
2012

Wacker Chemie AG
Annual Report

Paths to Sustainability

WACKER

WACKER at a Glance

€ million	2012	2011	Change in %
Results/Return			
Sales	4,634.9	4,909.7	-5.6
EBITDA ¹	786.8	1,104.2	-28.7
EBITDA margin ² (%)	17.0	22.5	-
EBIT ³	258.0	603.2	-57.2
EBIT margin ² (%)	5.6	12.3	-
Financial result	-64.8	-35.8	81.0
Income before taxes	193.2	567.4	-65.9
Net income for the year	106.8	356.1	-70.0
Earnings per share (basic/diluted) (€)	2.27	7.10	-68.0
ROCE (%)	5.2	13.9	-
Financial Position/Cash Flows			
Total assets	6,329.9	6,237.0	1.5
Equity	2,617.8	2,629.7	-0.5
Equity ratio (%)	41.4	42.2	-
Financial liabilities	1,197.2	777.9	53.9
Net financial liabilities/net financial receivables ⁴	-700.5	95.7	n.a.
Capital expenditures (including financial assets)	1,095.4	981.2	11.6
Depreciation (including financial assets)	528.8	501.0	5.5
Net cash flow ⁵	-536.2	-157.4	>100
Research and Development			
Research and development expenses	174.5	172.9	0.9
Employees			
Personnel expenses	1,205.3	1,282.5	-6.0
Employees (December 31, number)	16,292	17,168	-5.1

¹ EBITDA is EBIT before depreciation and amortization.

² Margins are calculated based on sales.

³ EBIT is the result from continuing operations for the period before interest and other financial results, and income taxes.

⁴ Sum of cash and cash equivalents, noncurrent and current securities, and noncurrent and current financial liabilities.

⁵ Sum of cash flow from operating activities (excluding changes in advance payments received) and cash flow from noncurrent investment activities (before securities), including additions due to finance leases.

Cover

WACKER POLYMERS supplies VINNAPAS® dispersions, which enhance the performance and sustainability of construction-sector products. Dispersions for self-leveling flooring compounds help our customers to comply with environmentally relevant regulations and obtain seals of approval, such as EMICODE® for solvent-free and low-emission construction products.

Milestones in 2012

March 2

South Korea: Technical Center under One New Roof

WACKER opened its expanded technical center near Seoul in South Korea. This regional competence center combines R&D, technical support and training for silicone and polymer applications under one roof. The new silicone laboratory focuses on high-tech products for the electronics industry, while the technical center for polymeric binders will concentrate on construction-chemical applications. The affiliated WACKER ACADEMY training center offers a platform for knowledge transfer among customers, distributors and WACKER specialists.

March 5

Nanjing Site Expanded

WACKER invested around €40 million in two new production facilities at its Nanjing site, slated to start operation in mid-2013. The site's existing facilities for producing vinyl acetate-ethylene copolymer (VAE) dispersions were expanded by the addition of a new reactor with an annual output of 60,000 metric tons. It will double capacity for VAE dispersions at Nanjing to approx. 120,000 metric tons per year. The plant complex is one of the biggest of its kind in China. At the Nanjing site, WACKER is building a plant for production of polyvinyl acetate (PVAc) solid resins with an annual capacity of 20,000 metric tons.

April 27

Nünchritz: Poly 9 Starts Operation

At Nünchritz (Saxony), production of hyperpure polycrystalline silicon was officially launched in a ceremony attended by Saxony's minister president Stanislaw Tillich and federal minister Thomas de Maizière. Overall, WACKER invested some €900 million in the facilities, creating more than 500 new jobs in the process. Start-up at the facilities, with a nominal capacity of approx. 15,000 annual metric tons, was completed in early 2012. Around 1,400 employees work at the Nünchritz plant, one of the world's largest and most modern production sites for silicones and hyperpure polysilicon.

July 12

Innovation Award for Dispersions

Three WACKER researchers received the Alexander Wacker Innovation Award for novel dispersions based on vinyl acetate-ethylene copolymers. These innovative products serve as coating materials, and, within a short time, have conquered the North American market for paper applications. These kinds of coatings ensure that the print on cardboard packaging is particularly durable and vividly colored. Compared to the acrylate-based products used up to now, the new VINNAPAS® EF 101 and EF 575 dispersions give customers an alternative technology offering significant cost advantages.

July 19

500 Million Cartridges Produced

Half a billion cartridges filled with adhesives and sealants have been made at the Nünchritz, Saxony site since WACKER started production there in 1998. The first silicone sealant was produced in the mid-1960s at VEB Chemiewerk Nünchritz, as the chemical plant was called at the time. Most customer orders for adhesives and sealants produced at the site are filled directly into cartridges bearing the customer's own labels, and delivered ready for sale.

September 24

Ulsan: Production Capacities Doubled

At its Ulsan site in South Korea, WACKER is building a new facility for production of vinyl acetate-ethylene copolymer (VAE) dispersions with an annual capacity of 40,000 metric tons, nearly doubling its total capacity for VAE dispersions there. Scheduled to officially start up in February 2013, the production complex is one of the biggest of its kind in South Korea. The expansion allows WACKER to meet increasing demand for high-quality VAE dispersions, especially in emerging markets in Southeast Asia. The Group invested around €10 million in the project.

October 24

Polysilicon Production in the US to Start in 2015

WACKER deferred the launch of polysilicon production at its Charleston site (Tennessee, USA) until mid-2015. This decision was based on altered solar-market conditions and current polysilicon overcapacity. At the moment, 280 or so employees continue construction work, begun in early April 2011, in order to complete the project on time. WACKER is adapting its construction schedule and recruiting efforts to the new production start-up date.

December 14

New Chinese Headquarters Opened

WACKER opened its new company headquarters for the Greater China region (mainland China and Taiwan). The Shanghai Center, which occupies some 10,000 square meters, features offices for marketing, sales and administrative functions along with laboratories for R&D and applications technology. Applications range from dry-mix mortars and exterior insulation and finish systems for construction purposes, to paints and coatings, through to products for the automotive, cosmetics and textile sectors. WACKER has been conducting business in China through its own branch office for 20 years.

Vision

WACKER, as an innovative chemical company, makes a vital contribution to improving the quality of life around the world.

In the future, we want to continue developing and supplying solutions that meet our rigorous demands – creating added value for our customers and shareholders, and growing sustainably.

Key Financial Indicators

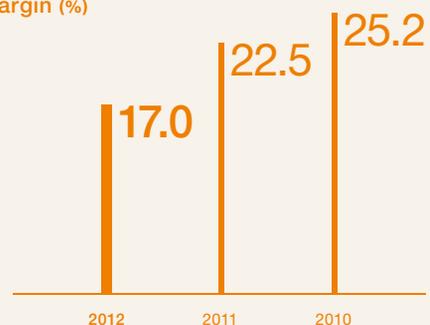
WACKER Share Performance (€)



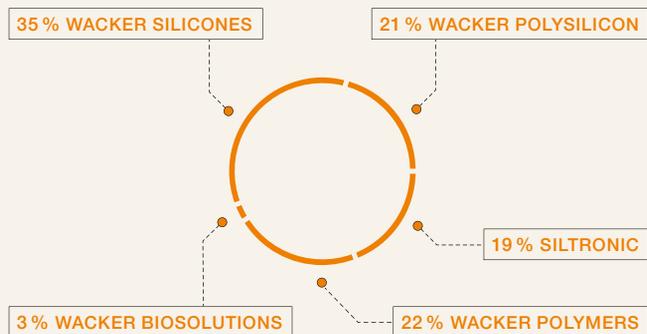
Earnings per Share (€)



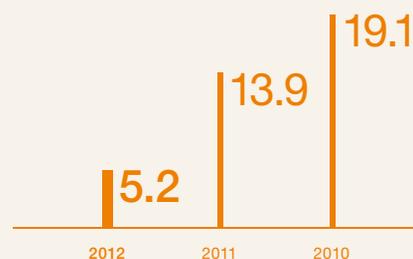
EBITDA Margin (%)



Divisional Shares in Group Sales



Return on Capital Employed (ROCE) (%)



2012

Wacker Chemie AG Annual Report

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3 Combined Management Report

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WACKER has always seen itself as a company focused on sustainability. Our great strengths are our closed production loops. We reuse byproducts as starting materials for other products, reducing our energy and material consumption.

The importance of sustainability is firmly anchored in our corporate codes as one of five goals.

We are guided by the ten principles of the United Nations' Global Compact and the chemical industry's Responsible Care[®] sustainability initiative. This forms the basis of all our actions worldwide.

This annual report shows what we understand by sustainability. How we live by it day by day. How we learn from one another within the company to improve ourselves. And what our goals are.



“A company that acts sustainably will also be regarded as more successful in the long term.”

Dr. Jutta Matreux, head of Corporate Services at the Burghausen plant.



An interview with Dr. Jutta Matreux. She has been responsible for sustainability, product safety, management systems and analytics since 2011.

Dr. Matreux, how do you explain within the company that sustainable production is worthwhile for WACKER?

Quite simply, sustainable management has always been in WACKER's interest. Of course, we want to save energy and raw materials. For example, in 2005, we started reclaiming heat from the chloromethane synthesis. Now that saves us €3 million per year in energy costs. It's a clear example of how commercial acumen is an important part of a sustainability policy.

So sustainability isn't just about energy saving?

No, not at all. Besides ecological and social factors, sustainability also involves economic aspects. For us, that means we can only perform sustainable management if we concentrate on the right markets. We must be able to link global megatrends to the issue of sustainability.

Where, for example?

As regards the megatrend of urbanization, we can help to conserve resources so as to maintain the quality of life in our cities. On a global scale, we can see a very strong sustainability trend in the construction industry. There are a large number of eco-labels that are in strong demand, for example, for public buildings. Any self-respecting construction company in this sector employs sustainable building practices. We won't manage the energy revolution without the chemical industry, either. We are committed to all of tomorrow's energy-generation and energy-saving technologies, from the solar cell to the new turbo re-chargeable battery.

WACKER commits itself to specific energy-saving targets. What does that mean exactly?

Besides initiatives such as electric vehicles in factory transport, we are concentrating on key levers, such as even more efficient production. We want to be saving 1.5 percent energy per year in Germany until 2022. That is very ambitious. But we know exactly where to start. At the same time, we are working on three further concrete environmental targets. In the next ten years, we want to achieve specific reductions in greenhouse gases, dust emissions and volatile organic compounds.

Doesn't product development already have to be sustainable in that case?

Of course it does, and we have to scrutinize innovations for their sustainability. We are examining the impact of our new products on the environment and society, throughout the entire product lifecycle. In this way, we can analyze precisely how sustainable our innovation portfolio is.

Can't the market regulate that by itself?

In my view, we can't depend on that. For example, we have a list of about 300 substances in product development that are no longer used at WACKER. They not only include forbidden chemicals, but also substances that are the subject of heated public debate. We deliberately shun these substances out of a sense of responsibility to our employees and customers.

And is that sufficient to be sustainable?

No. Being sustainable also means that we must take indirect responsibility beyond the confines of our company. It includes all the stages in the supply chain. Starting from purchasing, through production and use, to the question of what remains of our products at the end of their useful life.

How do you want to better integrate your suppliers into ecology issues and social responsibility?

And then what? How can you persuade a supplier to change things?

Do the same standards apply to WACKER worldwide?

You guarantee these standards?

Are the investors interested in such standards?

Do you sometimes have the feeling that, after all is said and done, your work serves as a fig leaf for everything to do with sustainability?

For example, whether they can be recycled or whether they must be landfilled. The question of indirect responsibility has become ever more important in recent years.

These factors play an important role in assessing suppliers. We are in dialogue with our suppliers about this.

If we feel there's room for improvement, then we work together with the supplier on his standards. In practical terms, that means that in the USA, for example, we will be visiting all external waste-disposal companies in 2013. Our environmental experts are there on the spot and can immediately raise any points where we feel that things could be done better. We've already been doing that for a long time in Germany. We don't simply wash our hands of the matter, in the knowledge that the legal responsibility lies with our contractual partners.

We don't just adopt all the industrial environmental standards prescribed under German law without examining them ourselves. Here, too, we also have to consider economic aspects and local requirements. After all, we must also remain competitive in a particular region as well as globally. In principle, we have the same standard all over the world as regards all the essential points.

Our customers are welcome to inspect our production sites in other parts of the world, whether in India, Brazil or anywhere else. We don't have a problem with that.

Yes, increasingly so. Investors nowadays not only want to make a good profit, but also to have a good conscience, knowing that they are investing in companies that take responsibility for society and the environment. These questions are examined by analysts, who draw up rankings for investors. It is not just a matter of looking for the risks that a company has. It's more a matter of the business opportunities offered by climate protection and the efficient use of energy and raw materials. And it's also a question of how attractive a company is as an employer and business partner if it deals fairly with employees, suppliers and customers. In short, a company that acts sustainably will also be regarded as more successful in the long term."

Fortunately not. Our management knows how important it is to design processes sustainably. At WACKER, that is a question of core values. Sustainability offers benefits and therefore cannot be delegated to others. We have an integrated understanding of sustainability. That means that we take sustainability into account even with the first development steps towards a product, and the planning of a new plant. I want to ensure that sustainability is even more highly regarded as an opportunity for the company in future. I'm glad to promote this view.



What is WACKER's position today?

That's a good question. We regard sustainable management as a development process, in which we have already achieved a lot, but where we still have some challenges ahead. We have conducted lifecycle analyses for the main products of WACKER POLYMERS. One milestone, certainly, is the "Corporate Carbon Footprint," our CO₂ balance for the entire Group, which we have just calculated for the second time. However, because we make so much use of our integrated production system, it is not easy to assign energy consumption or CO₂ emissions to individual products.

Do you mean that not all the figures are available?

Most companies spend several years analyzing the carbon dioxide emissions along the entire supply chain before they publish their figures. We haven't reached that stage yet. So far, we have calculated our direct greenhouse gas emissions and our indirect emissions from bought-in energy. Now we're working on our emissions generated along the supply chain – for example, by suppliers or through waste disposal and the transportation of products.

But all the data will be known in five years?

Even in five years, we won't have lifecycle analyses for our more than 3,000 products. That wouldn't make economic sense. We are working through bodies such as the German construction chemicals association (Deutsche Bauchemie), the European Silicone Center CES, and other organizations in preparing lifecycle analyses and product carbon footprint data. But I'm sure that, after these efforts, we will have our own lifecycle analyses for our principal product lines.

A grueling task. What makes this job so extensive for you?

I enjoy the complexity of the subject matter. It's fantastic – the many different facets, questions and, of course, contact with so many different people. I find it most satisfying when I can set something in motion, and then see it develop its own momentum.

Dr. Matreux, thank you very much for your time.

¹
Dr. Jutta Matreux's team is responsible for implementing sustainability strategies throughout the Group.

²
The sustainability of products is continually being tested in WACKER's labs.



“All of us in the company can learn a lot from one another in matters of safety.”

Kim Hu, head of Environmental, Health and Safety Services at WACKER Greater China.



Our tasks are

1. To safeguard our employees' health
2. To operate our plants safely
3. To prevent accidents and serious incidents

At WACKER, it goes without saying that high safety standards apply at all factories – whether in Germany, the USA or China. What is unusual is that, in some aspects, the Chinese sites are setting an example and can teach their German colleagues a thing or two.

Workplace Accidents

4.7

work-related accidents were recorded by the WACKER Group in 2012 per million hours worked.

0.6

work-related accidents were recorded by WACKER Greater China in 2012 per million hours worked.

The visitor from China has some suggestions. Wouldn't it be a good idea to fit chin straps to all the hard hats? Couldn't the footpaths be better marked out? And the traffic density on site ... Kim Hu mentions everything that strikes him, and Stefan Henn, Group coordinator for safety, pays close attention. His colleague Kim's visit to WACKER's main plant in Burghausen is part of a "cross-site audit." The aim of the mutual site inspections is to learn better from one another. Learn from the Chinese? Aren't we always hearing that accidents are routine occurrences in China, and that human life doesn't count for much? The very idea raises a smile from Kim Hu, safety coordinator at WACKER Greater China, and from Stefan Henn. "At our German plants, there are quite a few things that are not as strictly controlled as in China," says Henn. "In China, we were able to give our employees and management proper training from the start on the appropriate conduct and necessary safety regulations."

Perfect Accident Statistics

The statisticians count accidents that involve sick leave as a ratio of million hours worked. The resulting figure is important in the chemical industry. In 2010, this statistic was zero for WACKER Greater China. Unbeatable! It was 0.6 in 2012. WACKER Greater China is thus one of the world champions in questions of safety. Stefan Henn himself spent three years in China for WACKER. So he knows the reasons why such exemplary safety work is performed there. When he arrived in Zhangjiagang in 2006, production in the new factory was just starting up. Hundreds of employees were gradually starting work. "They were mostly people under 30, very young, very dynamic, but with little experience in the chemical industry," he recalls.

So an intensive training program was developed for all employees to complete within their first few months. They deal with the requirements in three stages – on site, in the respective production facilities and at their own workplaces. Henn was delighted at how fast he was able to implement his safety plans. "If you want to lay down new rules at established sites, it can take a long time to reach the majority of the workforce. In Zhangjiagang, most of our 400 employees observed the conduct we expected right from the start," says Stefan Henn.

