on fund assets	68.7	13.9	82.6	99.9
Employer contributions	23.6	7.6	31.2	29.0
Contributions by beneficiaries	9.4	0.3	9.7	9.6
Pension payments	–43.0	–4.2	–47.2	–46.2
Change in scope of consolidation	–	1.4	1.4	–
Exchange rate differences	–	7.5	7.5	–1.7
<b>Fund assets at present value as of Dec. 31</b>	<b>1,257.6</b>	<b>119.7</b>	<b>1,377.3</b>	<b>1,292.1</b>
<b>Financial status</b>	<b>704.5</b>	<b>45.7</b>	<b>750.2</b>	<b>571.5</b>
Actuarial profits/losses not yet included	–260.2	–29.6	–289.8	–137.5
“Asset ceiling” in accordance with IAS 19.58 et seq.	–	–	–	–
Other	–	–	–	–
Similar obligations	2.5	2.2	4.7	3.8
<b>Provisions for pensions</b>	<b>446.8</b>	<b>18.3</b>	<b>465.1</b>	<b>437.8</b>
Of which assets from pension plans with surplus coverage	1.4	8.9	10.3	7.3
Of which pension provisions	448.2	27.2	475.4	445.1
Extent to which provisions financed the DBO	704.5	45.7	750.2	571.5
Of which German-based companies in 2009	–	–	–	534.3
Of which foreign subsidiaries in 2009	–	–	–	37.2

The pension expenses incurred as a result of defined benefit plans and the sum total of all pension expenses consist of the following:

€ million	2010	2009
Service cost .....	-43.0	-35.0
Interest cost .....	-93.0	-88.2
Expected return on fund assets .....	70.2	65.5
Amortization of actuarial profits and losses .....	-4.7	-128.3
“Asset ceiling” effect .....	-	75.7
Repayment amount for retroactive pension-plan changes .....	-1.1	-
Other .....	0.1	-1.0
<b>Pension expenses from defined benefit plans</b> .....	<b>-71.5</b>	<b>-111.3</b>
Pension expenses from defined benefit plans .....	-2.1	-3.1
Other pension expenses .....	-4.6	-4.9
<b>Pension expenses</b> .....	<b>-78.2</b>	<b>-119.3</b>
Contributions to state pensions .....	-58.8	-54.5
<b>Expenses for post-employment benefits</b> .....	<b>-137.0</b>	<b>-173.8</b>
Of which included in payroll expenses (functional costs) .....	-114.3	-151.1
Of which included in other financial result .....	-22.7	-22.7

Deviations between the obligations and the plan assets due to the assumptions and the actual developments:

€ million	2010	2009	2008	2007
Defined benefit obligation .....	2,127.5	1,863.6	1,568.9	1,488.2
Of which experience-based adjustments .....	6.2	-1.9	-206.7	12.6
Fund assets .....	1,377.3	1,292.1	1,201.5	1,292.1
Of which experience-based adjustments .....	-1.8	-22.4	186.8	34.3
<b>Financial status</b> .....	<b>750.2</b>	<b>571.5</b>	<b>367.4</b>	<b>196.1</b>

In 2011, we expect contributions to plan assets to amount to around €30 million.

The following table shows the composition of pension-fund assets:

%	2010			2009		
	Total	Of which third parties	Of which Group <sup>1</sup>	Total	Of which third parties	Of which Group <sup>1</sup>
Real estate .....	14.2	9.7	4.5	15.3	10.5	4.8
Loans/ fixed-interest securities .....	55.5	55.5	-	58.8	58.8	-
Shares/funds <sup>2</sup> .....	26.8	26.8	-	22.8	22.8	-
Cash and cash equivalents .....	3.5	3.5	-	3.1	3.1	-
<b>Total</b> .....	<b>100.0</b>	<b>95.5</b>	<b>4.5</b>	<b>100.0</b>	<b>95.2</b>	<b>4.8</b>

<sup>1</sup> Those items used by Group companies are posted here.

<sup>2</sup> Pensionskasse der Wacker Chemie VVaG has agreed with an investment company on an arrangement approved by the German Federal Financial Supervisory Authority (BaFin) which provides for compensation for any share price fluctuations affecting Pensionskasse's share portfolio.

## 14 Other Provisions / Tax Provisions

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Personnel .....	138.5	116.0	22.5	186.4	178.4	8.0
Sales/purchasing .....	68.0	53.1	14.9	18.7	–	18.7
Environmental protection .....	52.6	49.3	3.3	49.6	46.1	3.5
Restructuring .....	6.0	0.2	5.8	10.8	–	10.8
Sundry .....	47.7	9.0	38.7	20.8	10.0	10.8
<b>Other provisions</b> .....	<b>312.8</b>	<b>227.6</b>	<b>85.2</b>	<b>286.3</b>	<b>234.5</b>	<b>51.8</b>
<b>Tax provisions</b> .....	<b>105.0</b>	<b>42.8</b>	<b>62.2</b>	<b>136.4</b>	<b>47.4</b>	<b>89.0</b>

### Provisions for Personnel

These provisions contain obligations for anniversary payments, working-life accounts, other deferrals, and provisions relating to early retirement and to phased-early-retirement plans. There is a continuous outflow of noncurrent provisions for anniversary payments. The provision for phased-early-retirement plans will be exhausted by 2016 at the latest. The outflow will be continuous until that date.

### Sales/Purchasing Provisions

These provisions cover obligations arising from warranty and product liability as well as discounts, cash bonuses, and other price reductions still to be granted, commissions payable to sales agents, and impending losses from contractual agreements.

### Provisions for Environmental Protection

Provisions for environmental protection are formed for anticipated obligations regarding contaminated-site remediation, water pollution control, recultivation of landfills, the clean-up of contaminated storage and production sites, and similar environmental measures. These provisions also include environmental protection charges likely to be imposed by the government. Most noncurrent provisions for environmental protection will be utilized over a period of 10 to 20 years.

### Restructuring Provisions

The provisions for restructuring are comprised of severance payments for departing employees, anticipated site closure expenses, demolition obligations, and similar charges.

### Sundry Provisions

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

### Tax Provisions

Tax provisions contain amounts for current income tax obligations, risks from tax audits, and legal action. The existing noncurrent tax provisions will largely be used over the next three to five years.

Other Provisions							
€ million	Jan. 1, 2010	Utilization	Reversal	Addition/ interest effect	Exchange rate differences	Scope of consolida- tion/Other	Dec. 31, 2010
Personnel	186.4	-47.1	-11.7	8.2	0.2	2.5	138.5
Sales/purchasing	18.7	-16.8	-1.4	65.8	1.7	-	68.0
Environmental protection	49.6	-5.6	-3.0	11.3	0.3	-	52.6
Restructuring	10.8	-2.3	-0.1	-	0.1	-2.5	6.0
Sundry	20.8	-6.3	-2.8	35.8	0.2	-	47.7
	286.3	-78.1	-19.0	121.1	2.5	-	312.8
Of which interest effect	-	-	-	3.3	-	-	-

The interest effect is mainly accounted for by provisions for environmental protection.

Tax Provisions							
€ million	Jan. 1, 2010	Utilization	Reversal	Addition/ interest effect	Exchange rate differences		Dec. 31, 2010
Taxes	136.4	-76.4	-3.6	47.3	1.3		105.0
Of which interest effect	-	-	-	-	-		-

## 15 Financial Liabilities

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Liabilities to banks	494.8	385.6	109.2	391.6	331.8	59.8
Of which > 5 years	-	304.7	-	-	42.9	-
Liabilities from lease obligations <sup>1</sup>	34.4	21.5	12.9	44.5	32.0	12.5
Of which > 5 years	-	5.1	-	-	7.8	-
Other financial liabilities	4.2	-	4.2	3.6	-	3.6
Of which > 5 years	-	-	-	-	-	-
<b>Financial liabilities</b>	<b>533.4</b>	<b>407.1</b>	<b>126.3</b>	<b>439.7</b>	<b>363.8</b>	<b>75.9</b>
Of which > 5 years	-	309.8	-	-	50.7	-

<sup>1</sup> Liabilities from leasing arrangements mainly include liabilities relating to leasing the headquarters building in Munich and the Burghausen plant's CCGT power station.

In 2010, Wacker Chemie AG paid back promissory notes (Schuldscheine) totaling €151.0 million and, in December of that year, it accessed the first installment of an investment loan from the European Investment Bank of €200.0 million.

No collateral exists for financial liabilities. Some of the liabilities to banks are fixed-interest and others have variable interest rates. Some of the liabilities to banks were granted on condition that particular covenants be complied with.

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

€ million	2010		2009	
	Nominal value	Present value	Nominal value	Present value
Minimum lease payment within a year .....	14.4	12.9	14.7	12.5
Minimum lease payment within one and five years .....	19.4	16.4	28.0	24.2
Minimum lease payment over five years .....	5.5	5.1	8.2	7.8
	39.3	34.4	50.9	44.5
Total expected minimum lease payments from subtenancies .....	2.5	–	2.9	–

There are no conditional lease payments from finance leases.

There is a finance lease for the headquarters building in Munich used by the Group. The contract with the lessor expires in 2012. After that, WACKER's pension fund or some company specified by it shall have the right to purchase the building at a price that has already been fixed. Wacker Chemie AG has also capitalized a finance lease for the leased ccGT (combined-cycle gas turbine) power station at its Burghausen site. The lease for the power station is due to expire in 2019 at the latest. WACKER has the right to acquire the power station at a price oriented to book values in accordance with German commercial law. If WACKER acquires this power station, it may not be sold to a third party for five years.