Learning from the Competition

One reason why the Zhangjiagang plant, about two hours' drive from Shanghai, works so well is that it combines WACKER's safety expertise with that of one of its competitors. WACKER constructed the production facilities for the starting materials for manufacturing silicones together with the us Dow Corning group. The joint venture produces siloxane and pyrogenic silica. Nevertheless, from the works fire department through to the centralized safety regulations, many joint safety questions remained to be answered. Stefan Henn saw that as a huge opportunity: "We have combined the best safety plans from the two partners and tailored them so that they can be effectively implemented in

1 State-of-the-art technology is used to protect employees and equipment.

2 The fire department in Burghausen is on stand-by round the clock with over 70 firefighters.

3 Stefan Henn is Group coordinator for safety issues and heads the safety department at the Burghausen site.

4 Protective work clothing in the Burghausen reaction safety lab.





5,797

trucks carrying hazardous materials were examined at WACKER's Burghausen site in 2012.



200

reports on possible safety risks were submitted by Chinese employees in 2012 as part of an incentive program intended to further improve the safety culture.

Safety Training

850

managers from WACKER Germany took part in the Safety Plus training program in 2012.

181

employees from WACKER Germany completed training for hazardous goods transportation in 2012.

43

online training courses are offered by WACKER Germany on topics of workplace safety, for example on conduct at the plant or protective measures against explosions.

Chinese day-to-day routine.” The Chinese safety team also provides creative incentives aimed at ensuring that employees are conscious of workplace safety on a daily basis.

Safety Bonuses

One of these ideas, which Kim Hu is particularly proud of, is the reporting system. “We have a special budget for rewarding people who report safety deficiencies and narrowly avoided accidents,” he explains. Each year, €10,000 is shared between particularly safety-conscious employees. And the incentive works. Over 200 reports are submitted each year. They show up weak points, such as inadequate barriers or careless fork lift truck drivers. The employees in China benefit, even if nothing happens. Their bonus increases if WACKER Greater China achieves its safety goals. The annual performance bonus is only paid if, among other things, the accident figures are at a low level.

Managers Must Set an Example

Because safety is a management responsibility, the managers at WACKER Greater China are given an additional incentive. Team leaders must specify their personal safety goals as part of their annual target setting. Management must set an example in matters of safety. Once a year, production is shut down for safety reasons. “We want all our colleagues to be completely familiar with EHS requirements,” says Kim Hu. That is why he organizes a “Safety Day” each year. This involves shutting down the production plants in Zhangjiagang, Nanjing and Wuxi for one afternoon. Last year, the employees met in the site canteen for a safety competition.

Keeping Safety at a High Level

The WACKER sites in China rely on standardized, readily verifiable rules. For example, regarding work approval. “In Zhangjiagang, a painter requires a work permit to climb a ladder,” explains Stefan Henn. In Germany, it is assumed that this activity is included in the painter’s professional training.

Here, the Chinese mentality meets the approval of safety experts. In China, once a rule has been laid down, it is observed faithfully and is less likely to be questioned than in Germany. A good example of that is the use of protective glasses. “As a safety specialist, you can gain a good impression of the safety culture at a new site within half an hour,” explains Stefan Henn. The way cyclists ride around, for example, or the use of a handrail are telling signs. And, for Henn, it is absolutely essential to hold onto the handrail when using the stairs, even though some consider that overdoing it. “It shows that I take the subject seriously and accept responsibility for my own safety.”

Stepping up Dialogue

“We have to learn from one another,” says Stefan Henn. The sites in Germany still lead the way in some safety matters, such as plant safety and reaction safety. Similarly, other WACKER sites in the US, Europe or Asia have exemplary processes. “By improving dialogue, we will be able to make our company even safer in the future.”

5
Every week, safety experts from the accident prevention, plant inspection and the fire departments in Burghausen meet to discuss current issues.



“WACKER’s great strength is closed material loops. We use byproducts as starting materials for making other products. This reduces our consumption of energy and other resources.”

Dr. Klaus Blum (right), deputy site manager of the Burghausen site.
Dr. Guido Kallinger (left), head of base chemicals.



Our tasks are

1. Sustainable management in all production and business processes
2. To use byproducts as starting materials for other products
3. To continually reduce energy and resource consumption

WACKER's smart integrated materials system combines different production chains using just a few raw materials. Such high integration makes efficient use of energy while minimizing environmental impact and conserving natural resources.

There's tension in the air. "This isn't the best place to be if you wear a pacemaker," points out Dr. Klaus Blum as we enter the hall on the Burghausen site. The chemist climbs the steel ladder up to the electrolysis plant. It is hot up here, and a steady hum pervades the hall. "The anodes and cathodes carry currents of between 5,000 and 15,000 amperes," explains Dr. Blum, who also manages the integrated production system. In the two banks of 168 series-connected cells, the current splits the rock salt brine that is pumped up here into chloride and sodium ions at temperatures of 90 °C. In the membrane process, chlorine gas is liberated at the anodes and hydrogen and caustic soda at the cathodes. The depleted brine then returns to the salt-dissolving station.

Electrolysis of salt is one of the starting points in WACKER's highly complex integrated production system. "Our task is to produce as many products as possible with just a few raw materials, while also keeping waste to a minimum and using energy as efficiently as possible," says Dr. Blum, outlining the purpose of a strategically operated, highly diverse integrated material and energy system.

¹
Chlorine electrolysis represents the starting point of an extremely comprehensive integrated production system.

²
Optimum short distances connect production facilities and processes in Burghausen.



Sustainability through Logical Necessity

Right from the start, Dr. Klaus Blum had been impressed by WACKER's corporate culture based on its founders' philosophy of sustainability. The Burghausen site had been chosen very deliberately, motivated by the fact that the chemical industry necessarily involves energy-intensive processes. An inexpensive energy source was on hand here in the form of hydropower from the Alz river. Even in the early 1930s, the company's decision makers had turned their attention to WACKER's "waste products," looking for ways to reuse lime byproduct for the production of carbide.

"The integrated production system based on salt, silicon and ethylene is sustainable by logical necessity," says Dr. Guido Kallinger, explaining the principle. The head of base chemicals at WACKER in Burghausen, together with Dr. Blum, controls the interlinked production chains as part of a four-strong planning team reporting to Site Management. "If we don't utilize the byproducts of individual chemical processes, such as waste gases, wastewater, solid waste, and, in particular, waste heat, the result is not only environmental pollution but also a loss of value." Integrated production processes, on the other hand, involve many production chains that, though independent of one another, intermesh like cogs, driving the entire integrated production system like a gear box. "The big advantage is that materials and energy are used efficiently. Byproducts are recycled time and again and either reused within the integrated system or sent for external use," notes Dr. Guido Kallinger.

One Plant – One Loop

"In the chlorine-HCl system, the toxic chlorinated intermediate products are converted into nontoxic byproducts, such as hyperpure silicon, silicones or





Potential for Saving Resources



97%

of the hydrogen chloride used in the production loops in Burghausen and Nünchritz is recycled.



742,000 t

of CO₂-equivalent emissions were avoided in 2012. Due to the high reutilization rate, less fresh hydrogen chloride needs to be generated and, consequently, there are savings in the transportation of raw materials and energy consumption.



44%

of the heat generated comes from the expansion of the cross-plant, integrated heat utilization system.

3

The HCl reactor provides hydrochloric acid for a whole range of intermediate products within the integrated production system.

pyrogenic silica. Via our integrated system, we can reclaim hydrogen chloride and also recover some of the expended energy as steam for heating purposes," says Dr. Klaus Blum, explaining the chain of recycling and reuse. Thanks to this closed cycle, which encompasses the different plants located close together at Burghausen, WACKER not only reduces its emissions but also the frequency of potentially hazardous road and rail journeys.

The planners regard the chlorine-HCl cycle as part of a comprehensive integrated system at WACKER's Burghausen and Nünchritz sites. It also includes the ethylene system, in which ethylene is transformed into organic base chemicals, from which polymer dispersions and dispersible polymer powders are subsequently produced, with applications, for example, in the construction and automotive industries. In the silicon system, over 3,000 silicone products, pyrogenic silica and polysilicon are produced from silicon, methanol and common salt. "If this overarching integrated production system subsequently produces, for example, silicones for wind turbines or solar cells for photovoltaics, the overall result of the process chain actually shows a net energy gain, despite the fact that highly energy-intensive intermediates are used," calculates Dr. Blum.

Highly Motivated for Challenging Tasks

It is the task of the integrated-system planners always to think in such holistic terms: "We must keep our own production and process conditions in mind just as much as our sales markets and the seasonal fluctuations seen, for example, in the construction industry," adds Dr. Blum, describing the challenge. The manager holds regular meetings with process staff, and can rely on their unstinting support. "In general, the supervisors, plant and department managers, integrated production system and departmental planners meet once a month to compare their work results, clear up any open questions and work out practicable solutions. They are highly motivated," says Dr. Blum.

Just a few steps away from the membrane electrolysis facility, Dr. Kallinger operates the HCl synthesis plant. Yellow pipelines carry the electrolytically generated hydrogen and chlorine gases from the cell hall, across the site, directly to the steel-clad reactors. A dazzling flame can be seen through a sight glass. "We generate hydrogen chloride gas in a controlled chlorine-hydrogen reaction at about 2,000 °C, and produce concentrated hydrochloric acid," says Dr. Kallinger, summing up the fierce reaction. The hydrogen chloride and the energy liberated in its synthesis are then used as required to produce further intermediates. "We can minimize material and energy losses because everything takes place in such interlinked processes. This superhighway maximizes the efficiency of our integrated chemical system."

Like all the units in the integrated system, HCl synthesis is monitored round the clock and operated remotely from the neighboring control center. Here, WACKER employees observe each individual process via twelve monitors. If anything goes critical, they can act immediately and even shut down the respective plant with emergency off switches if necessary. There's no question that, alongside efficiency, safety takes absolute top priority in the integrated production system. A glossy poster hangs on the wall. "On January 8, 2012, we clocked up 6,500 days without reportable accidents in HCl synthesis - almost 18 years," explains Dr. Blum. "And that's the way it should stay, since production safety is the major strength of a sustainable, integrated production system."



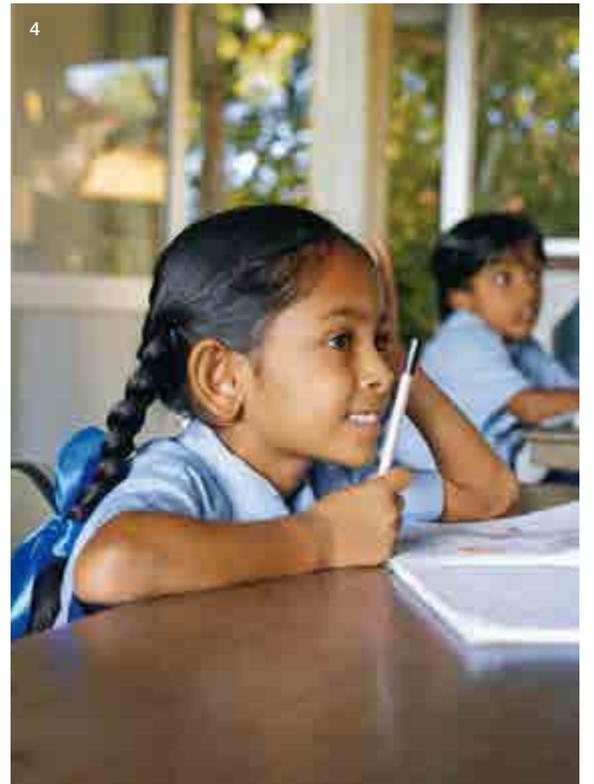
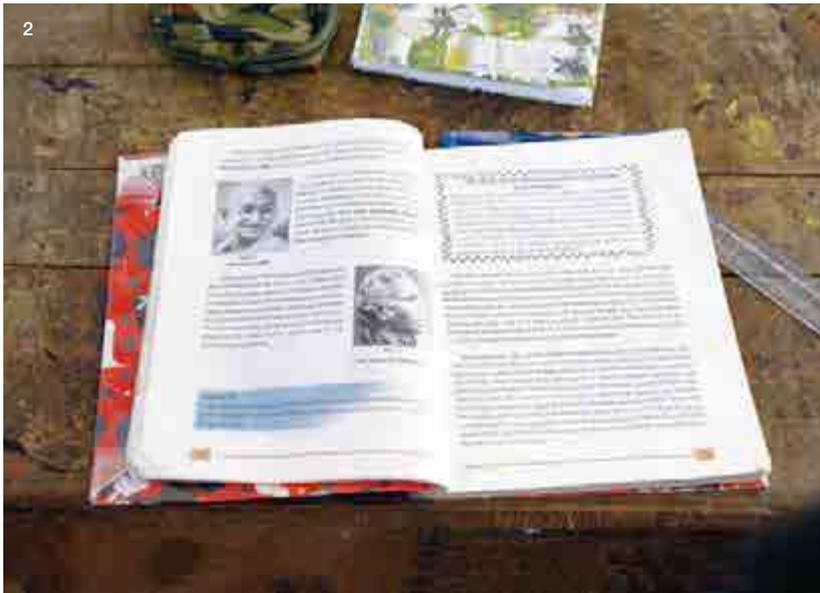
“For just a few cents a month, every one of us can make a huge difference to the future of children in Sri Lanka!”

Dr. Tobias Ohler, member of the Executive Board of Wacker Chemie AG.



Our tasks are

1. To live up to our global responsibility
2. To provide aid without red tape
3. To expand the relief programs
4. To use our employees' donations responsibly



WACKER's relief fund has been helping tsunami victims in Sri Lanka since 2005. Thanks to our innovative fundraising marketing, we are now able to finance an entire school in the long term.

“Süß Help Help Help”

The sms that reached Elfriede Süß, at her home in the tranquil Bavarian town of Meitingen during the Christmas break, set off a chain of events. Some 10,000 kilometers away on the south coast of Sri Lanka all hell had broken loose. The area had been completely devastated by a tsunami. Some 35,000 were dead and millions homeless. The alarm was raised by a monk, with whom Elfriede Süß had long been running an aid project for children. With no idea how to feed the hundreds of refugees in his monastery, he fired off a text message to his German comrade. Two days later, the 65-year-old was on her way to Sri Lanka in a plane bringing emergency aid.

WACKER, too, was shocked by the extent of the destruction. The Executive Board quickly reached a unanimous decision: to help the tsunami victims, sustainably and without red tape. The WACKER HILFSFONDS was called into being to provide help in natural disasters. From day one, Tobias Ohler has been a voluntary member of the relief fund management team, as the person who holds the purse strings. “Of course, it’s vital to keep a close eye on what happens to our employees’ money,” says the WACKER Executive Board member. And the family man put his heart and soul into the task. Though he only knows the relief fund projects from reports and photos, Tobias Ohler has already learned about poverty at first hand after spending six weeks in India while still a student. And he is astonished by “how much can be done just because a few westerners give up a few euros each year.”

A Foundation for Disaster Relief

While the paperwork for establishing the foundation was still being handled at WACKER, Elfriede Süß was already rolling up her sleeves in Sri Lanka. Together with the Buddhist monk – Sadu Wimaladhamma Tissa Nayaka Thero – and many helpers, she got down to work. Some of the fishing villages were beyond rebuilding. The homeless were to get a new village, two kilometers from the sea, among abandoned cinammon plantations and jungle. The plot of land on a small hill was quickly purchased, but Elfriede Süß still couldn’t picture the homes, orphanage, kindergarten, school and training workshops that would soon be built here. “My first job was to plan the drainage for the entire village,” laughs the retired financial adviser.

Every Donation by WACKER Employees Is Doubled

When Peter Hirschmann, acting on behalf of WACKER HILFSFONDS, came to Kosgoda to assess the project, the helpers were already clearing the site. “We burned mountains of brushwood at night,” remembers Elfriede Süß. “Everything smoked and smoldered until the next morning.” WACKER is certain that good work is being performed here. The first money from WACKER HILFSFONDS went to Kosgoda in 2005.

Unlike many of the companies that donated money after the tsunami disaster, WACKER is interested in the sustainable success of the Sri Lankan aid project. The Executive Board and employees have been committed to

1
Some children undertake a long journey to attend the “Future for Children” school.

2
The WACKER relief fund also finances learning materials, such as school books.

3
The older children now have the opportunity to go on to higher education. That means attending school for 12 years.

4
Every class has its own classroom with chairs and tables. That isn’t something you would find everywhere in Sri Lanka.

5
Over 50 families of tsunami victims have found a new home in the village.

it for eight years. Right from the beginning, WACKER matched every donation contributed by its employees.

Two School Buildings Constructed

The first donations from the relief fund were used to build two school buildings. The school, with four classes, opened in 2006. Every morning, the boys and girls gather under palm trees in front of the yellow-painted school buildings for prayers. Many of the children live locally, while others undertake a long journey to school every day. Most of their parents are day laborers, who can neither read nor write.

The WACKER donations were originally only intended to aid the construction of the school. Then, the relief fund took on the day-to-day running of four classes by providing about €20,000 annually, for five years. That covered the teachers' salaries, books, school uniforms and a hot midday meal.

But the five years went by quickly. Many donors backed out long ago. "Who still donates money for tsunami victims?" complains the founder of "Future for Children." Without the donations from WACKER HILFSFONDS, the school couldn't keep going. Then, what would become of the plan to allow all the village children to complete their education, some of them even to university level?

Tobias Ohler wants to help. "It can't make sense to construct the school buildings without helping to run them," he says. After all, he also has to act sustainably in his day-to-day business. Tobias Ohler has a clear vision of his goal – he wants to create a continuous flow of funding for aid projects, such as the school in Sri Lanka. "I requested it urgently," reflects Ohler.

The Cent-Donation Program Is Keeping the School Going

Now, his commitment is paying off – the cent-donation program started up in April 2012. Some 4,300 employees in Germany are currently contributing. They have consented to round down their monthly salary to the nearest whole euro sum. They donate the difference – no more than 99 cents per month, or 12 euros per year. With the cent program, too, WACKER matches each donation. This raises €50,000 annually. Tobias Ohler, who, in his normal job, is responsible for large amounts, welcomes the simplicity of the idea: "With just a few cents per month, we can finance a whole school for years. It's a tremendous achievement!"