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

## 16 Liabilities

€ million	2010			2009		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
<b>Tax liabilities</b> .....	16.6	–	16.6	15.7	–	15.7
<b>Trade payables</b> .....	335.2	–	335.2	217.9	–	217.9
Of which > 5 years .....	–	–	–	–	–	–
Payables relating to social security .....	3.8	–	3.8	6.4	–	6.4
Payroll liabilities .....	3.2	–	3.2	2.6	–	2.6
Profit-sharing and other bonuses .....	119.3	–	119.3	66.4	–	66.4
Other personnel liabilities .....	27.5	–	27.5	28.4	–	28.4
Derivative financial instruments .....	16.1	1.8	14.3	13.5	0.3	13.2
Deferred income .....	3.7	1.2	2.5	4.1	0.9	3.2
Advance payments received (third parties) .....	1,032.2	869.9	162.3	900.3	761.8	138.5
Sundry liabilities .....	34.2	0.1	34.1	23.1	–	23.1
<b>Other liabilities</b> .....	1,240.0	873.0	367.0	1,044.8	763.0	281.8
Of which > 5 years .....	–	218.7	–	–	280.6	–

In addition to those amounts for which Group companies are liable to pay tax, tax liabilities include taxes paid for the account of third parties. Payables relating to social security refer in particular to social insurance contributions that have yet to be paid. The other payroll liabilities include, in particular, vacation and flextime credits as well other HR-related liabilities.

The advance payments received are primarily connected with future polysilicon deliveries resulting from the capacity expansions at our polysilicon plants.

## 17 Contingencies, Other Financial Obligations and Other Risks

### Contingencies

Contingencies are potential obligations based on past events of which the existence will not be confirmed until the occurrence of one or more uncertain future events that are beyond the Group's influence. Present obligations, moreover, can likewise be contingencies if the likelihood of an outflow of resources is not strong enough to justify the formation of a provision and/or the amount of the obligations cannot be estimated with sufficient reliability. The values assigned to contingencies correspond to the degree of liability that exists on the statement of financial position date.

The contingencies and other obligations shown below are nominal values.

€ million	2010	2009
Guarantees	119.6	143.1

The guarantees essentially concern the external financing of joint ventures. In addition, there are guarantees for customers' advance payments to former subsidiaries or joint ventures from which WACKER was released by the purchaser but for which no transfer to the purchaser has occurred.

In view of the present financial situation of the companies for which WACKER has taken on guarantees, utilization of these guarantees is unlikely.

### Other Financial Obligations and Other Risks

Under rental agreements and operating leases, the Group leases property, plant and equipment, motor vehicles and IT equipment. These leases generally have terms of between three and five years. Tenancy agreements for office space, property, plant and equipment, etc. have considerably longer terms. The following table provides a breakdown of these leases and agreements:



€ million	2010	2009
<b>Obligations from rent and operating leases</b>		
Due within one year .....	16.3	16.8
Due between one and five years .....	30.6	33.6
Due after five years or more .....	18.6	24.3
	65.5	74.7
Lease payments occasioned by operating leases .....	15.2	15.9
Obligations from orders for planned investment projects (commitments) .....	301.4	206.9

Obligations from orders for planned investments (commitments) amount to €301.4 million (2009: €206.9 million) and mainly concern investments in the polysilicon segment. WACKER has earmarked a total of around €345 million for further investment in the construction of new production facilities in Germany and Asia.

In addition, the Group has undertaken to provide guarantees for borrowed funds at a joint venture amounting to around US\$250 million. Of this total, guarantees for approximately €51 million have already been given. These are already included in the disclosure of guarantees. WACKER has also signed an agreement with its joint-venture partners Dow Corning and Samsung to make investments in future years and to provide the necessary equity funds and/or loans. Through long-term purchasing commitments of some €154 million annually, the Group ensures that capacity at its joint ventures is utilized.

Within the framework of its raw-material supply, WACKER has entered into long-term agreements to purchase strategic raw materials, electricity and gas. As a result, the company has, on balance, other financial obligations in connection with minimum purchasing obligations in the amount of €1.14 billion (2009: €1.43 billion). These agreements have terms of between one and five years.

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

## 18 Sundry

€ million	2010	2009
<b>Cost of materials</b> .....	<b>-1,787.7</b>	-1,439.1
<b>Personnel expenses</b>		
Wages and salaries .....	-921.5	-854.0
Social benefits and financial aid funds .....	-158.7	-139.7
State pension contributions .....	58.8	54.5
Social security contributions .....	-99.9	-85.2
Pension expenses .....	-55.5	-96.6
Contributions to state pensions .....	-58.8	-54.5
Expenses for post-employment benefits .....	-114.3	-151.1
	<b>-1,135.7</b>	-1,090.3

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

€ million	2010	2009
<b>Expenses for Auditors' Fees</b> .....		
Audit .....	0.8	0.8
Other certification services .....	0.3	0.3
	<b>1.1</b>	1.1

The other certification services are largely comprised of the cost of interim reviews.

## 19 Earnings per Share / Dividend

	2010	2009
Average number of outstanding common shares (units) .....	49,677,983	49,677,983
Number of common shares outstanding at the end of the year (units) .....	49,677,983	49,677,983
Dividend per dividend-bearing common share (€) .....	3.20	1.20
Net result for the year after non-controlling interests (€ million) .....	490.7	-70.8
Earnings due to common shares (€ million) .....	490.7	-70.8
Earnings per common share (average, €) .....	9.88	-1.43
Earnings per common share (as of reporting day, €) .....	9.88	-1.43

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

An earnings per share item relating to results from continued or discontinued business activity as well as an effect from changes in the accounting and valuation methods is not reported due to a lack of relevant data.

The dividend payout for 2009 amounted to €59.6 million, or €1.20 per dividend-bearing share.

For 2010, the Executive Board of Wacker Chemie AG has proposed a dividend of €3.20. The proposed dividend relates solely to dividend-bearing shares, i.e. excluding treasury shares. The acceptance or rejection of this proposal is incumbent on the Annual Shareholders' Meeting of Wacker Chemie AG. Pending agreement, an amount of €158,969,545.60 will be distributed for the 49,677,983 no-par-value shares that are not held by the company.

## 20 Financial Instruments

### Primary Financial Instruments

#### Carrying Amounts of Financial Assets and Liabilities

(Classified by category as per IAS 39)

€ million	2010	2009
<b>Financial assets</b>		
Held-to-maturity securities	311.2	119.9
Loans and receivables	686.3	531.4
Available-for-sale financial assets		
Cash and cash equivalents excluding held-to-maturity securities	486.2	243.7
Other available-for-sale financial assets	156.0	128.5
Derivative financial instruments	39.5	17.8
	1,679.2	1,041.3
<b>Financial liabilities</b>		
Financial liabilities recognized at amortized cost	533.4	439.7
Trade payables	335.2	217.9
Other liabilities <sup>1</sup>	188.0	142.6
Derivative financial instruments	16.1	13.5
	1,072.7	813.7

<sup>1</sup> Includes sundry liabilities shown in the statement of financial position, with the exception of derivative financial instruments, advance payments received and deferred income.

#### Carrying Amounts and Market Values of Financial Assets and Liabilities<sup>1</sup>

€ million	2010		2009	
	Carrying amount	Market value	Carrying amount	Market value
<b>Financial assets</b>				
Investments <sup>2</sup>	11.1	–	10.5	–
Held-to-maturity securities	252.2	249.6	–	–
Noncurrent loans	90.3	90.3	64.6	64.6
Trade receivables	596.0	596.0	466.8	466.8
Other receivables <sup>3</sup>	144.9	144.9	118.0	118.0
Cash and cash equivalents (liquid assets)	545.2	545.2	363.6	363.6
	1,639.7	1,626.0	1,023.5	1,013.0
<b>Financial liabilities</b>				
Financial liabilities	533.4	533.4	439.7	439.7
Trade payables	335.2	335.2	217.9	217.9
Other liabilities	188.0	188.0	142.6	142.6
	1,056.6	1,056.6	800.2	800.2

<sup>1</sup> Measured at acquisition cost or amortized cost.

<sup>2</sup> This item contains available-for-sale financial assets of which the market values cannot be calculated reliably and which have been recognized at cost. This item, along with noncurrent loans, is shown in the statement of financial position under noncurrent financial assets.

<sup>3</sup> Other receivables are shown in the statement of financial position under noncurrent and current other assets.

The carrying amounts of the held-to-maturity securities correspond to their fair values. If no prices from an active market are currently available and if the fair value cannot be determined reliably, the securities are valued at cost. This category includes current and noncurrent fixed-interest securities which are measured at amortized cost in accordance with the effective interest method.

The loans and receivables reported include trade receivables and other loans. Their carrying amounts correspond to their fair values. The present value of the loans corresponds to their cash value and constitutes the cash values of the cash flows expected in the future. Discounting is carried out on the basis of the interest rates valid on the reporting date. Available-for-sale financial assets include cash and cash equivalents, fund shares aimed at securing phased-early-retirement commitments, receivables from investment grants, and other financial receivables. The fair values of the fund shares correspond to their stock market prices on the reporting date. Cash and cash equivalents in foreign currency are valued at the conversion rate prevailing on the reporting date. Other financial assets are valued at cost, as no observable prices on active markets are available. The carrying amounts of the financial liabilities, trade payables, and other liabilities correspond to their fair values. The fair values of financial liabilities constitute the cash value of the cash flows expected in the future. Discounting is carried out on the basis of the interest rates valid on the reporting date. All other liabilities are valued at cost as no observable prices for them are available.