"It was a huge load off my mind when I heard the news that the relief fund will take on the running of the entire school," says Elfriede Süß. Now the 11th and 12th grades can start, and even university entry is on the cards. Tobias Ohler is delighted, "It's much more sustainable to completely finance a really good project and concentrate on that, rather than springing into action for a few months with every new disaster, and looking for something to fund."

One of the students in the new 11th grade is 15-year-old Lakshmi. She lives in the orphanage directly next to the school. The girl with the glossy black hair wants to study medicine later, she told Sabrina Schmidseher. The WACKER lab technician from Burghausen visited Kosgoda on her last vacation, spent two nights in the village there and spoke to children like Lakshmi. She also attended a class. "It was much more orderly than when I was at school," she says. She only understood a little of the math, but there's one thing she grasps: "These children are extremely grateful and glad to be able to go to school here."

6
Carpenter, cook, mechanic:
Young people receive
training in the workshops.

7
The youngest are cared for
in the kindergarten. English
and music are already on
the timetable here.

8
The village with its school
is located amidst the jungle.
Around 200 children meet
here daily for morning
prayers.



The WACKER HILFSFONDS Worldwide

The WACKER relief fund was founded in 2005 and has provided unbureaucratic help ever since. The foundation supports four major projects to give natural-disaster victims the chance of a better life. 4,300 WACKER employees take part in the cent-donation program.

Sri Lanka

The cent-donation program yields €50,000 annually, after doubling by the WACKER Executive Board, for running the school in Kosgoda.



Pakistan

The WACKER HILFSFONDS donated €50,000 for rebuilding a school for 250 girls in Murghazar, Pakistan, that had been destroyed in 2012 following violent monsoon rains.



Haiti

In coming years, the WACKER HILFSFONDS will provide €150,000 to run the school in Gressier, Haiti, with 350 children.



China

The company donated over €100,000 to build a school for 300 children in the village of Fujia in central China, which was devastated by a severe earthquake in 2008.



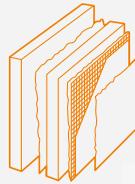
WACKER is convinced that sustainability is a strategic success factor and a competitive advantage. For us, sustainability means striking a balance between economic, environmental and social factors in everything we do. A task that we undertake day after day, so that we can improve ourselves step by step.

1

For Our Shareholders

Energy-Efficient Construction

VINNAPAS® polymer powders (1) ensure that the adhesive mortar (2) sticks to walls and to the insulation material in external thermal insulation composite systems (3). The dispersible polymer powder increases adhesion and impact resistance within the base coat. Specialty powders protect the top coat against moisture by reducing its water absorption.



As much as
50%
of heating costs can
be reduced by using
ETICS/EIFS.



1

3

2

For Our Shareholders

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Dear Shareholders,

As expected, 2012 was a challenging year for our company.

The key factor influencing WACKER's performance was solar-grade polysilicon. Although we supplied customers with more polysilicon than ever before in 2012, the marked price decline – 50 percent within one year – significantly dampened Group sales and EBITDA. Additionally, lower volumes and prices held back our semiconductor business. Overall, price effects reduced Group sales by more than €700 million. Growth and increased profitability in chemicals, which remained stable throughout the year, could not fully offset this price impact. Group sales of €4.63 billion were 6 percent below the prior-year period, with EBITDA coming in at €787 million, down 29 percent.

At this point last year, I explained to you in detail the trends seen in the global photovoltaic market over the past two years. The consolidation process – continuing in 2012 – produced all the negative side effects that are inevitable in such a situation: high inventories, strong price pressure, customers in financial difficulties, company insolvencies, and excess capacity along the entire value-added chain.

We responded to this critical market situation with a number of measures. The key decision was to postpone the start-up of our new polysilicon plant in the US state of Tennessee until 2015.

Anti-dumping proceedings additionally weighed on the photovoltaic market and undermined confidence. The European Union is investigating whether to impose punitive duties against Chinese solar companies on the grounds of illegal subsidies. In turn, the Chinese Ministry of Commerce has launched an investigation about levying punitive tariffs on foreign polysilicon manufacturers. Should these proceedings lead to punitive tariffs, photovoltaic-industry momentum would slow globally and the cost of switching to renewable-energy sources would increase. From the start, WACKER took a firm stance in this matter, and we have made our viewpoint clear to the political decision makers. We are strongly in favor of free trade and reject restrictions. The past demonstrates that intervention, be it political or regulatory, has never helped to protect industries from market trends. As a cost and quality leader, we will continue to lower our costs and, in our opinion, are well positioned to remain a leading polysilicon manufacturer.

Positive Signals from the Photovoltaic Market

Although photovoltaics is currently a difficult business field, there are a number of positive developments, which tend to be overlooked amid all the negative news in that sector.

The crucial signal for the future of photovoltaics is that solar energy's competitiveness has increased over other energy sources, due to a marked decline in system prices. In Germany, solar power costs less than 10 cents per kilowatt hour, making it as inexpensive as electricity from gas-fired power plants.

A second piece of good news is that the market is continuing to grow. The installation of new solar systems increased to over 32 gigawatts last year.

And there is a third encouraging signal: newly installed capacity is rising in ever more countries around the world. Photovoltaics is no longer solely dependent on Germany and Italy, so far the largest individual markets. Countries such as China, France, India, Japan, South Africa and the USA are increasingly turning to solar energy. Some of them have launched incentive programs or defined clear expansion targets for the coming years. In China alone, there are plans to install around 35 gigawatts by 2015. Moreover, an increasing number of projects are being realized without incentives.

We are sure that photovoltaics will carry on growing, firmly establishing its position as an indispensable energy source. Consequently, we have continued with our investments, even during this critical phase.

In semiconductors, business is expanding for 300 mm wafers, but not for smaller diameters. As a result, we implemented a number of structural measures for smaller diameters over the past two years – which led to job cuts. Additionally, we took a policy decision to end our work on developing 450 mm wafers. We are concentrating on our existing 300 mm business, which is continuing to grow. Our aim is to improve our cost position there and generate positive cash flow.

In 2012, WACKER's three chemical divisions performed very well, with sales rising 5 percent on the year-earlier period. EBITDA performance in chemicals was even stronger, climbing 15 percent. Across every major region, we invested in new production facilities and reinforced our global presence.

Our silicones business developed particularly strongly in the personal-care sector and in textiles and packaging. In polymers, we achieved growth not only in the construction sector, but also in the carpet and packaging industries, where dispersions can replace other chemical products.

From the start, our policy on dividends has been oriented toward offering our shareholders an appropriate share in the company's economic success, without negatively impacting future growth. The dividend yield should equate to at least 25 percent of the allocable net income. At the Annual Shareholders' Meeting in May, the Supervisory and Executive Boards will propose a dividend of 0.60 cents per dividend-bearing share. The resulting distribution ratio is 26 percent, based on Wacker Chemie AG's net allocable income.

We are dissatisfied with the performance of WACKER's stock, which is mainly impacted by the difficult photovoltaic-market situation. WACKER's share price in 2012 was strongly linked to the development of polysilicon prices, which declined appreciably during the year. We shall renew our efforts to communicate to the capital market that WACKER is a well-positioned chemical company with numerous growth prospects. The emphasis here lies on the word "chemical" – the area that is by far our largest and most profitable sales driver.

Chemical Business Increases in Importance

From today's perspective, 2013 will not be an easy year for us. In the photovoltaic market, consolidation will continue – though with the positive prospect of polysilicon prices not declining any further. The anti-dumping issue poses significant risks for the entire solar sector. The semiconductor market is moving sideways. These factors still dampen our business outlook. If this complex situation is resolved in our favor, there will be a positive impact on sales and earnings.

We are much more optimistic about our chemical business, where we expect to post sales and earnings increases again this year. We see opportunities for further growth in polymers, especially in the area of construction applications. In silicones, we aim to increase our market share with higher-quality products. We will strengthen our global presence, so that we can seize our market opportunities in key growth countries and regions. In the years ahead, we will intensify our focus on expanding our chemical business and on increasing its share of total sales.

A firm basis for pursuing this strategy is now in place. In previous years, WACKER spent very substantial sums on expanding production capacity. The peak level for capital expenditures was reached in 2012. We invested €1.1 billion – more than ever before in the company's history. We will benefit from these

large strategic expenditures in the future. Our high investments will now decrease. This year, capital expenditures will be almost 50 percent lower than in 2012.

The main aspects of our financing policy remain valid. Even amid higher liabilities in 2013, we will stay focused on a strong financial profile, with a sound capital structure and a healthy maturity schedule for our debt.

At the start of the year, Dr. Tobias Ohler joined the Executive Board of Wacker Chemie AG. Taking over as Personnel Director, he succeeded Dr. Wilhelm Sittenthaler, who left the Executive Board on December 31, 2012, after 30 years at the Group.

WACKER is well positioned to continue expanding through its own resources during 2013 and beyond. Our growth opportunities are underpinned by our divisions' leading market and technology positions, by our strong presence in key markets and by our innovative strength.

Our employees shape this growth. Highly committed and very skilled, they worked hard for WACKER in 2012. That is why I and my colleagues on the Executive Board wish to express our thanks to the entire WACKER workforce.

We would also like to thank all our customers and suppliers for our trusting and reliable relationship, and our shareholders for our open dialogue. Our aim is to work together with all of them in shaping WACKER's future and to reinforce their confidence in their company's strengths.

Munich, Germany, March 2013



Dr. Rudolf Staudigl
President & CEO of Wacker Chemie AG

Executive Board

Dr. Rudolf Staudigl

President & CEO

WACKER POLYSILICON

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

Dr. Tobias Ohler

WACKER POLYMERS

Human Resources (Personnel Director)
Technical Procurement & Logistics
Raw Materials Procurement
Region: Asia

Dr. Joachim Rauhut

SILTRONIC

Corporate Accounting and Tax
Corporate Controlling
Corporate Finance and Insurance
Corporate Engineering
Information Technology
Region: The Americas

Auguste Willems

WACKER SILICONES

WACKER BIOSOLUTIONS

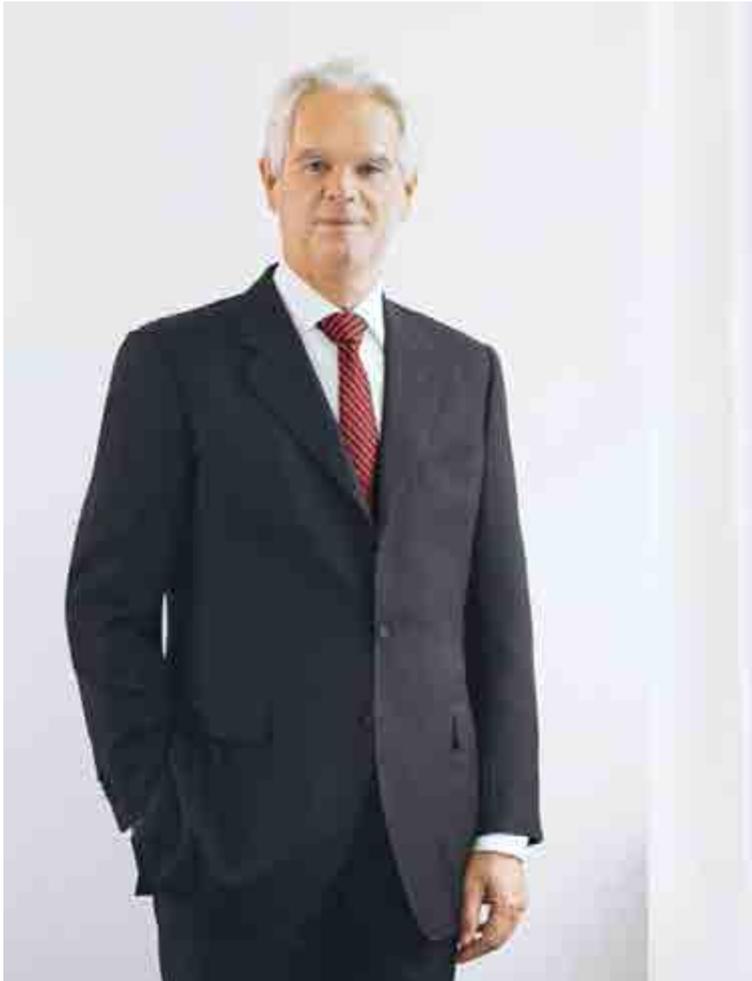
Sales & Distribution
Corporate Research & Development
Intellectual Property
Site Management
Corporate Security
Environment, Health, Safety
Product Stewardship
Regions: Europe, Middle East

The Supervisory Board of Wacker Chemie AG has appointed Dr. Tobias Ohler to the Executive Board. He succeeds Dr. Wilhelm Sittenthaler, who left Wacker Chemie AG on December 31, 2012. Dr. Ohler took up his position on January 1, 2013.



(From left) Auguste Willems, Dr. Joachim Rauhut, Dr. Rudolf Staudigl and Dr. Tobias Ohler

Report of the Supervisory Board



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

Dear Shareholders,

For WACKER, 2012 was characterized by robust chemical performance and persistently difficult photovoltaic-market conditions. Although we sold more polysilicon than ever before, our volume gains did not offset the substantial price declines in this market. WACKER's three chemical divisions were stable and delivered solid earnings.

The future will bring other cyclical swings. WACKER's major advantage here is that it supplies over 3,200 different products to almost every major industrial sector and market. Since we are not reliant on any one specific product or market, we can compensate for difficulties on individual markets. Having a portfolio of businesses with varying risk profiles is one of WACKER's strengths. Pure solar companies, for example, do not have this advantage. Our portfolio enables us to pursue long-term strategies, even amid headwinds. This is underscored by our high investment levels in 2012 and in the past. Last year, we invested €1.1 billion – more than ever before in the history of our company. We are sure that photovoltaics will reinforce its importance as an indispensable energy source for the future. On a solid footing, WACKER has the resources necessary to benefit from both this and other megatrends.

Importantly, WACKER's strength has another pillar: technological and innovative expertise. Novel customer applications and continuous process innovations are vital levers for growing profitably.

WACKER has no problem taking on international competitors, provided that underlying conditions do not unduly restrict our entrepreneurial scope of action. The European Union's anti-dumping proceedings against Chinese solar companies and the Chinese Ministry of Commerce's response of instigating anti-dumping proceedings against non-Chinese polysilicon producers are developments that harm everyone. Political and regulatory intervention occurs whenever industries are threatened by intense competition or are felt to be in need of rescuing. Past experience shows us that such intervention provides only temporary relief. Ultimately, entrepreneurial success hinges on innovations and costs. For this reason, WACKER is emphatically in favor of unrestricted free trade. As a cost and quality leader, we laid the groundwork early on, so that we would remain a leading polysilicon manufacturer.

Our employees are essential for securing WACKER's long-term success. Highly skilled and extremely motivated, they identify closely with their company. The Supervisory Board of Wacker Chemie AG thanks them for their accomplishments in 2012.

Continuous Dialogue with the Executive Board

At WACKER, sound corporate governance and control are built on a relationship of trust between the Executive Board and Supervisory Board as they work closely together in the company's interest. In 2012, the Supervisory Board performed – with great diligence – the duties incumbent upon it under the law, the Articles of Association and the internal rules of

procedure. The Supervisory Board was involved in every decision of fundamental significance for the company at an early stage.

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

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

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

The Supervisory Board held four scheduled meetings in 2012, two in the first half of the year and two in the second. Between meetings, the Executive Board immediately informed us in detail by means of written reports about all projects and plans of particular importance to the Group. At its full meetings and in its committees, the Supervisory Board discussed in detail business transactions important to the company on the basis of the reports submitted by the Executive Board. The full meetings were prepared by shareholder and employee representatives in their own separate sessions. In the period under review, every Supervisory Board member attended at least half of the meetings held during their period in office.

The Supervisory Board's Main Areas of Deliberation

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

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

- the appointment of a new member of the Executive Board
- the anti-dumping proceedings against the solar industry in the USA, EU and in China; their impact on WACKER; and courses of action
- the market-price level of polysilicon, demand fluctuations in this segment, and the consequences for WACKER
- a new roadmap for constructing the polysilicon production facility at the Charleston site in the US state of Tennessee
- the financing of the Singapore-based joint venture with Samsung
- refinancing of the siloxane joint venture with Dow Corning in Zhangjiagang (China)
- the financing of the EPS pipeline project to supply ethylene to the companies based in the Bavarian Chemical Triangle
- investments in the semiconductor sector
- performance of the share price
- ensuring Group financing

The Supervisory Board discussed the WACKER Group's plans for the 2013 fiscal year at its meeting held on December 6, 2012. On this occasion, the Supervisory Board also dealt with

medium-term corporate plans for the 2013 – 2017 period. It also discussed and approved the capital expenditure budget for 2013.

Work in the Committees

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

The Audit Committee met four times in 2012. Key aspects of its work included the audit of the annual financial statements of Wacker Chemie AG and the Group for 2011 and of the consolidated interim financial statements for the first half-year. It also discussed the consolidated quarterly reports, risk management, compliance and auditing issues. Additionally, the Audit Committee awarded the audit assignment (including the focus of auditing) to the chosen auditor and submitted a proposal for the choice of auditor for 2012 to the Supervisory Board's full meeting.

The Executive Committee met twice in 2012. At these meetings, it dealt with personnel issues relating to the Executive Board (such as compensation, Executive Board membership, and employment contracts).

The Mediation Committee did not need to be convened in 2012.