The interest expenses contain €14.5 million (2009: €12.8 million) from financial liabilities recognized at amortized cost. No profit was generated by the reversal of those financial instruments. Loans and receivables or financial liabilities at amortized cost in a foreign currency produced a net profit of €114.7 million (2009: €80.3 million) and a net loss of €-97.6 million (2009: €-79.3 million). These are posted under other operating income and expenses. Net profits from financial instruments that are held to maturity resulted in the amount of €1.1 million. This mainly involved interest income from noncurrent and current corporate bonds that are posted under securities. Exchange-rate effects did not arise. Net profits from available-for-sale financial instruments also originate from investment income. In addition, other operating income and expenses include €10.9 million (2009: €2.6 million) from the currency translation of cash and cash equivalents. Neither in the year under review nor in the previous year were there any reclassifications of financial assets between those recognized at amortized cost and those recognized at market value or vice versa.

### Financial Risks

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

The risks connected with the procurement, financing and selling of WACKER's products and services are described in detail in the management report. WACKER counters financial risks via its implemented risk management system, which is monitored by the Supervisory Board. The principles follow the aim of identifying, analyzing, coordinating, monitoring and communicating risks in a timely manner. The Executive Board receives regular analyses on the extent of those risks. The analyses focus on market risks, in particular on the potential impact of raw-material-price risks, foreign-currency exchange risks, and interest-rate risks on EBITDA and net interest income.

#### Credit Risk (Default Risk)

In terms of financial instruments, the Group is exposed to a default risk should a contractual party fail to fulfill their commitments. This risk is, therefore, at a maximum in the amount of the respective financial instrument's positive fair value. To limit the risk of default, transactions are conducted only within defined limits and with partners of very high credit standing. To make efficient risk management possible, the market risks within the Group are controlled centrally. The conclusion and handling of transactions comply with internal guidelines and undergo monitoring procedures that take account of the separation of duties. As for operations, outstanding receivables and default risks are continually monitored and hedged against via trade credit insurance. Receivables for major customers are not so high as to pose an extraordinary concentration of risks. Default risks are covered by impairments.

#### Liquidity Risk

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

To limit this risk, WACKER keeps liquid reserves in the form of current investments and credit lines. Furthermore, WACKER has concluded agreements with a number of banks for long-term syndicated loans and bilateral loans. The aggregate volume of these loans is significantly higher than the planned financial liabilities.

#### Market Risk

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

#### Foreign Exchange Risk

The evaluation of the currency-exposure risk potential to hedging via derivative financial instruments is based on the major foreign-currency income and expenditure. The greatest risk is posed by the us dollar, whose income is taken to mean all sales invoiced in us dollars, while all us-dollar purchasing as well as site costs incurred in us dollars are reported under us-dollar expenditure. The evaluation of potential risks includes not only the direct us-dollar income and expenditure, but also the indirect us-dollar impact of WACKER's main raw materials (methanol and natural gas). At the same time, indirect €-denominated sales are deducted from currency exposure. The us dollar is the exclusive relevant risk variable for the sensitivity analysis in accordance with IFRS 7, since the largest share of foreign-currency cash flows is in us dollars. Increases in the euro exchange rate against the Singapore dollar, Chinese renminbi and Japanese yen, in contrast, have a minor impact. In determining sensitivity, we simulate a 10-percent us-dollar devaluation against the euro, which would have had an EBITDA effect of €-62 million as per December 31, 2010 and €-37 million as per December 31, 2009. The effect from cash-flow-hedge designated items would have increased equity before income taxes by €81.2 million. The Group's USD currency exposure amounted to €677 million as per December 31, 2010 (2009: €409 million).

#### Interest Rate Risk

The interest rate risk results mainly from financial debt and interest-bearing assets. Each year, the Executive Board determines the mixture of fixed and variable-interest net financial liabilities. Depending on the structure involved, interest rate derivatives are concluded as required. Depending on whether the instrument in question (financial liabilities, investments or interest rate derivatives) has a fixed or variable interest rate, the interest rate risks are measured on the basis of either market-value sensitivity or cash-flow sensitivity. Financial liabilities and fixed-interest investments are measured at amortized cost and are therefore, in accordance with IFRS 7, not subject to any interest-rate risk. Hedge accounting is

not used for any of the interest rate derivatives. Changes in market interest rates have an impact on the net interest income generated by variable-interest financial instruments, and are, therefore, included in the calculation of earnings-related sensitivity. Changes in the market interest rates of interest rate derivatives affect the financial result, and are, therefore, included in any earnings-related sensitivity analysis. If current interest rates had been 100 base points higher (lower) on average, net interest income would have been €0.9 million (2009: €0.9 million) higher (lower).

#### **Raw-Material-Price Risk**

Potential combinations of factors in the natural gas or ethylene segments make it impossible to exclude the risk that the company's supply of raw materials might be insufficient. Ethylene-related risks, however, will be reduced in the future by the EPS pipeline currently under construction in Germany. In general, potential increases in raw-material prices pose a risk to results. An increase of 1 percent would have a negative effect of €8.4 million (2009: €7.2 million) on EBITDA.

#### **Derivative Financial Instruments**

Financial risks are also hedged using derivative financial instruments. The raw-material-price risks that WACKER hedges against result principally from the precious metals (platinum, gold and palladium) that are used as catalysts or for other purposes in the production process, as well as ongoing energy procurement. In 2010, precious-metal-related risks were not hedged using derivative financial instruments. Electricity-supply price hedging takes place via contractual stipulations, for which IAS 39's "own-use exemption" can essentially be used. These agreements, which are concluded for purposes of receiving or delivering non-financial goods according to WACKER's own needs, are not recognized as derivatives, but rather as pending transactions.

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

Foreign exchange hedging is carried out mainly for the US dollar, Japanese yen and Singapore dollar. In the case of foreign exchange hedging in the financing area, the maturities of the receivables and/or liabilities are taken into account. Interest rate hedging is carried out primarily for the euro, with the maturities of the underlying transactions being the most important factor.

Operational hedging in the foreign exchange area relates to the receivables and liabilities already recognized, and generally encompasses time horizons of between three and four months. The time horizon of strategic hedging is between four and a maximum of 33 months. The hedged cash flows influence the statement of income at the time when sales are realized. The cash inflows are usually recorded shortly afterward, depending on the payment deadline. As well as receivables from, and liabilities to, third parties, intercompany financial receivables and liabilities are hedged.

The market values refer to the maturity repurchase values (redemption values) of the financial derivatives as of the statement of financial position date. They are calculated on the basis of quoted prices or with the help of standard calculation methods. In the valuation of forward contracts and/or swaps, WACKER primarily applies the zero-coupon method and thus follows a consistent valuation methodology as in prior years. Due to potential interest-rate-market and currency-market distortions, values determined via the zero-coupon method may nevertheless differ from commercial values.

The derivatives are measured at their market values, irrespective of their stated purpose. They are reported in the statement of financial position under other assets and/or other liabilities. Where permissible, cash flow hedge accounting is applied for the strategic hedging of currency exchange risks from future foreign exchange positions. In such cases, the changes in the market values of foreign exchange contracts and the changes in the intrinsic values of currency options are recognized under equity with no effect on net income until the underlying transaction takes place, insofar as the hedge is effective. When future transactions are realized, the effects accumulated under equity are reversed through profit and loss. The changes in the current values of the currency options are posted to the statement of income.

In the fiscal year, the accumulated income and expenses recorded directly under equity included unrealized earnings amounting to €11.5 million (before tax) (2009: €31.7 million).

Derivative financial instruments of which the changes in market value are recognized in profit or loss led to a net result of €-23.3 million (2009: €-28.3 million). Of this amount, €7.1 million (2009: €15.0 million) is attributable to derivatives from hedge accounting. In the result for the period, no gains or losses from hedge accounting ineffectivities were recorded, as the hedging relationships were almost entirely effective. These are presented under other operating income and expenses.

In a small number of cases, there are embedded derivatives. These are generally measured at market values. If not derivable, they are measured at amortized cost. These, too, are reported under other assets or other liabilities, respectively. The variant of these that prevails at WACKER is such that normal supply and service relationships with suppliers and customers abroad were not concluded in the functional currency of one of the two contractual partners.

Depending on the nature of the underlying transaction, they are posted in the statement of income either under other operating result or, if financial liabilities are being hedged, under net interest income.

€ million	Dec. 31, 2010		Dec. 31, 2009	
	Nominal values	Market values	Nominal values	Market values
Foreign exchange derivatives .....	1,502.4	21.2	834.1	3.9
Other derivatives .....	115.6	2.2	-	-
Market values for derivative financial instruments within the framework of hedge accounting .....	-	25.2	-	14.1

The increase in the nominal values of the foreign exchange derivatives is basically caused by two factors: higher exposure in foreign currency and an extension in hedging. There were no longer any foreign currency options in 2010 (2009: US\$38 million (puts)). There are forward exchange contracts amounting to US\$1.53 billion, ¥12.93 billion and SG\$236.8 million.

Other derivatives involve interest-rate swaps with a notional sum of €100.0 million and electricity futures traded on the Norwegian market with a notional amount of €15.6 million. The electricity futures are used to limit the risk of rising spot-market prices for energy via structured price setting on the electricity market. The hedged amount represents 80 percent of the Holla, Norway site's future silicon-production power needs. The futures fall due after a maximum of one year.