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

Corporate Governance

In 2012, the Supervisory Board dealt intensively with corporate-governance standards. At its meeting of December 6, 2012, the Supervisory Board discussed the application of the German Corporate Governance Code and adopted the annual Declaration of Conformity that must be submitted jointly by the Executive and Supervisory Boards in accordance with Section 161 of the German Stock Corporation Act (AktG). Shareholders can access the Declaration on the company's website.

In its Corporate Governance Report, the Executive Board reports on corporate governance at WACKER also in the name of the Supervisory Board in accordance with Item 3.10 of the German Corporate Governance Code. [For further details, refer to page 240 onward](#)

At its meeting in December 2012, the Supervisory Board also discussed the efficiency of its activities. Its findings were that the Supervisory Board works efficiently – one reason being the regular preliminary discussions regarding the Supervisory Board meetings.

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

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements prepared by the Executive Board for 2012, the consolidated financial statements and the combined management report (reporting date: December 31, 2012), including the accounting.

The audit assignment had been awarded by the Supervisory Board's Audit Committee in line with the resolution of the Annual Shareholders' Meeting of May 16, 2012. The auditors issued an unqualified audit report.

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

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

At its meeting on February 25, 2013, the Audit Committee closely examined the aforementioned financial statements and reports, as well as the audit reports submitted by the auditors of the company and consolidated financial statements, and discussed and examined them in detail with the auditors before reporting to the full Supervisory Board. At its meeting on March 7, 2013, the full Supervisory Board discussed and examined the relevant financial statements and reports intensively, taking account of the reports submitted by the Audit Committee and the auditors. At both meetings, the auditors took part in the deliberations. They reported on the main results of the audit and were available to the Audit Committee and the full Supervisory Board to answer questions and provide supplementary information.

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

We approve the financial statements of both Wacker Chemie AG and the WACKER Group submitted as of December 31, 2012. The annual financial statements of Wacker Chemie AG are hereby adopted. We concur with the Executive Board's proposal for the distribution of retained profits.

Changes in the Composition of the Supervisory and Executive Boards

In 2012, there were changes in the composition of the Executive Board. Dr. Wilhelm Sittenthaler, Executive Board member of Wacker Chemie AG and its Personnel Director, whose Executive Board contract was scheduled to expire at the end of April 2013, informed the Supervisory Board that, after over 30 years at the company, he would not be available for a further term due to personal reasons. Consequently, he had asked to be relieved of his duties at the end of 2012. At its meeting of December 6, 2012, the Supervisory Board acceded to his request. Effective January 1, 2013, Dr. Tobias Ohler joined the Executive Board as a new member and was appointed Personnel Director. Dr. Ohler's contract is for three years. Previously, he was Executive Board member and Personnel Director at WACKER subsidiary Siltronic AG.

The Supervisory Board's middle management representative, Dr. Konrad Bachhuber, resigned his Supervisory Board position as of December 31, 2011. Konrad Kammergruber was elected to replace him, effective January 1, 2012.

Munich, Germany, March 7, 2013
The Supervisory Board



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

WACKER Stock in 2012

Difficult conditions and adverse sentiment in global capital and financial markets dominated the performance of WACKER's stock in 2012. Uncertainty among market participants was chiefly fueled by the as-yet unsolved sovereign-debt crisis in eurozone countries. In addition, the effects of consolidation and political uncertainty in the solar industry weighed on WACKER's stock price.

Consolidation Process in Photovoltaics and Talk of Trade Barriers Strongly Impact WACKER's Stock Price

The first quarter of 2012 was marked by political efforts to overcome the sovereign-debt crisis in Europe and preserve the European common currency. Accordingly, cautious skepticism was the predominant sentiment on the exchanges in early 2012, even though key corporate data and business indicators were pointing to a gradual improvement in overall economic conditions.

Another major factor impacting the stock's performance was reduced demand and ongoing consolidation in the photovoltaic industry. Public discussion on feed-in tariff cuts in Germany and Italy, previously the key growth markets, plus solar-company insolvencies, were clearly taking their toll on an initially optimistic market.

Overall, the release of WACKER's preliminary 2011 figures on January 26, 2012, and the publication of the annual report on March 14, 2012, did not affect the price of WACKER's stock.

The stock essentially moved sideways in Q1 2012, registering an increase of 6 percent. It started out the year at a price of €62.15 and closed the first quarter at €66.11. Experiencing a temporary upturn in early February, WACKER's stock reached its high for the year at €91.00 on February 9. Then, demand slowed in some of the key markets for solar installations, especially in Germany and Italy, which returned the stock to a lower price level. In March, it traded within a range from approximately €65 to €70.

In Q2 2012, developments in global capital and financial markets were predominantly shaped by Europe's sovereign-debt crisis, which also dampened the world economy. Stock-market sentiment was rather skeptical during Q2 2012.

During that quarter, WACKER's stock fell from €64.71 (April 2, 2012) to €54.20 (June 29, 2012). The stock moved in line with the trends registered by the DAX and MDAX benchmark indices during Q2 2012, though with more volatility.

The release of WACKER's Q1 2012 report on May 4 and the Annual Shareholders' Meeting of May 16 had no directly identifiable impact on the price of the stock.

In the third quarter of 2012, both the situation and mood in capital and financial markets worldwide eased a little, but did not show any fundamental improvement. The European Central Bank's decision to buy crisis-hit countries' sovereign bonds, in unlimited amounts if necessary, helped calm financial markets somewhat.

During this period, WACKER's stock was appreciably undermined by price and consolidation pressures, and by policy-driven uncertainty in the solar industry. In early September, the European Union launched anti-dumping investigations against Chinese solar companies. Earlier, in mid-May, the us Department of Commerce had decided to impose provisional duties – ranging from 31 to 250 percent, in some cases – on Chinese-made solar modules imported into the us. Chinese authorities, in turn, started to investigate the pricing of polysilicon imported into China. Initially limited to us and South Korean products, the investigation was subsequently expanded to include European polysilicon as well. Fears of a potential trade war between not only China and the USA, but also the European Union and China, reduced market confidence further. As reported in its second-quarter publications, WACKER adjusted its polysilicon production capacity to match reduced customer demand.

Entering the third quarter of 2012 at €55.80, the stock subsequently fell, closing the quarter at €49.96. Amid the prevailing situation, the stock was neither lifted by publication of the Q2 Interim Report on July 25, which contained a cautious outlook and a slight correction to the full-year 2012 forecast, nor by WACKER's Capital Markets Day on September 11, 2012. After WACKER announced (on October 24) a target of €750 million for full-year EBITDA, the range of analyst estimates narrowed. But this did not result in any buy signals for the stock. While the chemical divisions delivered stable earnings and Siltronic met its own targets, the business outlook for polysilicon impeded WACKER's stock. Although WACKER held its own in an intensely competitive polysilicon environment, prices and earnings declined markedly as demand remained weak.

As a result, in the third quarter, short-time work was introduced at WACKER POLYSILICON, and the schedule for constructing and commissioning the new Charleston polysilicon site was extended by 18 months. Production start-up at Charleston is now planned for mid-2015.

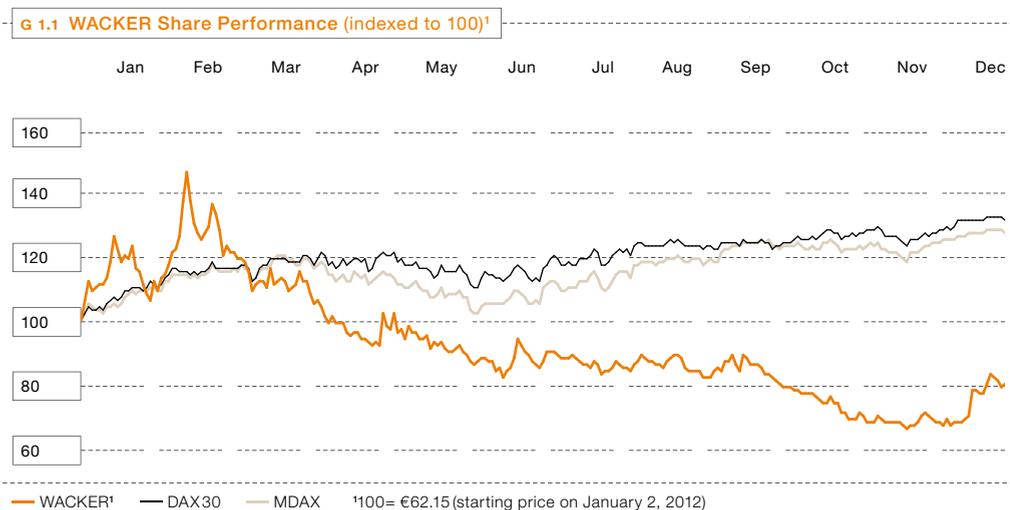
The release of WACKER's Q3 2012 report had no directly identifiable impact on the price of the stock.

WACKER stock entered the fourth quarter at €49.96 (closing price on September 28, 2012). The Group's Q4 business performance was shaped by the weak global economy, by the solar sector's specific difficulties and by the usual seasonal effects facing the chemical divisions, such as slower demand for construction materials during the winter months. The relentless consolidation process in the solar industry continued unabated and business results were impacted accordingly. WACKER's stock price fell to its year-low of €40.87 on November 16, 2012, amid a subdued solar-market outlook, a series of profit warnings from semiconductor companies, and continued financial-market uncertainty over the European debt crisis. In the closing weeks of 2012, the stock was driven up by, among other things, reports that China intends to expand solar energy more intensively than previously planned. It traded at €49.65 at year-end (closing price on December 28, 2012).

Performance of WACKER Stock Compared with DAX and MDAX

Germany's DAX and MDAX equity indices gained 14 percent and 17 percent, respectively, in the three months from January through March 2012. WACKER's stock moved sideways in Q1 2012. It started out 2012 at a price of €62.15 (opening price on January 2, 2012) and closed the first quarter at €66.11. Both the DAX and MDAX fell in Q2, down 9 percent and 5 percent, respectively, between April and June. In the same period, WACKER's share price lost considerably more ground. It decreased by about 18 percent from €66.11 (closing price on March 30, 2012) to €54.20 (closing price on June 29, 2012). Germany's DAX and MDAX developed positively through the end of Q3. The DAX climbed about 11 percent during the July-through-September period to stand at over 7,200 points at the end of September 2012. The MDAX was up 5 percent during the period and moved within a corridor between approximately 10,400 and 11,500 points. WACKER's share price did not mirror this trend. The stock started out in July at a price of €55.80 and then fell during Q3 – apart from short-lived rebounds that took it past the €55 mark on several occasions – to €49.96 (closing price on September 28, 2012). During the fourth quarter, the DAX and MDAX performed positively overall, after a temporary weak

phase in the first two weeks of November. On December 6, the DAX crossed the 7,500-point threshold for the first time that year. The MDAX topped the 11,800-point mark on the same day, also for the first time in 2012. The DAX and MDAX closed Q4 2012 with gains of nearly 9 percent and roughly 8 percent, respectively. For full-year 2012, the DAX rose 27 percent and the MDAX 31 percent. WACKER's stock closed at €49.65 on December 28, leaving it virtually unchanged from where it was at the start of Q4. The stock lost 20 percent of its value in 2012 overall.



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

€	
Year-high (on February 9, 2012)	91.00
Year-low (on November 16, 2012)	40.87
Starting price (on January 2, 2012)	62.15
Year-end closing price (on December 28, 2012)	49.65
Performance for the year (without dividend) (%)	-20.1
Year-end market capitalization (shares outstanding; 2011: 3.1) (billion)	2.5
Average daily trading volume (2011: 29.5) (million)	12.5
Earnings per share (2011: 7.10)	2.27
Dividend per share (proposal)	0.60
Dividend yield ¹ (%)	1.0

¹ Dividend proposal based on an average share-price weighting of €60.28 (2012)

Earnings per Share of €2.27

Earnings per share (EPS) is calculated by dividing net income allocable to Wacker Chemie AG shareholders by the weighted average of all shares in circulation during the year. In 2012, the number of shares in circulation was 49,677,983. On this basis, the EPS is €2.27.

T 1.2 Useful Information on WACKER Stock

ISIN	DE000WCH8881
Ticker, security identification number (WKN)	WCH888
Frankfurt Stock Exchange	WCH
Bloomberg	CHM/WCH:GR
Reuters	CHE/WCHG.DE
Capital stock	€260,763,000
Number of shares (December 31, 2012)	52,152,600

Dividend Payment of €2.20 per Share

At the Annual Shareholders' Meeting of May 16, 2012, it was decided to pay out a total dividend sum of €109.3 million (2010: €159.0 million) from the retained profit of €978.7 million posted in 2011 (2010: €775.3 million). €230.0 million was transferred to retained earnings and €639.4 million carried forward. The dividend per share entitled to dividends for 2011 was therefore €2.20 (2010: €3.20), which was distributed to shareholders on May 17, 2012. At a volume-weighted average share price of €109.67 in 2011 (2010: €114.32), this produced a dividend yield of 2.0 percent.

T 1.3 Dividend Trends

€	2011	2010	2009	2008	2007	2006
Dividend	2.20	3.20	1.20	1.80	2.25	2.00
Plus special bonus per share	–	–	–	–	0.75	0.50
Dividend yield (%)	2.0	2.8	1.3	1.5	2.0	2.1
Net result for the year	352.6	490.7	–70.8	438.5	422.0	311.3
(allocable to WACKER's shareholders) (million)						
Dividend payout (million)	109.3	159.0	59.6	89.4	149.1	124.2
Distribution ratio (%)	31.0	32.4	n.a.	20.4	35.3	39.9

Structural Changes in Broker Reporting

In 2012, the average daily trading volume for WACKER stock was some 208,000 shares (Xetra) – more than 20 percent below the 2011 figure of around 269,000 shares (Xetra). The number of financial analysts regularly covering and valuing the company decreased to 24 in 2012 (2011: 28). Financial markets' increasingly negative attitude toward solar-industry stocks prompted some banks to dissolve their teams of renewable energy analysts. During the fiscal year, analysts' consensus price target for WACKER's stock fell substantially. Whereas the average Q1 estimate had WACKER's share at €63.39 (14 estimates),¹ the fair-value price target fell to just €48.26 (17 estimates)¹ by year-end.

¹ Consensus figures from VARA Research (Q1 = April 23, 2012 / Q3 = November 9, 2012)

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

Bankhaus Lampe KG	JPMorgan Cazenove Ltd.
Bank of America Merrill Lynch (UK)	Landesbank Baden-Württemberg
CA Cheuvreux (Germany)	Macquarie Capital (Europe) Ltd.
Citi Investment Research	MainFirst Bank AG
Commerzbank Corporates & Markets	Metzler Equity Research
Deutsche Bank AG	Morgan Stanley & Co. International Ltd.
DZ Bank AG	Natureo Finance Investment Research
equinet Bank AG	Nomura International Plc.
fairesearch GmbH & Co. KG	Norddeutsche Landesbank Girozentrale
Goldman Sachs International	Westend Brokers GmbH
HSBC Trinkaus & Burkhardt AG	Wolfgang Steubing AG
Independent Research GmbH	UBS Ltd.

As per the end of December 2012

On our website, we regularly report on the consensus of analysts' expectations for the current year. Moreover, our website offers extensive information on WACKER stock. In addition to financial reports, presentations, publications and a Fact Book (viewable online or downloadable), we have provided all our key financial-market dates, as well as contact information there. Videos of our annual press conference, analysts' conference and other events are also available for online viewing, or as an audio stream. Interested investors can additionally subscribe to an email newsletter to always stay informed about new developments in the Group. We are also offering an online version of the Annual Report for 2012, just as we did in 2011. The report's easy-to-navigate online version facilitates access to information – and interactive options, such as key-indicator comparisons and a toolbox, enable readers to work directly with the figures.

**Market Capitalization Down – Still in Second Place in GEX Weightings
(Weighting as per December 28, 2012)**

The performance of WACKER stock reduced the Group's year-end market capitalization from €3.1 billion to €2.5 billion (total stock without treasury shares). WACKER's MDAX market capitalization based on the free float, including treasury shares, was €744.6 million. WACKER thus had an MDAX weighting of 0.86 percent, and it is currently ranked sixth (by 12-month trading volume) and 42nd (by market capitalization) among the 50 companies in the index.

WACKER's GEX weighting was 9.78 percent. Deutsche Börse's GEX mid-cap index (introduced in January 2005) comprises owner-dominated companies listed on the Frankfurt Stock Exchange (Prime Standard) for no more than 10 years. At year-end 2012, WACKER continued to rank second in the GEX.

WACKER Communicates Closely with Capital Markets

Organic growth and investment in attractive markets of the future remain key elements of our corporate strategy. This strategic focus is reinforced through continual and open communication with institutional and private investors and with analysts. We explained our business strategy, key financial indicators and future outlook in this context throughout 2012. On many occasions, Executive Board members attended in person to answer questions from capital-market participants. There were 17 roadshows with a total of 28 roadshow days in Germany, Europe and the USA. We also held about 480 meetings both in person and via telephone, as well as some 21 group discussions and two investor group tours at the Burghausen site, and we participated in various international conferences. WACKER gave presentations at the following events, for example:

- HSBC Small- and Midcap SRI Conference in Frankfurt
- Jefferies 2012 Global Clean Technology Conference in New York
- Nomura Global Chemical Industry Leaders Conference in Rome

- UBS Global Clean Energy and Utilities Conference in London
- Commerzbank Sustainability Conference in Frankfurt
- Intersolar: Solar Trade Fair in Munich
- Barclays: Utilities and Renewables Conference 2012 in London
- MainFirst Chemicals One-on-One Forum in Frankfurt
- Macquarie Chemicals Conference in Frankfurt
- Macquarie's 5th Alternative Energy Conference in London
- Morgan Stanley Global Chemicals Conference in Boston
- 2nd HSBC Zurich Conference in Zurich
- Bank of America Merrill Lynch: European Chemicals Conference in London
- UBS Munich Senior Investor Day in Munich

On September 11, 2012, WACKER held its Capital Markets Day in Dresden. More than 30 analysts and investors from a total of 30 banks and investment firms attended and were able to gain an up-to-date overview of WACKER and the Group's strategies, technologies, products and innovations. After the conference, participants also had an opportunity to visit the Nünchritz site. Taking center stage were the polysilicon production facilities completed at the start of Q2 2012, and the cartridge-filling station of the WACKER SILICONES division.