## 21 Notes to the Statement of Cash Flows

The cash flow from operating activity is calculated using the indirect method. The indirect calculation adjusts the relevant changes in statement of financial position items to remove any exchange rate effects and/or changes in the scope of consolidation. This means that changes to the relevant statement of financial position items cannot be reconciled with the corresponding values based on the published consolidated statements of financial position.

The cash flow from investment activity shows the actual outflow of funds, so these figures also cannot be reconciled with the additions in fixed assets in the consolidated statement of financial position. If subsidiaries or business activities are acquired or sold, the influences ensuing from these transactions are shown as separate items in the statement of cash flows. Financial investment in securities falling due in more than three months is reported separately under cash flow from investment activity, as these transactions must instead be attributed to the cash and cash equivalents in economic terms.

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

For more details on the composition of funds made up of cash and cash equivalents, see [Note 11](#)

Other Non-Cash Expenses and Income		
€ million	2010	2009
Silicones	-7.3	-3.7
Polymers	-1.2	-0.9
Biosolutions	-1.1	-2.7
Polysilicon	-2.1	-0.1
Siltronic	-18.4	-3.1
Other	-28.6	-7.2
	-58.7	-17.7



## 22 Explanatory Notes on Segment Reporting

The Group's segment reporting is geared toward an internal organizational and reporting structure. WACKER reports on five operating segments (Silicones, Polymers, Biosolutions, Polysilicon and Siltronic) which are organized and managed autonomously on the basis of the type of products they offer and their different risk and income structures. Any activities not assigned to an operating segment are shown under "Other." Currency translation results which cannot be assigned to a segment are likewise shown in this item. Although the Biosolutions segment does not exceed the threshold values stipulated by IFRS 8, WACKER decided to report it as a segment subject to reporting requirements due to its specific product and customer structure.

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

WACKER measures the segments' success by the segmental success variables EBIT and EBITDA. EBIT consists of the gross result from sales, selling and general administrative expenses, research and development expenses, and other operating income and expenses less investments in joint ventures and associates and other income from investments. EBITDA is produced by adding depreciation and amortization, impairments, and write-ups to EBIT.

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

As a rule, the assets reported for the segments encompass all of their assets. Loans, cash and cash equivalents, and deferred tax assets, however, are allocated to the "Other" segment. The liabilities shown for the segments represent all of their liabilities, as well as tax liabilities, deferred or otherwise. The Group's financial liabilities are allocated to individual segments in proportion to the segment assets. The Siltronic segment prepares its own partial consolidated financial statements.

Business with polyvinyl acetate solid resins for gumbase has been reported in the Biosolutions division since the beginning of the second half of 2009. The gumbase business was removed from the Polymers segment as part of changes to internal management and reporting. Sales from gumbase business operations, which were reported in the Biosolutions segment for the first time in 2009, amounted to €19.7 million and resulted in a small positive contribution to earnings.

Of the valuation changes included with no effect on results, €-4.3 million (2009: €12.8 million) is accounted for by the Siltronic segment and €6.0 million (2009: €-1.8 million) by "Other." The impairments are essentially related to the changes in the market values of derivative financial instruments from cash flow hedging.

In addition to Germany, the USA and China are the only countries in which WACKER generates significant sales from a Group viewpoint. Measured in relation to the headquarters of the selling unit in the USA, sales amounted to €735.6 million (2009: €567.0 million). Measured by the respective customer headquarters in the USA and China, the sales generated were €682.7 million (2009: €531.0 million) and €616.0 million (2009: €509.5 million) respectively. There are no customers with whom significant sales are generated.

The reconciliation of the segments' aggregate results with the net result for the year is derived from the following list:

<b>Reconciliation of Segment Results</b>		
€ million	2010	2009
Operating result of reporting segments (EBIT) .....	766.5	25.5
Consolidation .....	-1.9	1.3
<b>Group EBIT</b> .....	<b>764.6</b>	26.8
Financial result .....	-32.3	-23.5
<b>Income before tax</b> .....	<b>732.3</b>	3.3
Income taxes .....	-235.3	-77.8
<b>Net income for the year</b> .....	<b>497.0</b>	-74.5

## 23 Breakdown of Shareholdings/Key Indicators of Joint Ventures and Associated Companies

Unless otherwise stated, the following figures are IFRS results:

Affiliated Companies					
Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number <sup>1</sup>
<b>Germany</b>					
1	Alzwerke GmbH, Munich	8,379	-4,530	100	0
2	DRAWIN Vertriebs-GmbH, Ottobrunn	5,257	105	100	0
3	W. E. L. T. Reisebüro GmbH, Munich <sup>2</sup>	170	-1	51	0
4	Wacker-Chemie Versicherungsvermittlung GmbH, Munich	67	33	100	0
5	Wacker-Chemie Beteiligungsfinanzierungs GmbH, Munich	30	-	100	22
6	Wacker Polysilicon Geschäftsführungs GmbH, Nünchritz	27	1	100	0
7	Wacker-Chemie Erste Venture GmbH, Munich	80	-	100	22
8	Wacker-Chemie Zweite Venture GmbH, Munich	36	-	100	0
9	Wacker-Chemie Dritte Venture GmbH, Munich	387,727	-	100	0
10	Wacker-Chemie Sechste Venture GmbH, Munich	27	-	100	0
11	Wacker Biotech GmbH, Jena	-88	-237	100	0
12	Wacker-Chemie Siebte Venture GmbH, Munich	25	-	100	0
13	Wacker-Chemie Achte Venture GmbH, Munich	15,717	-	100	0
14	Siltronic AG, Munich	794,642	17,301	90	9
				10	0
<b>Rest of Europe</b>					
15	Wacker Chemicals Finance B. V., Krommenie, Amsterdam, Netherlands	174,844	46,394	100	0
16	Wacker-Chemicals Ltd., Egham, Surrey, Great Britain	1,107	1,004	100	0
17	Wacker-Chemie Italia S. r. L., Peschiera Borromeo, Milan, Italy	2,490	854	100	0
18	Wacker-Chemie Benelux B. V., Krommenie, Amsterdam, Netherlands	283	265	100	15
19	Wacker Chimie S. A. S., Lyon, France	374	194	100	0
20	Wacker-Kemi AB, Solna, Sweden	492	395	100	0
21	Wacker Química Ibérica, S. A., Barcelona, Spain	302	164	100	0
22	Siltronic Holding International B. V., Krommenie, Amsterdam, Netherlands	466,944	14,957	100	14
23	Wacker-Chemie S. r. o., Prague, Czech Republic	3,372	94	100	0
24	Wacker-Chemie Polska Sp. z o. o., Warsaw, Poland	331	182	100	0
25	Wacker-Chemie Hungária Kft., Budapest, Hungary	331	122	100	0
26	OOO Wacker Chemie RUS, Moscow, Russia	634	305	100	0
27	Wacker Chemicals Norway AS, Holla, Norway	10,740	-3,609	100	15
<b>The Americas</b>					
28	Wacker Química do Brasil Ltda., São Paulo, Brazil	10,266	41	100	0
29	Wacker Mexicana S. A. de C. V., Mexico, D. F., Mexico	1,334	874	100	0
30	Wacker Chemical Corp., Adrian, Michigan, USA	190,502	30,771	100	15
31	Wacker Polysilicon North America L. L. C., Cleveland, Tennessee, USA	13,747	-1,122	100	13
32	Siltronic Corp., Portland, Oregon, USA	64,428	27,148	100	22

### Affiliated Companies

Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number <sup>1</sup>
<b>Asia</b>					
33	Wacker Chemicals (South Asia) Pte. Ltd., Singapore	2,450	696	100	0
34	Wacker Chemicals Hong Kong Ltd., Hong Kong, China	4,251	-1,588	100	0
35	Wacker Metroark Chemicals Pvt. Ltd., Parganas, India	24,373	7,163	51	0
36	Wacker Chemicals Korea Inc., Seoul, South Korea	15,910	2,770	100	15
37	Wacker Chemicals East Asia Ltd., Tokyo, Japan	574	254	100	0
38	Wacker Chemicals Trading (Shanghai) Co. Ltd., Shanghai, China	5,950	863	100	33
39	Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore	47,898	-12	51	0
40	Wacker Chemicals Fumed Silica (ZJG) Co. Ltd., Zhangjiagang, China	26,036	5,880	51	38
41	Wacker Chemicals (Zhangjiagang) Co. Ltd., Zhangjiagang, China	12,311	-18,300	100	43
42	Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi, China	1,799	2,808	100	43
43	Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, China	-38,973	-134,301	100	0
44	Wacker Polymer Systems (Nanjing) Co. Ltd., Nanjing, China	28,556	6,793	100	43
45	Wacker Chemicals India Ltd., Mumbai, India	3,460	104	100	15
46	Siltronic Singapore Pte. Ltd., Singapore	101,951	30,959	100	22
47	Siltronic Asia Pte. Ltd., Singapore	2,987	2,839	100	22
48	Siltronic Japan Corp., Hikari, Japan	19,478	12,470	100	22
<b>Other regions</b>					
49	Wacker Chemicals Australia Pty. Ltd., Melbourne, Australia	313	-37	100	0
50	Wacker Chemicals Middle East Ltd., Dubai, UAE	1,767	11	100	0

### Joint ventures<sup>3</sup>

Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number <sup>1</sup>
51	Thin Materials AG, Eichenau, Germany	6	-279	34.74	0
52	Wacker Asahi Kasei Silicone Co. Ltd., Tokyo, Japan	14,239	2,476	50	0
53	Dow Corning (ZJG) Holding Co. Private Ltd., Singapore	183,154	-16,758	25	0
54	Wacker Dymatic (Shunde) Co. Ltd., Guangdong, China	13,154	3,009	50	43
55	Siltronic Samsung Wafer Pte. Ltd., Singapore	138,937	-47,591	50	22

\* Identifier:

a) Wacker Chemie AG has concluded, directly or indirectly, profit and loss transfer agreements with these entities.

b) The Executive Board of Wacker Chemie AG has agreed not to disclose the financial statements of these entities (Section 264, Subsection 3 of the German Commercial Code).

<sup>1</sup> Serial number 0: Wacker Chemie AG

<sup>2</sup> Prior-year figures

<sup>3</sup> Only direct holdings in the relevant parent company are listed

## Key Figures for Joint Ventures

€ million	2010		2009	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Sales	304.3	152.2	292.7	146.5
Operating result	-15.9	-7.9	-254.8	-127.4
Result after taxes	-32.9	-16.4	-270.0	-135.0
Noncurrent assets	520.1	260.1	519.9	260.0
Current assets	132.3	66.3	112.1	56.1
	652.4	326.4	632.0	316.1
Equity	166.3	83.2	192.3	96.2
Noncurrent liabilities	385.5	192.8	357.3	178.6
Current liabilities	100.6	50.4	82.4	41.3
	652.4	326.4	632.0	316.1

In 2010, an amount for the Planar Solutions LLC joint venture for the period from January 1, 2010 until its disposal on December 4, 2010 is included in sales (€48.8 million), operating result (€9.2 million) and result after taxes (€9.2 million).

An amount for the WACKER SCHOTT Solar GmbH joint venture for the period from January 1, 2009 until its disposal in October 2009 is included in sales (€72.2 million), operating result (€-198.4 million) and result after taxes (€-199.1 million).

## Key Figures for Associated Companies

€ million	2010		2009	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Sales	157.2	39.3	4.3	1.1
Operating result	-39.0	-9.8	-50.0	-12.5
Result after taxes	-79.7	-20.0	-76.8	-19.2
Noncurrent assets	938.1	234.5	732.2	183.0
Current assets	109.7	27.4	58.7	14.7
	1,047.8	261.9	790.9	197.7
Equity	120.5	30.1	144.6	36.1
Noncurrent liabilities	637.0	159.3	473.6	118.4
Current liabilities	290.3	72.5	172.7	43.2
	1,047.8	261.9	790.9	197.7

## 24 Related Party Disclosures

IAS 24 stipulates that parties which control, or are controlled by, Wacker Chemie AG must be disclosed unless they are already included in Wacker Chemie AG's consolidated financial statements as a consolidated company. Control in this sense is held to apply when a shareholder has more than half of the voting rights in Wacker Chemie AG or, by virtue of provisions in the Articles of Association or contractual arrangements, has the possibility of controlling the financial and business policy of the WACKER Group's Executive Board.

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

The WACKER Group is controlled by its majority shareholder, Dr. Alexander Wacker Familiengesellschaft mbH, which holds over 50 percent of the voting shares in Wacker Chemie AG. Provision of services between Wacker Chemie AG and its majority shareholder Dr. Alexander Wacker Familiengesellschaft mbH is of subordinate importance. Furthermore, WACKER Group companies did not conduct any significant transactions whatsoever with members of Wacker Chemie AG's Executive or Supervisory Board or with any other key management personnel or with companies of which these persons are members of executive or supervisory bodies. The same applies to close relatives of the aforementioned persons.

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

In fiscal 2010, no cases of voting-share reporting thresholds being exceeded were reported. Further detailed information has been published in the German register of companies.

[www.unternehmensregister.de](http://www.unternehmensregister.de)

Business with non-consolidated subsidiaries, joint ventures and associated companies is, as a rule, carried out on conditions that are customary between outside third parties. For joint-venture and associated-company product shipments, contractually agreed transfer-price formulas were defined that contain, e.g., start-up costs and financing elements. The following table shows the volume of trade receivables with related parties, which are reported in the WACKER consolidated financial statements using the equity method or recognized in the statement of financial position at amortized cost:

€ million		2010				2009			
		Income	Ex-penses	Trade receivables	Liabilities	Income	Ex-penses	Trade receivables	Liabilities
Associated companies / joint ventures	89.2	-76.2	18.2	-2.4	116.2	-10.5	24.0	-1.8	
Non-consolidated subsidiaries	-	-0.2	0.2	-	0.1	-0.4	0.4	-0.1	

The transactions in question concern supplies and services during the normal course of business in connection with sales revenue, license revenue and administrative expense allocations. Related parties submitted invoices for material purchases and commissions. Any guarantees or other securities are reported under other financial obligations.

See Note 17

## Information Regarding Compensation of the Supervisory and Executive Boards:

Compensation for the Executive and Supervisory Boards				
€	Fixed com- pensation	Variable com- pensation	Pensions <sup>1</sup>	Total
Executive Board compensation 2010 .....	2,597,871	4,176,000	1,511,168	<b>8,285,039</b>
Executive Board compensation 2009 .....	2,588,600	1,540,582	1,318,182	<b>5,447,364</b>
Pension commitments for active members of the Executive Board 2010 .....				<b>17,433,247</b>
Pension commitments for active members of the Executive Board 2009 .....				<b>14,707,726</b>
Expenses for former members of the Executive Board and their surviving dependents 2010 .....				<b>791,559</b>
Expenses for former members of the Executive Board and their surviving dependents 2009 .....				<b>791,510</b>
Pension commitments for former members of the Executive Board and their surviving dependents 2010 .....				<b>19,179,121</b>
Pension commitments for former members of the Executive Board and their surviving dependents 2009 .....				<b>18,702,075</b>
Supervisory Board compensation 2010 .....	-- 717,000	-- 656,250		<b>1,373,250</b>
Supervisory Board compensation 2009 .....	-- 717,000	--		<b>717,000</b>

<sup>1</sup> Pensions include the interest cost as well as the service cost.

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

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

[www.wacker.com/annual-document](http://www.wacker.com/annual-document)

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

Munich, Germany, February 21, 2011  
Wacker Chemie AG

Rudolf Staudigl      Wilhelm Sittenthaler

Joachim Rauhut      Auguste Willems

# Supervisory Board

As of December 31, 2010

## Dr. Peter-Alexander Wacker<sup>1,2,3</sup>

Chairman  
Starnberg  
Business studies graduate  
(Diplom-Kaufmann)

**Chairman of the Supervisory Board  
and Advisory Council**  
Giesecke & Devrient GmbH

**Managing Director**  
Dr. Alexander Wacker  
Familiengesellschaft mbH

## Anton Eisenacker\*<sup>1,2,3</sup>

Deputy Chairman  
Perach  
Certified Chemicals Technologist

## Peter Áldozó\*

Burghausen  
HR Specialist

## Dr. Konrad Bachhuber\*

Shanghai, China  
Chemistry Graduate (Diplom-Chemiker)  
Plant Manager, Zhangjiagang, China

**Chairman of the Board of Directors**  
Wacker Chemicals Fumed Silica  
(Zhangjiagang) Co. Ltd.\*\*  
Wacker Polymer Systems (Zhangjiagang) Co. Ltd.\*\*  
(until September 30, 2010)  
Wacker Polymer Systems (Wuxi) Co. Ltd.\*\*  
Wacker Chemicals Fumed Silica  
(Zhangjiagang) Holding Co. Private Ltd.\*\*

**Member of the Board of Directors**  
Wacker Chemicals (Zhangjiagang) Co. Ltd.\*\*  
Wacker Polymer Materials (Shanghai) Co. Ltd.\*\*  
(until September 30, 2010)  
Wacker Polymer Systems (Nanjing) Co. Ltd.\*\*

## Matthias Biebl

Munich  
Attorney and bank in-house lawyer  
UniCredit Bank AG

## Dr. Werner Biebl

Munich  
Chief Public Prosecutor (retired)

**Managing Director**  
Dr. Alexander Wacker  
Familiengesellschaft mbH

## Marko Fartelj\*

Kirchdorf  
Machine Operator

## Uwe Fritz\*<sup>1</sup>

Julbach  
Altötting District Chairman of  
the IG BCE labor union

**Member of the Supervisory Board**  
Siltronic AG\*\*

## Eduard-Harald Klein\*

Neuötting  
Operator



**Manfred Köppl\***

Kirchdorf  
Industrial Mechanic

**Franz-Josef Kortüm<sup>1,2</sup>**

Munich

**Chairman of the Executive Board**  
Webasto AG

**Member of the Advisory Council**  
Brose Fahrzeugteile GmbH & Co. KG

**Member of the Advisory Council**  
ERGO Versicherungsgruppe AG

**Member of the Supervisory Board**  
Schaeffler GmbH (since September 17, 2010)

**Seppel Kraus\***

Olching  
Regional head of the IG BCE labor union,  
Bavaria

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

**Dr. Thomas Strüngmann**

Tegernsee  
Business studies graduate  
(Diplom-Kaufmann)  
Co-Managing Director, Athos Service GmbH

**Dr. Bernd W. Voss<sup>3</sup>**

Kronberg i. T.