Wacker Chemie AG maintained its dialogue with private investors during the past year, presenting the Group and its markets at various events. For example, we attended the shareholder forums organized by the DSW (German association of small investors) in Düsseldorf, Nuremberg and Bonn. We were also at events organized by banks for their private-shareholder clients.

Shareholder Structure

Wacker Chemie AG's largest shareholder is still Dr. Alexander Wacker Familiengesellschaft mbH, Munich. It holds over 50 percent of the voting shares in Wacker Chemie AG (2011: over 50 percent). Blue Elephant Holding GmbH (Pöcking, Germany) once again had no voting-share changes to report in 2012. That means it still holds over 10 percent (2011: over 10 percent) of Wacker Chemie AG. Pursuant to a voting-rights notification in March 2012, BlackRock, Inc., New York, USA, holds under 3 percent of the voting shares in Wacker Chemie AG.

Free Float: Netherlands Represents Biggest Increase in Share Ownership

Based on our shareholder analysis² (December 31, 2012), the number of American shareholders continued to fall. The level of us-held shares dropped from 22 percent in December 2011 to 19 percent in December 2012. The strongest increase in WACKER shareholders was recorded in the Netherlands. Their share of the free float increased to 12 percent during 2012 (2011: 2 percent). Share ownership in Germany rose, accounting for 24 percent (2011: 22 percent). Conversely, the holdings of UK shareholders more than halved, to 11 percent (2011: 25 percent). Share ownership in Canada increased from 4 percent to 12 percent, while European investors (excluding Germany, the Netherlands and the UK) accounted for a rise of almost 1 percent to 20 percent.

Short Positions in WACKER Stock

At the end of 2012, short sales of Wacker Chemie AG's stock amounting to 8.62 percent of the shares outstanding were reported as per Section 30i of Germany's Securities Trading Act ("WpHG"). The largest position amounted to 1.85 percent. Short positions exceeding 0.5 percent of the shares outstanding are published in Germany's Federal Gazette.

www.bundesanzeiger.de

² Shareholder structure analysis based on the free float of 28.75% (= 100%)

2

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

Energy-Generating Solar Installations

Polysilicon is a hyperpure material that has been purified by the distillation of trichlorosilane and is then deposited in the form of rods and crushed into chunks (1) for further processing. Our customers use the polysilicon to make crystalline solar wafers (2), which are the basis of solar modules (3), for example on residential roofs.



6,000 t of CO₂
are eliminated by every metric ton of polysilicon used in solar modules.



Combined Management Report Business Environment

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Business Environment

Group Structure and Operations

WACKER is a globally active company with state-of-the-art specialty chemical products. Our portfolio includes over 3,200 products supplied to more than 3,500 customers in over 100 countries. WACKER products are found in countless everyday items, ranging from cosmetic powders to solar cells.

Silicon Is Our Main Starting Material

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

Technical Competence Centers Serve as the Basis of Sales & Marketing

WACKER operates all over the world. Our sales strategy is centered around expanding our presence in growth markets. Our sales organization is supplemented by a network of technical competence centers, where customers learn about WACKER's product portfolio, and by the WACKER ACADEMY, where we offer technical training sessions on our products and their application fields. In 2012, we opened a new technical competence center in Mexico City – primarily for polymer-binder applications. At the same time, we set up a new branch of the WACKER ACADEMY there. We expanded our existing technical competence centers in São Paulo (Brazil), Singapore, Seoul (South Korea) and Dubai (UAE). Last year, Siltronic opened a new sales office and a technical competence center in Seoul. In total, WACKER has 53 sales offices in 29 countries.

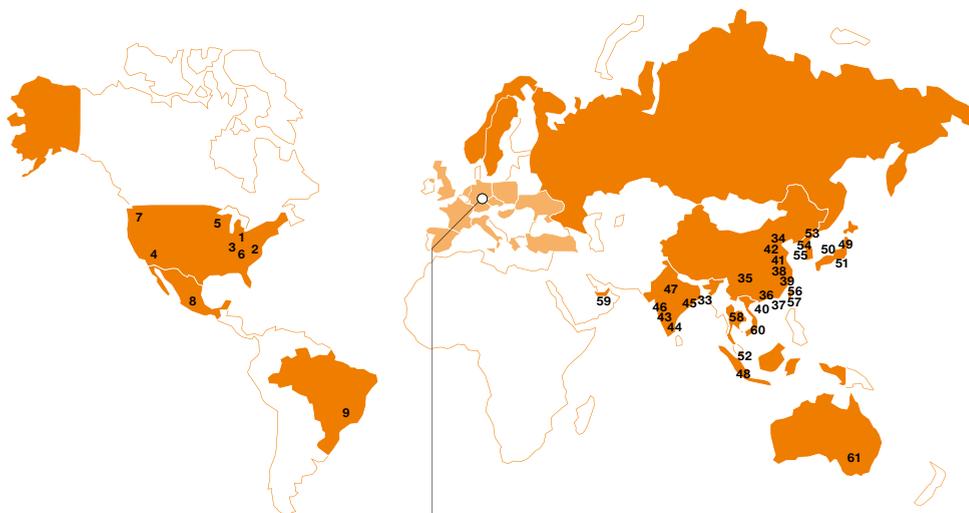
WACKER now Has a
Technical Competence
Center in Mexico City

Production Site in Hikari Shut Down

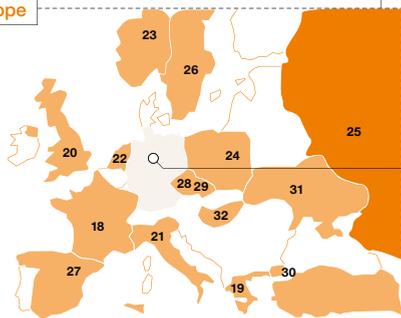
Following the complete shutdown of our production site in Hikari (Japan), WACKER's global production network comprises 24 sites (in 2011: 25). Of these, eight are in Europe, seven in the Americas and nine in Asia. The Group's key production site is Burghausen (Germany), with 9,249 employees. In 2012, Burghausen's manufacturing output reached around 680,000 metric tons. That is over 50 percent of groupwide production output. At Nünchritz (Saxony), our first polysilicon production facility outside Burghausen entered full operation in April 2012, with a nominal capacity of 15,000 metric tons per year. Alongside Burghausen, Nünchritz is WACKER's second multidivisional site.

Polysilicon Production
Facility Commissioned
in Nünchritz

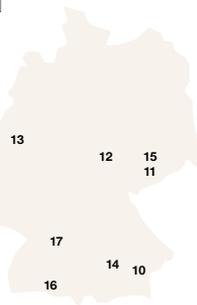
G 2.1 WACKER Production and Sales Sites, Technical Competence Centers¹



Europe



Germany



North and South America

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

Europe

- 10 Burghausen, Germany
- 11 Freiberg, Saxony, Germany
- 12 Jena, Germany
- 13 Cologne, Germany
- 14 Munich, Germany
- 15 Nünchritz, Germany
- 16 Stetten, Germany
- 17 Stuttgart, Germany
- 18 Lyon, France
- 19 Athens, Greece
- 20 Chertsey, Great Britain

- 21 Milan, Italy
- 22 Krommenie, Netherlands
- 23 Kyrksæterøra, Holla, Norway
- 24 Warsaw, Poland
- 25 Moscow, Russia
- 26 Solna, Sweden
- 27 Barcelona, Spain
- 28 Plzén, Czech Republic
- 29 Prague, Czech Republic
- 30 Istanbul, Turkey
- 31 Kiev, Ukraine
- 32 Budapest, Hungary

Asia

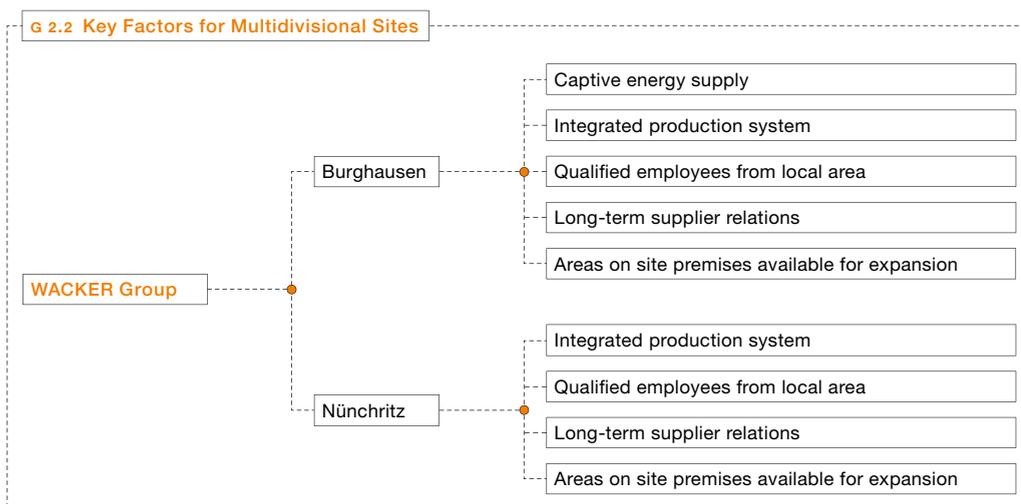
- 33 Dhaka, Bangladesh
- 34 Beijing, China
- 35 Chengdu, China
- 36 Guangzhou, China
- 37 Hong Kong, China
- 38 Nanjing, China
- 39 Shanghai, China
- 40 Shunde, China
- 41 Wuxi, China

- 42 Zhangjiagang, China
- 43 Bangalore, India
- 44 Chennai, India
- 45 Kolkata, India
- 46 Mumbai, India
- 47 New Delhi, India
- 48 Jakarta, Indonesia
- 49 Tsukuba (Akeno), Japan
- 50 Osaka, Japan
- 51 Tokyo, Japan
- 52 Singapore, Singapore
- 53 Jincheon, South Korea
- 54 Seoul, South Korea
- 55 Ulsan, South Korea
- 56 Hsinchu, Taiwan
- 57 Taipei, Taiwan
- 58 Bangkok, Thailand
- 59 Dubai, United Arab Emirates
- 60 Ho Chi Minh City, Vietnam

Australia

- 61 Melbourne, Victoria, Australia

■ Production site ● Sales site ▲ Technical competence center
¹ Only majority-owned subsidiaries

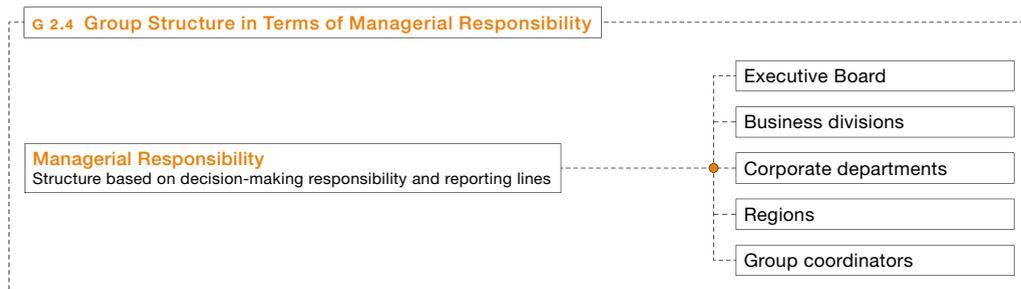
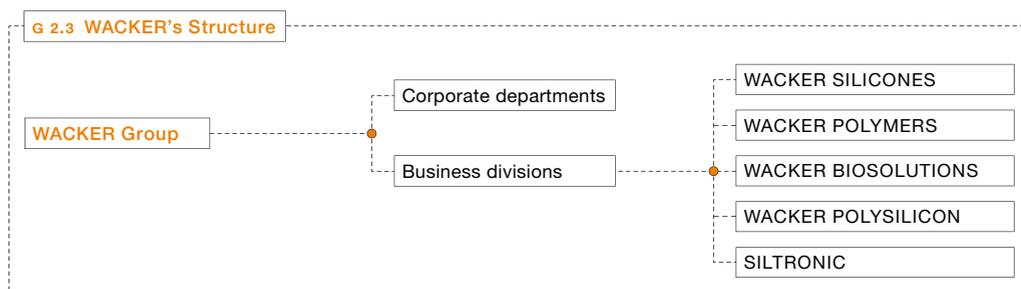


Legal Structure

Our legal structure has not changed compared to the previous year. In November 2005, WACKER became a stock corporation (AG) under German law. Headquartered in Munich, Wacker Chemie AG holds a direct or indirect stake in 55 companies belonging to the WACKER Group. Our financial statements include 50 companies that have been fully consolidated and four accounted for using the equity method. As of July 1, 2012, one small company is no longer recognized using the equity method, but as an investment as per IAS 39, since WACKER no longer exercises significant influence. One small company that is not part of our core operations has not been consolidated.

Five Operating Divisions

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



Management and Supervision

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

There were no changes to either the composition or responsibilities of the Executive Board members during 2012. A new workers' representative took office on Wacker Chemie AG's Supervisory Board in 2012. As of December 31, 2011, the middle management representative Dr. Konrad Bachhuber resigned his Supervisory Board position. Konrad Kammergruber was elected to replace him, effective January 1, 2012.

T 2.1 Executive Board Responsibilities

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

As of January 1, 2013, Dr. Wilhelm Sittenthaler is no longer a member of the Executive Board.

Declaration on Corporate Management

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

Executive and Supervisory Board Compensation

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

Key Products, Services and Business Processes

Our divisions' overall range of products and services remained unchanged. In several application areas, we expanded our portfolio during 2012. Our WACKER SILICONES division provides customers with our broadest offering of over 2,800 products – ranging from silicone-based

fluids, emulsions, resins, elastomers and sealants, to silanes and pyrogenic silica grades. The division manufactures both specialty products tailored to customers' specific needs, and standard products primarily used as starting materials in the production of silicones.

WACKER POLYMERS manufactures state-of-the-art binders and polymeric additives (such as dispersible polymer powders and dispersions). These are used in diverse industrial applications or as base chemicals. Customers include the paints, coatings, paper and adhesives industries. Last year, business expanded strongly in the carpet industry, where our dispersions are increasingly replacing styrene-butadiene. The main customer for polymeric binders is the construction industry, which uses them as additives in tile adhesives, dry-mix mortars, self-leveling flooring compounds, and EIFS (exterior insulation and finish systems)/ETICS (external thermal insulation composite systems).

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

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

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

Integrated Production System – WACKER's Main Strength

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

Major Markets and Competitive Positions

In its four biggest sales-generating divisions, WACKER ranks among the world's top three suppliers. And we are the global market leader for some products, such as VINNAPAS® dispersible polymer powders for the construction industry. For the first time, Asia became the key sales region for our products in 2012, followed by Europe (including Germany) and the Americas.

In Its Biggest Sales-Generating Divisions, WACKER Ranks among the World's Top Three Suppliers

Market Positions of WACKER's Divisions

WACKER SILICONES ranks number 3 in the silicones market, with a leading market position in Europe. We are the global market leader for building-protection silicones. Due to their wide-ranging product properties, silicones are used in every major industry. The largest growth potential lies in Asia, where ever-higher living standards are boosting demand for silicone products.

WACKER POLYMERS is the world's largest producer of dispersions and dispersible polymer powders based on vinyl acetate-ethylene. Importantly, we are the only company in the market to have a complete supply chain for dispersions and powders in Europe, the Americas and Asia. The largest growth potential lies in Asia. WACKER POLYMERS supplies not only the construction industry, but also the textile, adhesive, paint, surface-coating and carpet sectors.

T 2.2 WACKER's Competitive Positions

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

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

WACKER POLYSILICON operates in an intensely competitive and high volume-growth environment, chiefly shaped by solar-industry demand for polysilicon and market trends in the global solar sector. WACKER remains a leading producer of hyperpure polycrystalline silicon for electronic and solar applications. In 2012, Nünchritz's expansion stage 9 came fully on stream and there was further expansion of the Burghausen site. As a result, our total production capacity rose to 52,000 metric tons.

Production Capacities
of Hyperpure
Polysilicon Have Risen

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

Economic and Legal Factors

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

Development of Orders

Order-placing is handled very differently by WACKER's individual business divisions. Most orders placed by WACKER SILICONES are short-term. Delivery is usually effected within six months of receipt of order. At WACKER POLYMERS, business is based on contracts and master agreements with terms of up to one year. Around 30 percent of incoming orders are short term. WACKER POLYSILICON's contracts are short, medium or long term. In certain instances, they include flexible volume-specific escalator clauses. The spot market business plays a limited role. Siltronic usually negotiates orders with the customer from one quarter to the next. As a rule, we aim for fixed contracts with negotiated prices and quantities. Due to differences in order-placement procedures at the Group and its divisions, order-level reporting is not very meaningful and hence does not serve as an indicator in our monthly reports.

Order-Placing Handled
Differently by Individual
Business Divisions

Operational Metrics as Leading Indicators of Future Developments

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

T 2.3 Leading Operational Indicators

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

Economic Factors Impacting Our Business

The economic factors influencing WACKER's business remain unchanged in many sectors. Energy and raw-material costs, at 44 percent of production costs, had the largest impact in 2012.