**Member of the Board of Directors**  
ABB Ltd.

**Member of the Supervisory Board**  
Continental AG

**Dr. Susanne Weiss**

Munich  
Attorney

**Chairwoman of the Supervisory Board**  
ROFA AG

**Member of the Supervisory Board**  
UniCredit Bank AG

**Member of the Supervisory Board  
and Advisory Council**  
Giesecke & Devrient GmbH

**Member of the Supervisory Board**  
Strenesse AG (since Dezember 1, 2010)

**Prof. Dr. Ernst-Ludwig Winnacker**

Munich  
Professor Emeritus of Biochemistry at LMU,  
Munich  
Secretary General of HFSP Human Frontier  
Science Program, Strasbourg

**Chairman of the Supervisory Board**  
MediGene AG

**Member of the Supervisory Board**  
Bayer AG

\* Employee representative

\*\* Affiliated company

<sup>1</sup> Mediation Committee: Chairman Dr. Peter-Alexander Wacker

<sup>2</sup> Executive Committee: Chairman Dr. Peter-Alexander Wacker

<sup>3</sup> Audit Committee: Chairman Dr. Bernd W. Voss

# Executive Board

As of December 31, 2010

## Dr. Rudolf Staudigl

**President & CEO**

### SILTRONIC

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

**Chairman of the Supervisory Board**

Siltronic AG\*\*  
Pensionskasse der Wacker Chemie VVaG

**Member of the Supervisory Board**

Groz-Beckert KG

**Member of the Advisory Council**

Deutsche Bank AG

**Chairman of Bayerische Chemieverbände**

## Dr. Joachim Rauhut

### WACKER POLYSILICON

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

**Member of the Supervisory Board**

Siltronic AG\*\*  
Pensionskasse der Wacker Chemie VVaG  
MTU Aero Engines Holding AG  
MTU Aero Engines GmbH

**Member of the Advisory Council**

J. Heinrich Kramer Holding GmbH

## Dr. Wilhelm Sittenthaler

### WACKER SILICONES

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

**President & CEO**

Siltronic AG\*\* (until September 30, 2010)

**Member of the Supervisory Board**

Siltronic AG\*\* (since October 1, 2010)

**Member of the Supervisory Board**

Pensionskasse der Wacker Chemie VVaG

**Chairman of the Board of Directors**

Siltronic Samsung Wafer Pte.Ltd.\*\*\*  
(until October 8, 2010)

## Auguste Willems

### WACKER POLYMERS

### WACKER BIOSOLUTIONS

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

**Member of the Bavarian State Branch Advisory**

**Committee**

TÜV Süd AG (since February 11, 2010)

\*\* Subsidiary

\*\*\* Joint venture

# Corporate Governance Report and Declaration on Corporate Management

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

## Declaration of Conformity and Corporate Governance Reporting

The Executive and Supervisory Boards dealt intensively with the company's corporate governance and the alterations to the Code in the 2010 fiscal year. The Executive Board and the Supervisory Board have resolved to issue the following annual Declaration of Conformity as per Section 161 of the German Stock Corporation Act (AktG). The Declaration of Conformity was made permanently available to the general public on the company's website.

## The 2010 Declaration of Conformity Issued by Wacker Chemie AG's Executive and Supervisory Boards

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

In December 2009, the Executive Board and the Supervisory Board of Wacker Chemie AG issued their last declaration of conformity pursuant to Section 161 of the German Stock Corporation Act. Since that time, Wacker Chemie AG has complied with the recommendations of the German Corporate Governance Code in the version dated June 18, 2009, with the following exceptions, and will comply with the recommendations of the Code in the version dated May 26, 2010, except as follows:

### Exceptions

#### a) D&O Insurance Deductible for Supervisory Board Members

German law and a company's articles of association set clear limits as regards a Supervisory Board's ability to exert influence on the business activities of a stock corporation. Pursuant to Section 76 (1) of the German Stock Corporation Act, an Executive Board is responsible for independently managing the corporation. A Supervisory Board is instrumental in defining the main features of corporate strategy. However, beyond this contribution, the Supervisory Board's abilities are limited in terms of influencing the implementation of corporate strategy or operative business. The same applies to measures taken to avert damage or loss to the company. Since the Supervisory Board members receive a relatively low representation allowance when compared to the Executive Board members' compensation, we do not deem the agreement of a deductible reasonable for members of the Supervisory Board.

#### b) Severance Pay Cap

We will comply with this recommendation of the Code on new appointments to the Executive Board, as well as the re-appointment of Executive Board members.

## c) Appropriate Representation of Women on the Executive Board

The considerable importance that Wacker Chemie AG attaches to diversity extends to Executive Board membership. Nonetheless, expertise – including experience gained abroad – and qualifications are the key criteria here. For this reason, we do not consider it expedient to prioritize “the aim of appropriate representation of women” over expertise and qualifications.

## d) Formation of a Nomination Committee within the Supervisory Board

The Supervisory Board is to establish a Nomination Committee that is exclusively composed of shareholder representatives and whose task it is to make recommendations to the Supervisory Board with regard to suitable candidates for proposal to the Annual Shareholders' Meeting.

We do not comply with this recommendation because, in view of our shareholder structure, we do not believe that the formation of such a committee is appropriate. Due to the majority situation, nominations to the Supervisory Board must be agreed with the majority shareholder in any case, so that an additional nomination committee would not serve to increase efficiency.

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

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

## Corporate Governance Reporting

### Shareholders and Annual Shareholders' Meeting

Transparent Information for Shareholders and the Public

WACKER's aim is to inform all of the company's target groups – whether shareholders, shareholder representatives, analysts, the media or the interested general public – promptly and with equality of access. We regularly publicize important dates for the company in a financial calendar published in our Annual Report, in the interim reports and on our website. The capital market participants are in close contact with our Investor Relations team. We inform investors and analysts about the current and future development of business in telephone conferences held whenever a quarterly report is published. We regularly attend roadshows and investors' conferences. We organize a “Capital Markets Day” once a year. Important presentations can be viewed freely on the internet. All of the press releases and ad-hoc disclosures in both German and English, the online version of the Annual Report, all interim reports and the Sustainability Report can also be found there. Further information is provided by our online customer magazine, media library and Podcast Center. [www.wacker.com](http://www.wacker.com)

### Annual Shareholders' Meeting

The Annual Shareholders' Meeting provides an efficient and extensive venue for informing shareholders about the company's situation. Even before the Annual Shareholders' Meeting begins, shareholders receive important information about the last fiscal year in the Annual Report. The agenda items are described and the conditions of attendance explained in the invitation to the Annual Shareholders' Meeting. All of the documents are posted on our website. After the Annual Shareholders' Meeting, we publish the attendance figures and the results of the votes on the internet. All these communication measures contribute

to the regular exchange of information with our shareholders. WACKER helps its shareholders to exercise their rights either in person or by proxy. Proxies are available to exercise shareholders' voting rights as instructed and can also be contacted during the Annual Shareholders' Meeting.

### **Working Methods of the Executive and Supervisory Boards**

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

#### Executive Board

The Executive Board currently consists of four members. [For further details, see page 224](#)

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

The members of the Executive Board bear joint responsibility for managing the company. In addition to this, the individual members of the Executive Board are fully responsible for managing their respective units. All Executive Board decisions generally require a simple majority. In the case of a tie of votes, the president & CEO has the deciding vote. However, he does not have the right to veto Executive Board resolutions.

#### Close Cooperation Between the Executive and Supervisory Boards

The Executive and Supervisory Boards cooperate closely with one another in the interests of the company. Their common goal is the sustainable development of the company and its value. The Executive Board reports to the Supervisory Board regularly, promptly and comprehensively about all issues of planning, business development, the risk situation and risk management that are relevant to the company. It explains to the Supervisory Board any deviations from the approved plans and objectives shown by the course of business, and specifies the reasons for them.

Certain transactions defined in Wacker Chemie AG's constitution require the Supervisory Board's approval prior to their conclusion. These include, among others, approving the annual budget (including financial and investment planning), acquiring and disposing of shares in companies, establishing new production or business units, or suspending existing ones, and concluding sizeable long-term loans. The Executive Board also provides the Supervisory Board with regular reports on compliance.

#### Supervisory Board

The Supervisory Board appoints, oversees and advises the Executive Board and is directly involved in any decisions of crucial importance to WACKER. Fundamental decisions on the company's development require Supervisory Board approval. [For further details, see page 222](#)

The Supervisory Board comprises 16 members. In compliance with the German Co-Determination Act (MitbestG), it has an equal number of shareholder and employee represent-

atives. The Supervisory Board appoints the members of the Executive Board and oversees and advises it on the management of the company.

As members of the Supervisory Board cannot simultaneously sit on the Executive Board, this structure ensures a high degree of independence in monitoring the Executive Board.

#### Committees Increase the Supervisory Board's Efficiency

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

The Executive Committee prepares the Supervisory Board's personnel decisions, especially the appointment and dismissal of Executive Board members and the nomination of the president & CEO. In addition, it develops the system for Executive Board compensation, on the basis of which the meeting of the full Supervisory Board determines the compensation payable to Executive Board members. The Executive Committee consists of the Chairman of the Supervisory Board, Dr. Peter-Alexander Wacker, and Supervisory Board members Anton Eisenacker and Franz-Josef Kortüm.

The Audit Committee does the groundwork for the Supervisory Board's decisions on the adoption of the annual financial statements and the approval of the consolidated financial statements. Its work also includes an audit of the consolidated interim financial statements for the first half-year, discussion of the quarterly reports, and issues involving risk management. In connection with this, the committee is obliged to pre-audit the annual financial statements, the consolidated financial statements, the Wacker Chemie AG management report, the Group management report and the proposal for the distribution of profits. In particular, the committee monitors the accounting processes and the effectiveness of the internal control, risk management and auditing systems. It performs these tasks in close cooperation with the external auditors. The Audit Committee also prepares the agreement with the external auditors and takes suitable steps to establish and monitor the auditing company's independence. On this basis, it gives the Supervisory Board a recommendation as to whom it should propose as auditor to the Annual Shareholders' Meeting. The members of this committee are Dr. Bernd W. Voss, Dr. Peter-Alexander Wacker and Anton Eisenacker. The committee is chaired by Dr. Bernd W. Voss, who has special knowledge and experience in the fields of accounting and auditing.

The Group also has a statutory Mediation Committee, the tasks of which are stipulated by German law. Chaired by Dr. Peter-Alexander Wacker, this committee also consists of Anton Eisenacker, Franz-Josef Kortüm and Uwe Fritz.

### Key Corporate Management Practices

#### Compliance as a Key Managerial Duty of the Executive Board

At WACKER, managerial and monitoring duties include ensuring that the company complies with legal requirements and that employees observe internal company regulations. The Group's compliance policy is regularly reviewed and adapted.

WACKER's compliance organization is responsible in this regard. Compliance officers hold regular training courses to inform employees of key legal provisions and internal regulations. These officers serve as contacts whenever employees have questions or need advice about compliance. In 2010, we introduced an electronic compliance test (in the form of an e-learning program) for all employees who come into contact with other companies' representatives.

### **Responsible Care® and Code of Conduct – Integral Parts of Corporate Management**

Having been actively involved in the chemical industry's global Responsible Care® initiative from the outset, WACKER is committed to the worldwide implementation of this initiative. To anchor sustainability even more firmly within the Group, WACKER appointed a Group Coordinator for Responsible Care® in 2008. This coordinator supports and advises the various corporate sectors on sustainability management. Additionally, the coordinator ensures that our supply-chain partners are likewise committed to complying with recognized health and safety standards and adopt a responsible attitude toward the environment.

WACKER is equally committed to the UN's Global Compact initiative. We observe the Global Compact's ten principles, which deal with social and environmental standards, anticorruption and the protection of human rights. In 2008, we asked our suppliers to support this voluntary commitment, too, and it is now an integral part of our supplier management system.

### **Social Commitments**

WACKER sees itself as a good corporate citizen. In regions where the company is active, we regularly promote and support a wide variety of charitable projects, organizations and initiatives. Our commitment covers activities relating to science, education, sports and various charities.

### **Further Information on Corporate Governance at WACKER**

#### **Compliance with the Provisions of Section 15 of the German Securities Trading Act (WpHG)**

We comply with the statutory provisions of Section 15 of the German Securities Trading Act. For a number of years, we have maintained an "ad-hoc publicity" coordination unit in which representatives of various specialist areas examine issues for their ad-hoc relevance. In this way, we guarantee that potential insider information is handled in accordance with the law. Employees whose functions necessitate access to insider information are listed in an insider directory.

#### **Share Dealings by the Executive and Supervisory Boards**

Section 15a of the German Securities Trading Act stipulates that members of the Executive and Supervisory Boards and certain dependents are obliged to notify the German Federal Financial Supervisory Authority (BaFin) and the company of any purchase or sale of WACKER shares or any further rights related to such shares if an amount of €5,000 is exceeded within one calendar year.

In 2010, members of the Executive and Supervisory Boards and their dependents subject to reporting requirements gave notification of eleven purchasing transactions involving between 35 to 391 WACKER shares. The volumes of the individual transactions ranged from €3,411 to €55,092.

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

#### **Dealing Responsibly with Opportunities and Risks**

Dealing responsibly with risks is an important part of good corporate governance. WACKER uses systematic opportunity and risk management to regularly identify and monitor material risks and opportunities. Its objective is to recognize risks at an early stage and minimize them with consistent risk management. The Executive Board informs the Supervisory Board regularly about existing risks and their development. The Audit Committee concerns itself regularly with the accounting process and the effectiveness of the internal control, risk management and auditing systems. It is also involved in auditing the financial state-

ments. The opportunity and risk management system is continuously being enhanced and adapted to meet changing conditions.

### Accounting and Auditing

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

### D&O Insurance

WACKER has concluded a financial liability insurance policy that also covers the activities of the Executive and Supervisory Board members (i.e. D&O insurance). As of July 1, 2010, this insurance has included the statutory deductible for the members of the Executive Board.

### New Targets for Supervisory Board Composition

WACKER has always placed importance on having highly qualified individuals sit on its Supervisory Board. Pursuant to a new item of the German Corporate Governance Code (Item 5.4.1), WACKER's Supervisory Board aims to have its composition meet the following targets in the future. Not only are Supervisory Board members to be highly qualified, but they should also be internationally experienced. A further aim is to achieve an appropriate number of female Supervisory Board members.

At its meeting of December 9, 2010, the Supervisory Board approved the following targets:

1. An appropriate number of Supervisory Board members – at least one – should have international experience.
2. The Supervisory Board's Rules of Procedure already deal extensively with members' conflicts of interest. In general, the Supervisory Board strives to prevent such conflicts of interest and will also take this goal into account when making recommendations to the Annual Shareholders' Meeting.
3. To achieve ever greater diversity, the Supervisory Board wishes to increase the number of female Supervisory Board members to at least two over the next two terms. In its bid to meet this goal, the Supervisory Board hopes that there will be at least one female employee representative and at least one female shareholder representative.

The Supervisory Board's Rules of Procedure already define an age limit.



### Report on Executive Board Compensation

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

The full Supervisory Board, following preparation by the Executive Committee, is responsible for determining the individual compensation paid to members of Wacker Chemie AG's Executive Board.

In light of the German Act on the Appropriateness of Management Board Compensation (VorstAG) as per August 2009, the compensation system in effect until the end of fiscal 2009 was subjected to a review by an external compensation expert to ensure that it meets the new legal requirements. As a result of this review, the Supervisory Board decided to modify the Executive Board compensation system at its meeting on March 17, 2010. In this respect, the existing, well-proven structure and key performance indicators were, in principle, retained, though combined with a stronger incentive toward sustainable corporate development. Essentially, the following changes were enacted:

- i) Variable compensation was converted to a multiyear evaluation basis.
- ii) The Executive Board members are obligated to invest part of their variable compensation in Wacker Chemie AG shares with a mandatory two-year holding period.
- iii) The Supervisory Board was granted greater leeway in setting compensation to reflect the overall circumstances within a specified framework.
- iv) The previously agreed minimum bonus was abolished.

The Supervisory Board agreed to pass these changes, which are applicable to all members of Wacker Chemie AG's Executive Board, with retroactive effect as of January 1, 2010.

Moreover, effective July 1, 2010, WACKER implemented the regulations introduced under the "VorstAG" for a deductible in D&O insurance for all members of the Executive Board.

In the 2010 fiscal year, the Executive Board's compensation consisted of the following significant components:

#### **(I) A fixed annual salary:**

The fixed annual salary is paid monthly in identical installments.

#### **(II) A variable, performance-related bonus:**

The amount of the variable bonus, which is paid annually and retrospectively, depends on the attainment of agreed annual Group targets set by the Supervisory Board for all Executive Board members with regard to the following key indicators: business value contribution, cash flow and target return. The bonus is calculated based on goal achievement in 2010, as well as on average overall target attainment for 2009 and 2008. The calculated goal bonus in the event of 100-percent target attainment during the evaluation period amounts to 180 percent of the average annual base salary in the last year of the evaluation period, whereas the maximum bonus totals 220 percent of the average annual base salary in the last year of the evaluation period. Thus, the Supervisory Board has the discretion to increase or reduce the calculated bonus based on overall recognition of all circumstances, including individual performance within a specified framework. The Executive Board members are obligated to purchase Wacker Chemie AG shares in the amount of 15 percent of their annual gross bonus. A holding period of two years is in effect for these shares. In the first year of compensation-system conversion, shares already held can be included in this mandatory share investment.

**(III) A contribution to retirement benefits:**

The members of the Executive Board become entitled to the payment of an annual retirement pension should the event insured against occur, i.e. when the member in question reaches retirement age or becomes afflicted by permanent occupational disability. Before the event insured against occurs, Dr. Rudolf Staudigl, Dr. Joachim Rauhut and Dr. Wilhelm Sittenthaler have a basic entitlement to the premature payment of an annual pension if they leave the Executive Board against their will without good cause or if they, of their own accord, cease their activity for good cause, the company being responsible for said cause. The amount of the retirement pension, which, like the fixed annual salary, is not performance related, is determined by the amount of the last annual salary to be drawn and the duration of Executive Board membership. A percentage of the base salary is defined as a basic amount and adjusted by means of an annual percentage rate of increase for each year of service.

The company grants the members of the Executive Board appropriate insurance coverage, in particular D&O insurance, with a deductible in accordance with "VorstAG" stipulations.