Energy and Raw-Material Costs Dominate Production Costs

--- Energy and raw-material costs

As a chemical company, we belong to an energy-intensive industry and require diverse raw materials to manufacture our products. Consequently, higher energy and raw-material costs impact our cost structure. WACKER is taking steps to become more independent of this factor. By generating our own power at Burghausen and Nünchritz, we are reducing our energy-procurement needs and costs. Regulatory requirements or additional costs, such as electricity tax or levies relating to German renewable energy (EEG) legislation, can adversely impact energy costs. In contrast, exemptions from Germany's EEG levy can positively influence energy costs. Backward integration at WACKER SILICONES in 2010 has enabled us to secure part of our long-term silicon-metal needs, thus gaining us more independence from price fluctuations. At the same time, we have enhanced supply reliability during demand peaks. As part of our ongoing efforts to improve energy efficiency, we have initiated the POWER PLUS program, which aims to reduce specific energy consumption by 11 percent by 2022. When procuring raw materials, we often work with short-term contracts in order to achieve greater price flexibility.

--- Exchange-rate fluctuations

Fluctuations in the euro exchange rate affect our Siltronic business. We have used currency hedging (derivatives) to secure at least half of our dollar exposures for the next year. The hedging ratio for 2012 is around 50 percent. Without hedging, a one us-cent increase in the euro-dollar exchange rate lowers EBITDA by some €4 million.

--- State-regulated incentive and tariff programs for renewable energy sources

As one of the world's leading suppliers of hyperpure polycrystalline silicon, we are affected by regulatory changes to incentive and feed-in tariff programs for renewable energy sources. In 2012, as in past years, photovoltaic incentives declined in several countries, including Germany and Italy, the two largest solar markets to date. Conversely, incentives increased in other major markets, such as China and Japan, fueling growth there. To maintain its competitive position, WACKER focuses continuously on improving productivity. Our cost leadership, product quality, international orientation, customer structure and our medium- to long-term supplier contracts all offer us competitive advantages over other producers.

Legal Factors Impacting Our Business

In 2012, WACKER's legal environment remained essentially unchanged overall, with one exception. Pending anti-dumping proceedings – by the European Union against Chinese solar companies and by the Chinese Ministry of Commerce against polysilicon manufacturers in the USA, South Korea and Europe – could negatively impact our business if punitive duties were the outcome. WACKER rejects all forms of restraints on trade. In both cases, we are making efforts to help avoid punitive duties. A final decision in both sets of proceedings is expected by mid-2013. The proceedings instigated by the Chinese Ministry of Commerce allow for an interim judgment, which may be published at an earlier date.

Anti-Dumping
Proceedings
in Photovoltaic
Business

146 Registration Dossiers Submitted as Part of REACH

As of June 2008, we are obligated to register all substances on the European market – and classify them by property – if annual quantities exceed one metric ton. The exact conditions of use must be taken into account: Registration is governed by the EU-wide REACH regulation (Registration, Evaluation, Authorization and Restriction of Chemical Substances). By late 2012, WACKER had submitted 146 registration dossiers to the European Chemicals Agency (ECHA). As part of the normal REACH procedure, ECHA requires companies to provide additional information on dossiers submitted during the first phase (2010). Together with the EU members' regulatory bodies, ECHA has identified 138 "substances of very high concern" for authorization. WACKER has only been marginally affected to date, with only a few purchased substances, and none of its own. As part of the EU Commission's GHS (Globally Harmonized System of Classification and Labeling of Chemicals), all mixtures will have been reclassified pursuant to EU-GHS (7,000 mixtures) by 2015. A central register for hazardous substances has been set up at ECHA. We registered all relevant substances in 2011.

T 2.4 GHS Introduction in Selected Countries and Regions

Country/ Economic Region	Change Data Sheets	Change Labels	Substances/ Mixtures
Australia	January 2017	January 2017	Substances and mixtures
Brazil	February 2011 June 2015	February 2011 June 2015	Substances Mixtures
China	May 2011	May 2011	Substances and mixtures
Europe	December 2010 June 2015	December 2010 June 2015	Substances Mixtures
Japan	January 2011	December 2006	100 special substances
Mexico	July 2011	July 2011	Substances and mixtures, so far still voluntary
Switzerland	December 2012 June 2015	December 2012 June 2015	Substances Mixtures
Singapore	December 2010 December 2012	December 2010 December 2012	Substances Mixtures
South Korea	July 2010 July 2013	July 2010 July 2013	Substances Mixtures
Taiwan	January 2009	January 2009	Substances and mixtures
Turkey	-	-	Not yet specified
USA	June 2015	June 2015	Substances and mixtures

Corporate Decision-Making, Targets and Strategy

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

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

Key performance indicators support the management decision-making process. For example, lower-than-expected net cash flow could result in us adjusting investments during the year. Being highly flexible, WACKER can react to both positive and negative changes, as seen in the extension of the Tennessee project's timeline. This decision relieves the pressure on our 2013 cash flow by an amount in the triple-digit million euro range.

Value Management Enhanced in 2012

As announced in 2011, we enhanced WACKER's value management in 2012. In line with the capital markets' assessment of WACKER, we no longer treat advance payments received as non-interest-bearing debt capital in capital employed, but as interest-bearing borrowed capital. As a result, capital employed and, hence the cost of capital, will rise considerably. At the same time, additions and disposals of advance payments received will no longer be recognized in net cash flow. Instead, these advance payments are regarded as financial liabilities and, thus, have changed our target capital structure from the previous 90 percent equity to 80 percent equity and 20 percent borrowed capital.

Target Capital Structure Has Changed

T 2.5 Cost of Capital		2012	2011
Riskless interest rate (%)		3.0	3.8
Market premium (%)		4.5	4.2
Beta coefficient		1.5	1.5
Post-tax cost of equity (%)		9.75	10.1
Tax rate (%)		30.0	30.0
Pre-tax cost of equity (%)		13.9	14.4
Pre-tax borrowing costs (%)		5.0	5.0
Tax shield (30%)		1.5	1.5
Post-tax borrowing costs (%)		3.5	3.5
Share of equity (%)		80.0	90.0
Share of borrowed capital (%)		20.0	10.0
Post-tax cost of capital (%)		8.5	9.5
Pre-tax cost of capital (%)		12.1	13.6

ROCE Added to Our Key Performance Indicators

In 2012, we added ROCE (Return on Capital Employed) to our key performance indicators for value management. By doing so, our management decisions will be more sharply focused on capital intensity. WACKER's operations are capital-intensive, Our investments can account for up to 25 percent of revenues. WACKER has a total of four key performance indicators: BVC (Business Value Contribution), EBITDA (earnings before interest, taxes, depreciation and amortization), net cash flow (NCF – defined as the sum of cash flow from operating activities and noncurrent investment activities, before securities, including additions from finance leases less the change in advance payments received) and ROCE.

Four Financial
Performance Indicators
for Value Management

We call earnings after cost of capital our business value contribution (BVC). Investors expect a minimum rate of return on fixed and current assets that covers the cost of capital. The aim of BVC is for WACKER to generate a residual profit that is above the cost of capital, thereby creating value within the company. The pre-tax cost of capital employed dropped in 2012. There were two reasons for this:

First, the low interest rates currently seen on international capital markets – which result in a historically low rate of return on so-called risk-free investments.

Second, the change in our target capital structure. Since advance payments received are treated as borrowed capital, the borrowing level was increased to benefit from a more efficient capital structure.

In 2012, the cost of capital was 12 percent. Every year, we review the cost of capital at each business division and determine specific risk premiums (beta coefficient). To calculate the BVC, the cost of capital and non-operational factors are deducted from EBIT. Every division is set a BVC target that is calculated during the planning stage. This target is combined at the Group level into one value.

BVC

In 2012, we did not meet our BVC target. At €-366 million, the actual BVC was clearly negative. Marked polysilicon-price declines and persistent silicon-wafer price pressure were the main reasons for a negative BVC at the Group level.

T 2.6 Planned and Actual Figures			
€ million	2011	Goals for 2012	Actual Figure: 2012
BVC	183.5	-205.0	-366.0
EBITDA margin (%)	22.5	19.0	17.0
Net cash flow	-157.4	-310.0	-536.2
ROCE	13.9	8.9	5.2

EBITDA

WACKER's second target is high profitability compared to the competition. The benchmark here is EBITDA. Each division is compared with its most profitable competitor. Using this comparison, and historical performance and divisional planning, we calculate the divisions' target EBITDA margins. For the Group, we take the weighted divisional average as our target margin. In 2012, 19 percent had been planned, with the Group actually posting an EBITDA margin of 17.0 percent.

Net Cash Flow

The third goal is net cash flow. On average, we strive for a slightly positive NCF value, depending on our earnings situation and investment plans in a particular year. In 2012, due to our high investment level, we were planning for net cash flow in clearly negative territory. It came in below 2012's targets at minus €536.2 million.

ROCE

WACKER achieved ROCE of 5.2 percent in 2012, due to the increase in tied-up funds and to weaker profitability. ROCE is reviewed yearly as part of our planning process and is a key criterion for managing our investment budget.

T 2.7 ROCE and BVC		
€ million	2012	2011
EBIT	258.0	603.2
Capital employed ¹	4,979	4,342.8
ROCE ² (%)	5.2	13.9
Pre-tax cost of capital (%)	12.1	13.6
BVC	- 366.0	183.5

¹Capital employed is made up of average noncurrent fixed assets (less noncurrent securities), inventories, and trade receivables less trade payables. It is a variable used in calculating the cost of capital.

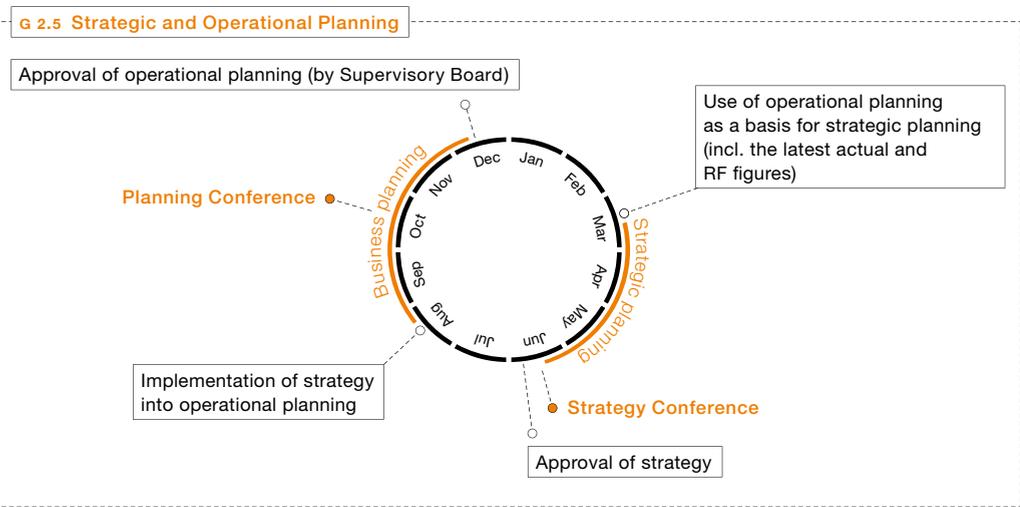
²Return on capital employed is the profitability ratio relating to the capital employed.

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

Two-Stage Strategic Planning

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

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



Financing Strategy

WACKER's financing strategy follows two equally important goals:

- To finance corporate growth as far as possible without outside help. A supplementary strategy of external borrowing ensures that important investment projects are partially financed with long-term loans.
- To sustain a positive net cash flow.

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

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

Financing Measures in 2012

The Group took several financing measures in 2012. Wacker Chemie AG issued four promissory notes (German Schuldscheine) totaling €300 million with maturities of three and five years, at standard market credit terms. The liquidity inflow occurred on February 23, 2012. A syndicated loan of €300 million, due June 2013, was paid off with a syndicated credit line of €400 million, due June 2017. A new loan of 10 billion Japanese yen (€88.1 million) was taken out with a five-year maturity beginning when the first installment was drawn. In September 2012, WACKER drew down the loan's first 5-billion-yen installment and, in November 2012, the second 5-billion-yen installment.

Two Major Financing
Measures Concluded

No collateral exists for financial liabilities. Some of the liabilities to banks are fixed-interest and others have variable interest rates. Thus, as of December 31, 2012, WACKER has unused and used credit lines of around €1.63 billion with terms of over one year. The measures concluded contain standard market credit terms and a net debt-to-EBITDA ratio as the only financial covenant.

T 2.8 Financing Measures in 2012

	Volume	Term until
Promissory notes (German Schuldscheine)	€300 million	2015 and 2017
Syndicated loan	€400 million	2017
Loan (JPY 10 billion: equivalent to €88.1 million)	JPY 10 billion	2017

Not all of the credit lines have been used.

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

Operational Control Instruments

We control operational processes via our integrated management system (IMS). It stipulates uniform standards throughout the Group for issues relating to quality, environmental protection, health and safety. We have our Group management system analyzed by an international certification organization in accordance with uniform standards based on ISO 9001 (quality) and ISO 14001 (environment). In 2012, we expanded our Group certification to include our Norwegian site in Holla (certified to ISO 9001 and ISO 14001) and our sales regions (certified to ISO 9001). At Siltronic, every site is certified to ISO/TS 16949, to ISO 14001 and to OHSAS 18001 (occupational safety), due to this subsidiary's specific processes and customer requirements.

WACKER's Strategy

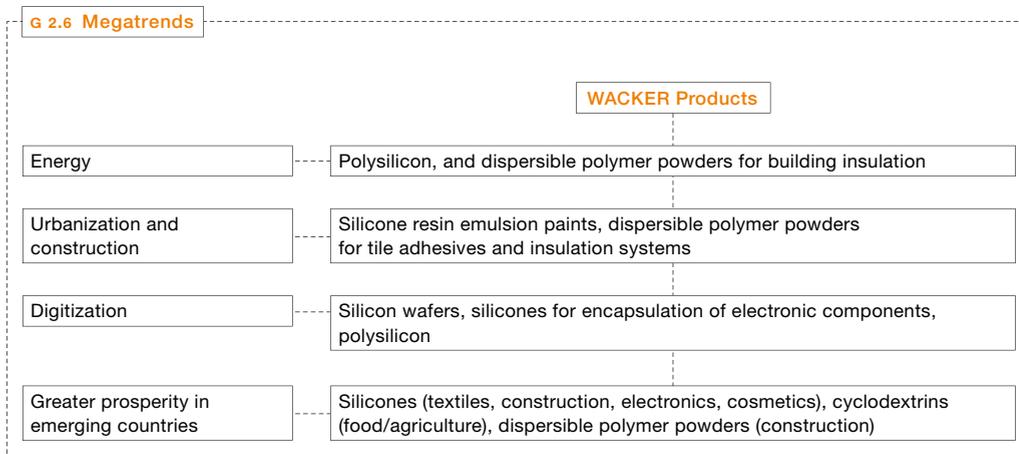
Our vision, which was refined in 2011, and our five strategic goals remain in place. Taken as a whole, they form our strategy's foundation and express our performance aspirations. The focus of our strategy is profitable growth and securing a leading competitive position in most of our business fields, and our actions are oriented to sustainable development.

Our Vision and Five
Strategic Goals
Underpin Our Strategy

We see the paths toward reaching these strategic goals in:

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

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



Strategy of the Individual Divisions

WACKER SILICONES

To grow profitably, WACKER SILICONES defined its strategic priorities more closely in 2012. Various measures are being adopted to achieve this. We are expanding market share with high-end products for use in the areas of health, personal-care, medicine, electronics, automotive engineering and energy. We aim at increasing supply-chain contributions while maintaining current raw-material consumption levels. Strong utilization of our production capacity is an important factor in keeping our specific production costs as low as possible. Differentiated marketing strategies are being developed for selling standard and specialty products. Key growth markets in Asia and South America are central to marketing activities. We want to improve growth by focusing on innovative products and applications.

WACKER SILICONES
Reinforces Its Strategy

WACKER POLYMERS

WACKER POLYMERS continues to firmly pursue its strategy of profitable growth in dispersions and dispersible polymer powders. The key is to develop regional production capacities for dispersions and polymer powders so that local and regional customer demand can be met both promptly and cost-effectively. To this end, it is important to develop product solutions that are specifically tailored to local application requirements. An important aspect of this strategy is to encourage the substitution of styrene-butadiene and styrene-acrylate with VAE dispersions and to develop new applications for our products.

WACKER BIOSOLUTIONS

WACKER BIOSOLUTIONS continues to concentrate on the pharmaceutical, agrochemical and food industries. We increasingly draw on chemical-biotech synergies to provide our customers with complete solutions for their specific market needs. The success of our products in the industries we serve is based on a strong customer orientation. Consequently, the division's organizational structure is firmly oriented to customers and markets. WACKER BIOSOLUTIONS will intensify its focus on innovation as a motor for future revenue growth and, to this end, will increase its R&D expenditures.

WACKER POLYSILICON

WACKER POLYSILICON's strategic aims are to maintain its quality and cost leadership as a hyperpure-polysilicon manufacturer, and to expand its production capacities in line with market growth. In a competitive environment, the division's cost position is a key success factor. For this reason, we are reinforcing our focus on reducing costs through productivity improvements and on optimizing our supplier base.

SILTRONIC

Siltronic will concentrate on four coordinated strategic priorities. We are enhancing capacity utilization and cost structure by concentrating on lead sites. In the wafer business, the focus is on 300 mm silicon wafers, where growth is strongest. One ongoing strategic task is to implement productivity, cost-saving and flexibility initiatives to improve production processes and workflows. Investments in product developments are aimed at fulfilling the newest design-rule specifications and putting quality-enhancing measures into place.

In 2012, we also made an important strategic decision. Siltronic will no longer invest in the development of 450 mm silicon wafers.

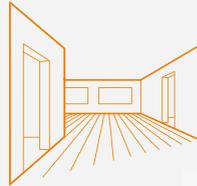
3

Combined Management Report

Business Development

Environmentally Friendly Paints

VINNAPAS® dispersions (1) are used as binders in paints (2) for interior walls (3). Particularly ecofriendly dispersions are those made without formaldehyde donors or APEO-based surfactants (alkylphenol ethoxylates) and containing just minute amounts of volatile organic compounds (voc).



< 1g/l

voc in interior walls ensures a pleasant, healthy indoor climate.



Combined Management Report Business Development

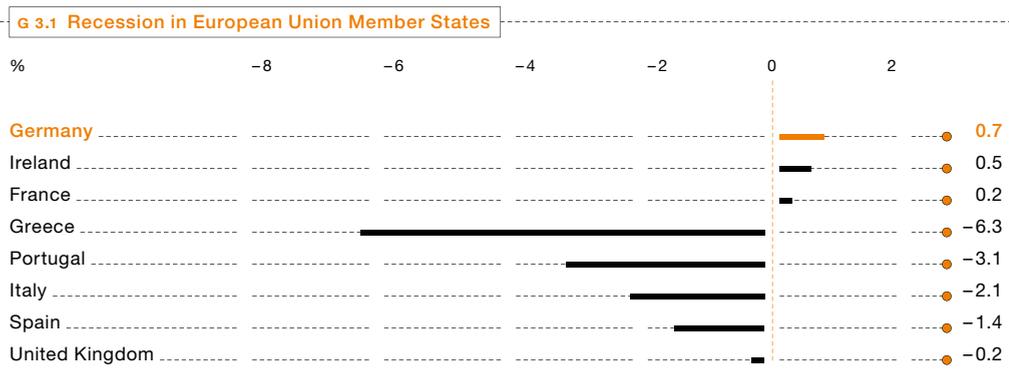
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Overview of Business Development

Economic Trends

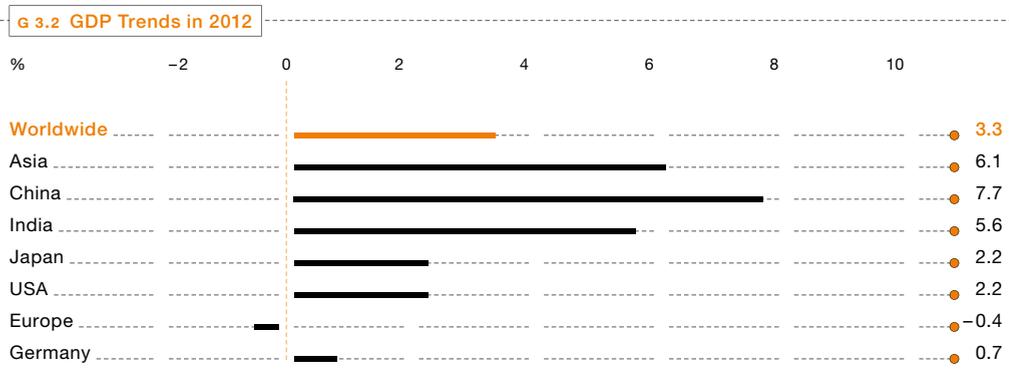
The continuing euro crisis has slowed down the world economy, with most EU member states slipping into recession in 2012. Gross domestic product (GDP) declined, especially in the southern European countries of Italy, Spain, Portugal and Greece. Germany escaped this trend, increasing its GDP slightly. The crisis in Europe also slowed economic momentum in other countries around the world. Growth weakened markedly in the fast-growing emerging economies of China, India and Brazil. In the USA, the economy grew moderately during the election year. Stringent austerity measures in many crisis-hit European countries led not only to a substantial drop in the volume of goods and services sold, but also to a marked increase in unemployment and to a decline in disposable personal income. As a result, the downward trend intensified during the course of the year, with leading economic research institutes reducing their growth forecasts further for 2012.

The Euro Crisis Has Slowed Down the World Economy



Sources: Germany: Federal Statistics Office; Ireland: OECD; France: OECD; Greece: OECD; Portugal: OECD; Italy: IMF; Spain: IMF; United Kingdom: IMF

The International Monetary Fund (IMF) estimates that the world economy grew 3.3 percent in 2012 (2011: 3.8 percent). Originally, the IMF had expected growth of 3.5 percent.



Sources – worldwide: IMF; Asia: ADB; China: National Development and Reform Commission, India: ADB; Japan: IMF; USA: IMF; Europe: IMF; Germany: Federal Statistics Office (Dec. 2012)

Asian Growth Weakens

The ongoing euro crisis also dampened economic progress in Asia. Additionally, Asia's two largest economies – China and India – experienced weak domestic demand. The Asian Development Bank (ADB) expects economic expansion of 6.1 percent (2011: 7.2 percent). Growth in China was also impacted by lower-than-expected exports. Due to the weaker economic trend, the Chinese government passed a stimulus package for infrastructure development and China's central bank lowered base interest rates. According to the National Development and Reform Commission, China's economy grew by 7.7 percent (2011: 9.2 percent). India's economy is struggling not only with lower consumer demand, but also with high inflation and a large budget deficit. This limits the options open to the Indian government for stimulating the economy. India's GDP climbed by 5.6 percent (2011: 6.5 percent) according to the ADB. In Japan, the economy picked up in 2012, recovering from the earthquake and tsunami catastrophe. According to the IMF, Japan's GDP grew by 2.2 percent (2011: -0.8 percent).

Asian Growth
Weakens

us Economy Expands Moderately

In 2012, the us economy expanded moderately due to stable domestic demand. Growth, though, was insufficient to noticeably reduce the high unemployment rate. According to the IMF, GDP rose by 2.2 percent (2011: 1.8 percent). The Federal Reserve's zero-interest rate policy has not yet had the expected effect. In addition, the us needs to tighten its budget, just like Europe's economies.

Eurozone Still Dominated by Debt Crisis

Europe's sovereign-debt crisis deepened in 2012, with many crisis-hit economies in recession. Austerity programs, loss of income and high unemployment subdued consumer spending and corporate investments. According to IMF calculations, GDP in eurozone countries dropped by -0.4 percent (2011: 2.0 percent).

German Economy Resilient to Euro Crisis

Germany's economy proved resilient amid the euro crisis, in contrast to most other European countries. As a result, Germany reinforced its role as Europe's leading economy, benefiting from both export strength and robust domestic demand. With unemployment remaining low and employment high, tax-revenue increased, further easing the debt burden. Data issued by the German Federal Statistics Office show that GDP increased by 0.7 percent (2011: 3.1 percent).

General Sector-Specific Conditions

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

Semiconductor Market Narrows

2012 was another difficult year for the semiconductor industry. Market weakness was primarily due to slow demand for consumer electronics (such as mobile phones and computers) and price pressure. Market researchers at Gartner expect sales for 2012 to be down some 11 percent at US\$9.48 billion. Compared with this decline, demand for silicon wafers edged only slightly lower, with volumes falling 1.0 percent year over year. Silicon-wafer demand, in terms of surface area sold, is estimated at about 60 billion cm². Business varied greatly, depending on wafer size. Demand grew for 300 mm wafers, but decreased for < 300 mm wafers. Price pressures on all wafer sizes intensified yet again last year. Siltronic's overall market share remained at about 15 percent.

T 3.1 Installation of New PV Capacity in 2011 and 2012

€ million	Installation of New PV Capacity (MW)		Growth in 2012
	2012	2011	%
Germany	7,600	7,500	1
Italy	4,300	9,300	-54
Other European countries	3,500	5,100	-31
USA	3,000	1,900	58
Japan	2,400	1,300	85
China	5,000	2,200	127
Other regions	6,300	2,400	163
Total	32,100	29,700	8

Source: European Photovoltaic Industry Association (EPIA), Global Market Outlook for Photovoltaics until 2016, May 2012

Photovoltaic Market Dominated by Excess Capacity and Strong Price Pressure

The photovoltaic market continued to expand in 2012. UBS estimates that over 32.1 gigawatts (GW) of capacity were installed worldwide (2011: 29.7 GW), up 8 percent on the prior-year period. Despite reduced feed-in tariffs, Germany remains one of the largest markets for photovoltaic systems. According to Germany's Federal Network Agency, the installed output continued to edge up slightly to 7.6 GW (2011: 7.5 GW). Market conditions tightened further last year. Global production capacity continues to outstrip demand. Amid strong price pressure throughout supply chains, several companies have become insolvent or have exited the market. This situation has also affected some of our customers. In such cases, we have retained some advance payments from long-term contracts and received damages. The consolidation phase continues. Moreover, anti-dumping complaints in the USA and Europe against Chinese solar companies have added to market uncertainty. The Chinese government is contemplating similar measures against us, European and South Korean polysilicon manufacturers. Taken together, these developments have left their mark on WACKER's polysilicon business. After the first half-year, when volumes picked up following 2011's weak fourth quarter, deliveries and prices have dropped significantly since the second quarter.

Continuing Trend
toward Consolidation in
the Photovoltaic Market

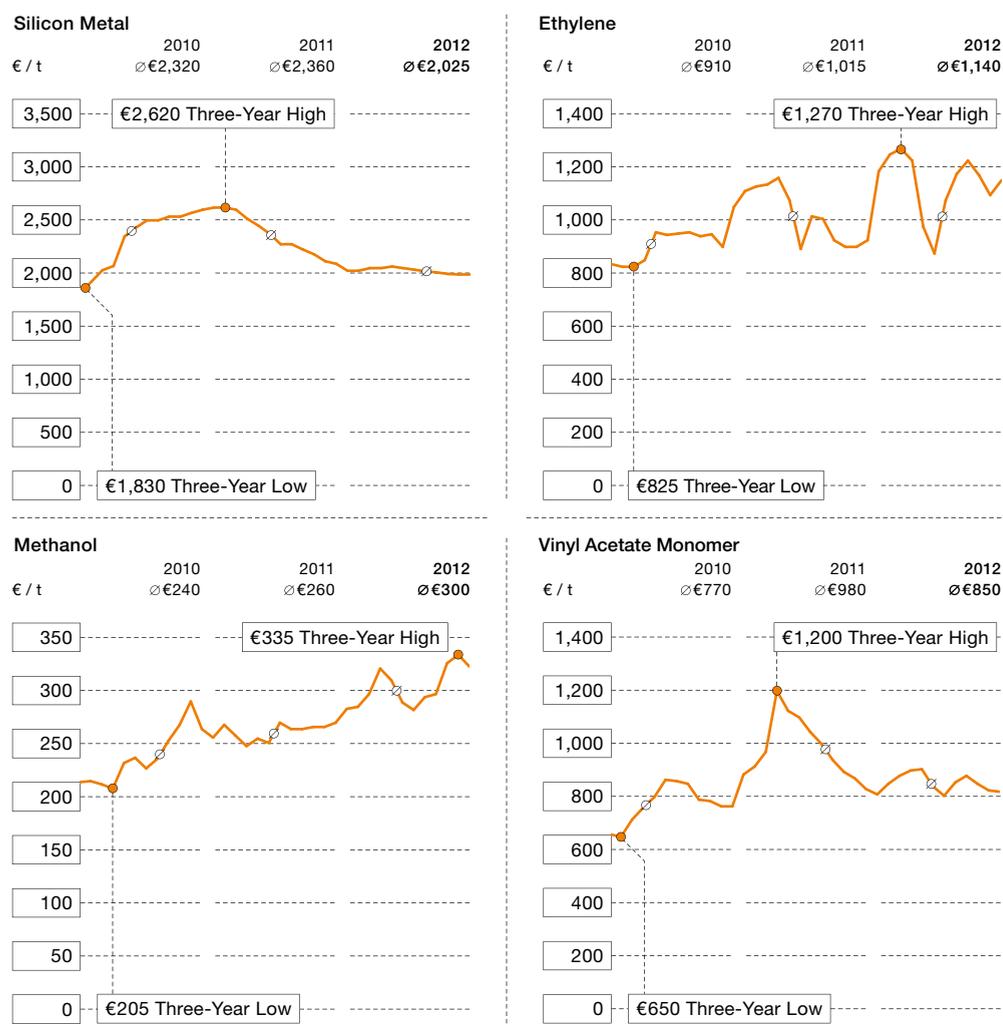
Chemical Industry's Momentum Weakens – WACKER's Chemical Divisions Expand

In 2012, the chemical industry did not show the momentum of previous years. 2011's global output had totaled €3.6 trillion – with Asia contributing nearly 50 percent, Europe 25 percent, and the Americas 20 percent. For five years, global chemical sales had increased by 8 percent annually. This pace of growth was not repeated in 2012. The German Chemical Industry Association (VCI) expects chemical production in Germany to have declined by 3 percent. Capacity utilization at German chemical plants was 83 percent. Sales were flat, staying at the previous year's level of €184 billion. Growth was primarily driven by Asia. As in the past, China remains the most interesting growth market for Germany – even if €4.8 billion in chemical exports to China has not yet ranked it among the German chemical industry's top-ten export destinations.

WACKER's chemical divisions performed well in 2012. WACKER POLYMERS again generated substantial sales growth. It benefited not only from the substitution of styrene-butadiene by VAE dispersions, used chiefly in the US carpet industry, but also from the robust growth of dispersible polymer powders in the building sector. WACKER SILICONES generated some sales growth compared with the previous year, and WACKER BIOSOLUTIONS also posted positive sales figures.

WACKER's Chemical Divisions Performed Well

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



∅ Annual average in each case

The pressure on raw-material costs eased in 2012. On average, silicon metal was 6 percent cheaper than in the previous year, and vinyl acetate monomer (VAM) was 8 percent less expensive. The price of ethylene increased by 7 percent over the previous year, and methanol by 8 percent.

Pressure from Raw-Material Costs Eases

Construction Industry Grows in 2012

Globally, the construction industry grew by 2.3 percent to US\$6.1 trillion in 2012. The pace of growth was impeded, though, by the euro crisis and by weaker momentum in emerging economies. Global Insight's market researchers revised their original prognosis of 3.3 percent by one point downward. The largest increase was in the infrastructure sector, which expanded by 3.8 percent. Growth in the private-housing sector remained relatively modest, climbing 1.7 percent.

Southeast Asia again delivered the strongest performance, growing 5.4 percent. China – at US\$1.1 trillion – remains the largest market worldwide. In the US, the property market continued to stabilize in 2012, spurring the construction industry, where volumes rose by 5.8 percent. In Western Europe, business declined by 3.8 percent. Sales in the German construction industry fell in real terms to US\$281.6 billion (2011: US\$296.7 billion).



At WACKER POLYMERS, we achieved further sales growth with construction applications. New products played a significant role, including waterproofing membranes for use in bathrooms, showers, swimming pools and basements. They stop water penetrating from the outside and allow internal water to evaporate. High-quality building-protection systems were launched on the renovation market. Demand for dispersions was robust in not only the building-material and tile-adhesive sectors, but also the plaster, interior-paint and carpet industries. We generated the strongest year-on-year growth in India, at 40 percent. Sales also grew in the USA (23 percent) and in Southeast Asia (14 percent). In China, growth was flat due to new requirements in the facade-protection sector. Overall, we sold an additional 25,000 metric tons to the construction industry.

At WACKER SILICONES, construction-application sales were 1 percent lower. Price pressures weighed on our standard products, especially sealants, where revenue was down 5 percent on the previous year. Conversely, hybrid silicone products performed very well. Sales of hybrid polymers, which are used for example in wood-flooring adhesives, rose by around 20 percent. Over 20-percent growth also came from cartridges traded under our own brand name. The Lucky-Silicones brand (sealants) – focused on the South Korean market – posted a solid increase on the previous year. Strong gains were achieved by a new water repellent for use in construction chemicals. Based on silicone fluid emulsion, it protects mineral wool (including glass wool) more effectively against moisture. WACKER SILICONES anticipates strong growth potential for this product, especially in China. On the regional front, year-over-year sales were below the prior year in Germany (-3 percent) and in Western and Southern Europe (-16 percent). We grew in China (16 percent), the Middle East (6 percent), South America (10 percent) and the USA (6 percent). Business edged up in Eastern Europe.

Electrical and Electronics Industries Grow in Emerging Markets

With global sales of €3.4 trillion, the electrical and electronics industry continued its uptrend in 2012. The German Electrical and Electronic Manufacturers' Association (ZVEI) estimates worldwide growth at 5 percent for 2012. The emerging markets were the main driving force here, expanding around 9 percent. In Germany, the fifth largest market worldwide, sales were down 2 percent to around €173 billion, according to the ZVEI's estimates. WACKER has three business divisions that supply customers in the electrical and electronics industry. At Siltronic, sales to semiconductor customers declined compared with the year-earlier period, mainly due to lower prices. During 2012, WACKER POLYSILICON sold 15 percent of its polysilicon capacities to customers in the electronics industry. In total, we supplied 38,000 metric tons of polysilicon, up 20 percent on the previous year.

WACKER SILICONES, which supplies diverse industries, reported sales at the prior-year level due to lower prices. Its sales grew in the following segments: transparent liquid bonding for notebook displays, media-resistant potting compounds, and highly specialized silicone rubber grades for automotive electronics. There was a slight drop in demand for wind-turbine power modules and for LEDs. In regional terms, sales rose in the USA (8 percent). By contrast, sales in Asia fell slightly (–3 percent).