The table below lists the current level of each Executive Board member's compensation:

Executive Board Compensation					
€	Fixed compensation <sup>1</sup>	Variable compensation	2008 reversal of a provision for variable compensation	Expenses for post-employment benefits <sup>2</sup>	Total
<b>Dr. Rudolf Staudigl</b>					
2010	800,709	1,305,000	–	602,117	2,707,826
2009	799,951	847,500	–366,544	592,506	1,873,413
<b>Dr. Joachim Rauhut</b>					
2010	603,951	957,000	–	249,020 <sup>3</sup>	1,809,971
2009	599,463	621,500	–297,000	196,900	1,120,863
<b>Dr. Wilhelm Sittenthaler</b>					
2010	594,760	957,000	–	318,082	1,869,842
2009	596,853	621,500	–197,999	294,604	1,314,958
<b>Auguste Willems</b>					
2010	598,451	957,000	–	341,949	1,897,400
2009	592,333	621,500	–151,250	234,172	1,296,755
<b>Dr. Peter-Alexander Wacker</b>					
2010	–	–	–	–	–
2009	–	–	–158,625	–	–158,625
<b>Total</b>					
2010	2,597,871	4,176,000	–	1,511,168	8,285,039
2009	2,588,600	2,712,000	–1,171,418	1,318,182	5,447,364

<sup>1</sup> The fixed compensation additionally includes the use of a company car.

<sup>2</sup> The pension includes the interest cost, as well as the service cost. The interest cost amounts to €591,016 (2009: €608,592).

<sup>3</sup> The start of pension entitlement was synchronized with the employment contract expiration date.

**Expenses for Former Executive Board Members and Their Surviving Dependents**

€	Total
2010	791,559
2009	791,510

**Pension Provisions for Executive Board Members**

€	Total
<b>Pension Provisions for Active Members of the Executive Board</b>	
2010	17,433,247
2009	14,707,726
<b>Pension Provisions for Former Executive Board Members and Their Surviving Dependents</b>	
2010	19,179,121
2009	18,702,075

**Report on Supervisory Board Compensation**

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

In return for their work, the members of the Supervisory Board receive fixed annual compensation in the amount of €25,000 payable when the fiscal year expires. Supervisory Board members who join or depart from the Supervisory Board during the ongoing fiscal year receive the appropriate pro rata compensation.

In addition to their fixed compensation, the members of the Supervisory Board receive – after the annual financial statements have been adopted – performance-related compensation for the previous fiscal year based on the percentage return on assets\*. The performance-related compensation can be between 0 percent and 125 percent of the fixed annual compensation.

The fixed and performance-related compensation is multiplied by a factor of 3 for the Chairman of the Supervisory Board, by a factor of 2 for the Vice Chairman and for committee chairmen, and by a factor of 1.5 for members of committees. This arrangement does not take account of double and multiple functions.

The members of the Supervisory Board are compensated for any outlays incurred in connection with the execution of their duties with an annual lump sum of €12,000. They are additionally refunded any VAT payable on their compensation.

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

**Supervisory Board Compensation**

€	Fixed compensation <sup>1</sup>	Variable compensation	Total
2010	717,000	656,250	1,373,250
2009	717,000	–	717,000

<sup>1</sup> Fixed compensation includes the aforementioned annual lump sum.

\* Definition of the return on assets for this purpose: the percentage ratio of earnings before interest and taxes to the capital employed in accordance with IFRS consolidated financial statements, with the capital employed corresponding to the total of current and noncurrent assets less liquidity.

## Declaration by the Executive Board on the Accounting Methods and Auditing

The Executive Board is responsible for preparing Wacker Chemie AG's consolidated financial statements and combined management report. WACKER's consolidated financial statements were published in compliance with the rules published in London by the International Accounting Standards Board (IASB) and endorsed by the European Union. WACKER has set up effective internal monitoring and steering systems to guarantee that the combined management report and the consolidated financial statements comply with the applicable rules and procedures of proper corporate reporting. The reliability and workability of the monitoring and steering systems are examined continuously by the internal auditing division. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Wacker Chemie AG's consolidated financial statements and Group management report and granted them an unqualified certificate. WACKER's consolidated financial statements, its combined management report and the auditors' report will be discussed in detail by the Supervisory Board's audit committee at its meeting on February 25, 2011. For information about the Supervisory Board's audit, please refer to its report.

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

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

Munich, Germany, February 21, 2011  
Wacker Chemie AG

Rudolf Staudigl      Wilhelm Sittenthaler

Joachim Rauhut      Auguste Willems

# Auditors' Report

We have audited the consolidated financial statements prepared by Wacker Chemie AG – comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes – together with the report on the position of the Company and the Group for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the report on the position of the Company and the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch “German Commercial Code”) are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the report on the position of the Company and the Group based on our audit.

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

Our audit has not led to any reservations.

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

Munich, Germany, February 21, 2011  
KPMG AG Wirtschaftsprüfungsgesellschaft

**Kozikowski**  
Auditor

**Dr. Grottel**  
Auditor

# Multiyear Overview

Multiyear Overview						
€ million	2010	Change in %	2009	2008	2007	2006
Sales	4,748.4	27.7	3,719.3	4,298.1	3,781.3	3,336.9
Income before tax	732.3	> 100	3.3	641.8	632.1	415.6
Net income for the year	497.0	> 100	-74.5	438.3	422.2	311.8
EBITDA	1,194.5	96.9	606.7	1,055.2	1,001.5	786.3
EBIT	764.6	> 100	26.8	647.9	649.6	456.3
Fixed assets	3,273.5	8.5	3,017.5	2,951.7	2,401.9	2,098.9
Intangible assets	33.2	50.9	22.0	24.7	10.1	16.3
Property, plant and equipment	3,027.2	9.0	2,778.5	2,659.6	2,123.4	1,917.6
Financial assets	213.1	-1.8	217.0	267.4	268.4	165.0
Current assets, incl. deferred taxes + prepaid expenses and deferred charges	2,227.7	46.2	1,524.4	1,673.4	1,516.2	1,159.3
Liquid funds	545.2	49.9	363.6	204.2	366.5	42.9
Equity	2,446.8	26.0	1,942.4	2,082.8	1,865.6	1,585.8
Subscribed capital	260.8	-	260.8	260.8	260.8	260.8
Capital reserves	157.4	-	157.4	157.4	157.4	157.4
Treasury shares	-45.1	-	-45.1	-45.1	-45.1	-45.1
Retained earnings/consolidated net income/ other equity items	2,049.0	32.0	1,552.4	1,695.3	1,477.2	1,196.8
Non-controlling interests	24.7	46.2	16.9	14.4	15.3	15.9
Borrowed capital	3,054.4	17.5	2,599.5	2,542.3	2,052.5	1,672.4
Provisions	893.2	2.9	867.8	719.5	651.6	587.2
Liabilities, incl. deferred taxes + prepaid expenses and deferred charges	2,161.2	24.8	1,731.7	1,822.8	1,400.9	1,085.2
<b>Total assets</b>	<b>5,501.2</b>	<b>22.1</b>	<b>4,541.9</b>	<b>4,625.1</b>	<b>3,918.1</b>	<b>3,258.2</b>
Employees (average for the year)	16,033	2.0	15,719	15,798	14,926	14,599
Employees (Dec. 31)	16,314	4.5	15,618	15,922	15,044	14,668
<b>Employees (total)</b>	<b>16,314</b>	<b>4.5</b>	<b>15,618</b>	<b>15,922</b>	<b>15,044</b>	<b>14,668</b>

€ million	2010	Change in %	2009	2008	2007	2006
<b>Key profitability figures</b>						
Return on sales (EBIT) = EBIT/sales (%)	16.1	> 100	0.7	15.1	17.2	13.7
Return on sales (EBITDA) = EBITDA/sales (%)	25.2	54.6	16.3	24.6	26.5	23.6
Return on equity = net income for the year/equity (as of Jan. 1) (%)	20.3	> 100	-3.8	21.0	22.6	19.7
ROCE – return on capital employed = EBIT/capital employed (%)	24.8	> 100	0.9	25.7	25.3	17.9
<b>Key statement of financial position figures</b>						
Investment intensity of the fixed assets = fixed assets/total assets (%)	59.5	- 10.4	66.4	63.8	61.3	64.4
Equity ratio = equity/total assets (%)	44.5	4.0	42.8	45.0	47.6	48.7
Capital structure = equity/borrowed capital (%)	80.1	7.2	74.7	81.9	90.9	94.8
<b>Cash flow and investments</b>						
Cash flow from operating activities	1,103.1	43.7	767.5	1,005.4	1,322.5	761.1
Cash flow from long-term investment activities	-681.5	- 14.9	-800.4	-983.7	-678.8	-576.4
Cash flow from financing activities	3.7	-96.0	92.5	-87.7	-318.9	-174.9
Net cash flow = operating cash flow + investment cash flow	421.6	> 100	-32.9	21.7	643.7	184.7
Investments (incl. financial assets)	695.1	- 6.1	740.1	916.3	699.3	525.3
<b>Share and valuation</b>						
Consolidated net income	490.7	> 100	-70.8	439.4	422.0	311.3
Earnings per share (€) = consolidated net income/number of shares	9.9	> 100	-1.4	8.8	8.5	6.5
Market capitalization (total number of shares without treasury shares)	6,487.9	6.9	6,066.7	3,711.4	9,821.3	4,752.3
Number of shares	49,677,983	-	49,677,983	49,677,983	49,677,983	48,207,178
Price as of reporting date Dec. 31	130.6	6.9	122.1	74.7	197.7	98.6
Dividend per share (€)	3.20	> 100	1.20	1.80	3.00	2.50
Dividend yield (%)	2.8	> 100	1.4	1.5	2.0	2.1
Capital employed	3,078.9	6.9	2,878.4	2,520.6	2,566.9	2,555.1