Overall Statement by the Executive Board on Underlying Conditions

In 2012, the global economic situation was marked by the ongoing euro crisis. Germany largely escaped the negative impacts, achieving some growth. To a certain extent, the crisis in Europe also dampened economic momentum in other countries around the world. The emerging economies of Brazil, China and India could not repeat the pace of expansion seen in previous years. The second half of 2012 saw GDP growth slowing further. During the first weeks of 2013, the trend did not change significantly. Not immune to the weaker economic trend, WACKER especially felt the impact in two divisions. At Siltronic, persistent price pressure and sluggish demand impeded business, particularly in the fourth quarter, when revenues experienced a further decline. In the photovoltaic industry, the whole of 2012 was marked by stiff competition and by persistent price pressure due to excess capacity. The necessary consolidation is not over. This situation has weighed on business at WACKER POLYSILICON.

Economic Momentum
Slowed in 2012

Despite the weaker economic environment, WACKER's three chemical divisions have developed positively. Pressure from WACKER's main raw materials has eased somewhat. Overall, raw-material prices have stopped rising and are, in some cases, slightly lower than a year earlier. At WACKER SILICONES, the division's broad product range – extending into numerous customer sectors – delivered some growth. Significant sales increases were posted by WACKER BIOSOLUTIONS and WACKER POLYMERS. At WACKER POLYMERS, both dispersions and dispersible polymer powders generated growth. In dispersions, we benefit from the increasing substitution of styrene-butadiene with less expensive ethylene-based dispersions, especially in the carpet industry.

The euro crisis and the solar industry's continued shift in sales toward Asia also left their mark on our sales performance by region. In Europe, sales decreased by 8.1 percent. The Americas saw sales edging lower while Asia posted another increase. Asia's share of total sales grew further and is now at 40.2 percent.

Key Events Affecting Business Performance

Investments

WACKER's investment activities continued to center on expanding polysilicon-production capacities. Investments in 2012 increased against 2011 to €1.1 billion (2011: €981.2 million). The most important investment project was the construction of a polysilicon site in Tennessee, USA (Poly 11). Due to the difficult solar-market situation, WACKER decided to extend the time horizon for completing the production facilities in Tennessee. The site is expected to commence operations mid-2015, around 18 months later than originally planned. Last year, we concluded the full start-up of the Poly 9 expansion stage at Nünchritz. In 2012, these two projects involved a total of €621 million in additions to property, plant and equipment.

Renewed Rise in
Investments

At our Chinese site in Nanjing, we are constructing two new plants for our WACKER POLYMERS and WACKER BIOSOLUTIONS divisions. WACKER POLYMERS is adding a new reactor with annual capacity of 60,000 metric tons to its existing production plants for vinyl acetate-ethylene copolymer (VAE) dispersions. WACKER BIOSOLUTIONS' new plant in Nanjing will produce polyvinyl acetate (PVAc) solid resins for gumbase, with an annual capacity of 20,000 metric tons.

We are also expanding dispersion capacity at our production site in Ulsan (South Korea). The new reactor there will have an annual capacity of 40,000 metric tons. In 2012, capital expenditures on these three projects totaled €31.4 million.

WACKER invested €118.1 million in joint ventures and associates. Funds mainly went into expanding our 300 mm wafer joint venture with Samsung Electronics in Singapore. They were also used to finance our associated company with Dow Corning for the production of siloxane in China.

Divestitures

WACKER did not divest any business segments or product businesses in 2012.

We closed our captive acetic-acid production at Burghausen. Now, we procure the required amounts externally at a better price, with the same level of supply security.

As planned, we closed Siltronic's production site in Hikari (Japan) in 2012. In March 2012, we announced that we would streamline production capacity for 150 mm silicon wafers. At Portland (USA), production of this wafer diameter ended in the third quarter. A special personnel program was in place for handling the job cuts. The expenses for this capacity adjustment amounted to around €15 million and are reflected in EBITDA. At Burghausen, the site's 150 mm workforce was reduced. Together, these steps affected around 1,000 employees.

Comparing Actual with Forecast Performance

WACKER fell short of its target of generating some €5 billion in sales. EBITDA, as predicted in March 2012, remained significantly below 2011's level. These outcomes were caused not only by slower polysilicon and silicon-wafer business, but also by continued weakness in the global economy. Persistent price pressure, high inventory levels and the difficult financial situation of many customers had a noticeable impact, especially on polysilicon activities in the second half of 2012. Additionally, silicon-wafer business performed below expectations in the fourth quarter.

Despite the adverse economic environment, operations at our three chemical divisions – WACKER SILICONES, WACKER POLYMERS and WACKER BIOSOLUTIONS – developed positively. All three divisions achieved both sales and EBITDA growth, but not enough to offset declines at WACKER POLYSILICON and Siltronic, the other two divisions. Raw-material and energy costs stayed within expectations – in contrast to 2011, when they had been an additional burden. WACKER benefited from positive exchange-rate effects.

Sales Projections Adjusted after Second Quarter

In its second-quarter report published in July 2012, WACKER revised downward its forecast that sales would exceed €5 billion. This revision was mainly prompted by indications that polysilicon business would be weaker in the second half of 2012. Sales are now expected to be slightly lower than in the previous year, with EBITDA remaining substantially below prior year. Investments should come in at €1.1 billion, some €100 million higher than the figure published in March.

On publishing our third-quarter figures, we specified our expectations. The sales target was again adjusted downward and sales were expected to be between €4.6 and €4.7 billion, with EBITDA anticipated at about €750 million. These projected values corresponded to the final results for 2012.

All in all, 2012's sales and earnings generally underperformed capital-market expectations because WACKER POLYSILICON's and Siltronic's sales and earnings were much lower than anticipated.

T 3.2 Comparing Actual with Forecast Performance

€ million	Results in 2011	Forecast March 2012	Forecast July 2012	Forecast October 2012	Results in 2012
Sales	4,909.7	> 5,000	4,900	4,600–4,700	4,634.9
EBITDA	1,104.2	Well below prior year	Well below prior year	750	786.8
Investments (incl. financial assets)	981.2	1,000	1,100	1,100	1,095.4

Full-year sales for 2012 were €4.63 billion, 5.6 percent below the previous year due to weaker sales at WACKER POLYSILICON and Siltronic. The positive sales trend at the three chemicals divisions – WACKER SILICONES, WACKER POLYMERS and WACKER BIOSOLUTIONS – did not make up for the decline. We missed our original sales target of around €5 billion.

With regard to EBITDA, we anticipated from the outset that our performance would be well below 2011. 2012's EBITDA came in at €786.8 million, down 28.7 percent compared with the previous year. Our chemical divisions – WACKER POLYMERS, WACKER BIOSOLUTIONS and WACKER SILICONES – increased their EBITDA. WACKER POLYSILICON and Siltronic posted substantial year-on-year declines. The Group's lower EBITDA primarily stemmed from intense price competition for solar-grade polysilicon. Due to the termination of supply agreements by customers exiting the photovoltaic business, we retained advance payments and received damages totaling €113.1 million. The closure of Portland's 150 mm silicon-wafer line reduced EBITDA by €14.8 million.

Investments – excluding acquisitions – were initially projected at about €1 billion for 2012. We raised this projection to €1.10 billion in our Q2 2012 report. Coming in at €1.10 billion, investments were within our target corridor. Most capital expenditures flowed into the ongoing expansion of our polysilicon production facilities.

As anticipated in early 2012, R&D expenditures – for developing tomorrow's products and solutions – edged higher to €174.5 million.

The number of employees did not increase as planned. As per the reporting date, WACKER had 16,292 employees, 876 fewer than the year before. Restructuring measures at Siltronic were mainly responsible for the decline in employee numbers – there were more than 900 job reductions due to the closure of the Hikari (Japan) site, the ending of 150 mm silicon-wafer production at Portland and a number of other productivity measures.

The Executive and Supervisory Boards' 2012 dividend proposal to be announced at the Annual Shareholders' Meeting reflects that year's earnings trend and the Group's financial position. The proposal to the annual shareholders' meeting for the 2012 dividend is €0.60 per share (2011: €2.20).

Deviations from Projected Expenses

Personnel expenses – as a percentage of sales – stayed at last year's level, and were slightly above our planned value. As an absolute figure, they declined 6 percent compared with the previous year. This was due to layoffs at Siltronic and slower hiring at WACKER POLYSILICON. Overall employee numbers declined in 2012. Additionally, we paid higher variable compensation in 2011. Medium term, we expect personnel expenses (excluding non-recurring effects) to be about 25 percent of sales.

No Major Deviations
with Key Cost Types

Raw-material costs rose slightly, both as a percentage of sales and in absolute terms. The prices of our raw materials stayed roughly at the year-earlier level. The cost-to-sales ratio was higher because our product mix was less favorable and because our sales prices declined, especially for polysilicon. Medium term, we anticipate a moderate increase in raw-material prices.

Our energy costs were slightly lower than planned, primarily due to electricity being less expensive to procure. Regulatory effects (e.g. costs relating to Germany's renewable-energy legislation) and a less favorable product mix incurred additional costs.

Depreciation, in absolute figures, was exactly on target and amounted to €528.8 million. Because of the slight decline in sales, it rose as a percentage against both the prior-year and our plan. Most of the depreciation concerned our polysilicon facilities. WACKER did not post any material impairments in 2012. Depreciation will continue rising in the medium term, due to the investments made in new polysilicon production facilities over the past few years.

T 3.3 Expenses by Cost Types

% of sales	Actual Figure: 2011	Goals for 2012	Actual Figure: 2012
Personnel expenses	26.1	25.4	26.0
Raw-material costs	21.2	25.8	23.1
Energy costs	9.9	10.0	10.9
Depreciation and amortization	10.2	10.4	11.4

Executive Board Statement on Business Development

In 2012, WACKER's performance was marked by rising sales at its three chemical divisions, by substantially lower polysilicon prices, and by persistent pressure on silicon-wafer prices. The sales and earnings generated at WACKER's chemical divisions could not offset the impact of the difficult situation on the photovoltaic market, which faced overcapacity, high inventory levels and ongoing consolidation pressures, with numerous solar customers experiencing financial problems. Our sales and earnings trend was primarily held back by the marked decline in polysilicon prices. Raw-material prices, which had negatively impacted earnings a year earlier, did not rise any further and, in some cases, actually sank. Positive exchange-rate effects supported sales and earnings.

Lower Prices Impede
Polysilicon Business

Overall, our chemical divisions reported high plant-utilization levels for the entire year. At WACKER POLYMERS and WACKER BIOSOLUTIONS, we obtained either slightly higher or stable prices for our products. Business at Siltronic and WACKER POLYSILICON weakened, especially in the second half-year. When publishing our second-quarter figures, we revised downward our goal of generating some €5 billion in sales amid changes in market demand. With our third-quarter report, we specified our projections for sales and EBITDA, and revised sales downward once again.

After initially estimating capital expenditures at €1 billion, we revised this item upward by €100 million in our Q2 report. At year-end, they had remained within this target corridor.

In relation to sales, personnel expenses and depreciation were higher than planned. Raw-material costs were below plan. As absolute figures, personnel expenses and raw-material costs were below budget and depreciation was exactly as planned.

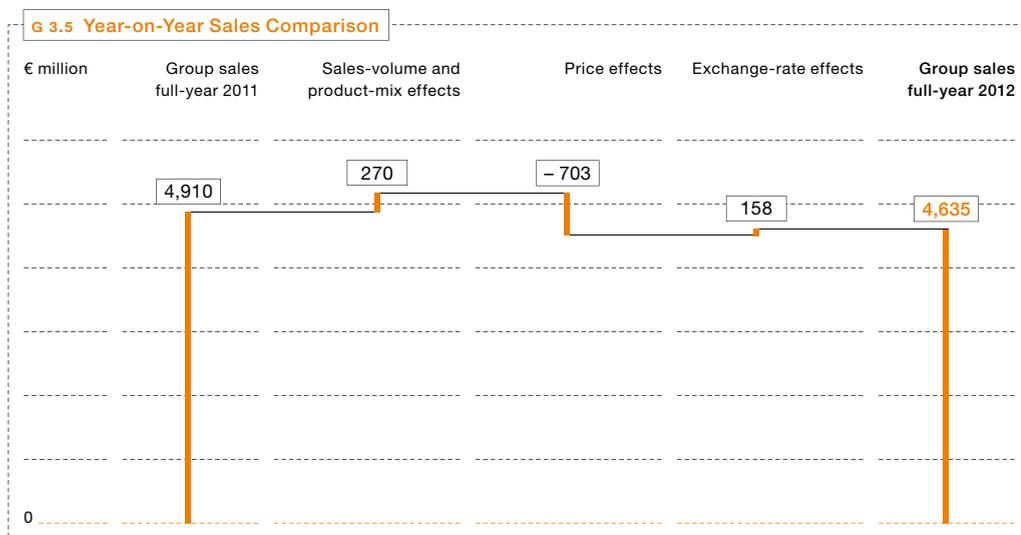
We finalized a key investment project by bringing on stream polysilicon expansion stage 9 at Nünchritz. Due to the difficult solar-market situation, we decided to extend the timeline for completing the production site in Tennessee. It is now expected to start up in mid-2015, 18 months later than originally planned.

Earnings

The WACKER Group closed 2012 with lower sales and, as expected, a marked decline in EBITDA. This sales and earnings decrease mainly stemmed from the difficult situation on the photovoltaic market, which is currently facing overcapacity, high inventory levels and ongoing consolidation pressures, with numerous solar customers experiencing financial problems. At Siltronic, lagging demand for silicon wafers and lower prices reduced sales and earnings. Conversely, the three chemical divisions performed positively in 2012, but could not offset the sales and EBITDA declines posted by the other two business divisions. The Group's net income for the year amounted to €106.8 million, down €249.3 million on the previous year (2011: €356.1 million).

Sales Decrease 6 Percent to €4.63 Billion

In 2012, WACKER generated total sales of €4.63 billion, 5.6 percent lower than a year earlier (2011: €4.91 billion). The decline was due to WACKER POLYSILICON and Siltronic. Although WACKER POLYSILICON sold greater volumes of polysilicon than the previous year, sales decreased by 22 percent to €1.14 billion (2011: €1.45 billion). The division's sales trend reflected the significantly reduced market prices and high inventories in the photovoltaic supply chain. At Siltronic, sales also decreased primarily due to the impact of lower prices on volumes. Sales fell 12.5 percent to €867.9 million (2011: €992.1 million). WACKER POLYMERS recorded the biggest sales increase. Surging 8.1 percent, its sales surpassed the billion-euro mark for the first time ever (2011: €928.1 million). This was mainly due to the construction industry's recovery and the division's robust performance in the carpet and packaging sectors, where WACKER's VAE dispersions are increasingly replacing styrene-butadiene and styrene-acrylate. All regions saw sales rise. WACKER SILICONES also reported sales growth. Stronger volumes pushed its sales up by 3.4 percent to €1.65 billion (2011: €1.59 billion). Price pressures, especially on standard products, though, dampened the division's sales performance. WACKER BIOSOLUTIONS increased its sales by 9.1 percent to €157.6 million (2011: €144.5 million). This rise was due to higher volumes.



Volume growth increased sales by €270 million and exchange-rate effects by €158 million. A key contributor here was the dollar-euro exchange rate. The average rate in 2012 was 1.29 dollars to the euro (2011: 1.39). Lower prices in particular decreased Group sales by €703 million.

WACKER generated the largest share of its sales outside Germany. During 2012, international sales reached €3.95 billion (2011: €4.01 billion), accounting for 85 percent of total Group sales. WACKER's biggest market by far is Asia, where growth is mainly driven by strong customer demand for the Group's silicones and polymers. Asia is also WACKER's primary polysilicon market.

International Sales
Rise again in
Percentage Terms

T 3.4 Domestic and International Sales (by Customer Headquarters)							
€ million	2012	2011	2010	2009	2008	2007	2006
External sales	4,634.9	4,909.7	4,748.4	3,719.3	4,298.1	3,781.3	3,336.9
Of which Germany	686.0	899.4	887.3	774.6	948.6	723.5	657.6
Of which International	3,948.9	4,010.3	3,861.1	2,944.7	3,349.5	3,057.8	2,679.3

EBITDA down 29 Percent Year over Year

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to €786.8 million in 2012, down 28.7 percent from a year earlier (2011: €1.10 billion). The EBITDA margin was 17.0 percent (2011: 22.5 percent). The EBITDA decline stemmed primarily from the lower prices for polysilicon. At WACKER POLYSILICON, the EBITDA margin dropped from the prior-year's 51.6 percent to 37.6 percent. The division had income of €113.1 million (2011: €66.2 million) from the retention of advance payments and from damages relating to the termination of contracts.

In 2012, WACKER adjusted the financing of its associated company with Dow Corning. The new terms reduce the transfer prices paid for siloxane procured from Dow Corning. This has allowed WACKER to reverse the €79.6 million provision for contingent losses from purchase obligations under contracts with the associated company. On the assets side, the carrying amount of WACKER's 25-percent interest in this associated company, which is accounted for using the equity method, was reduced by €77.0 million.

EBIT for the year amounted to €258.0 million, down 57.2 percent (2011: €603.2 million). Depreciation and amortization rose 15 percent to €526.3 million (2011: €459.6 million). In response to the altered market situation, WACKER shortened the useful life of polysilicon-plant infrastructure and technical facilities from 2012 forward, which had an effect on the depreciation recognized. Depreciation was also increased by the start-up of the new Poly 9 expansion stage at Nünchritz. The EBIT margin for 2012 was 5.6 percent (2011: 12.3 percent). Both EBIT and EBITDA were affected by the non-recurring effects shown in the table.

T 3.5 Non-Recurring Effects in 2012	
€ million	2012
Advance payments retained and damages received	113.1
Obligations relating to the closure of the 150 mm line in Portland	-14.8
Total non-recurring effects on EBITDA	98.3
Total non-recurring effects on EBIT	98.3

T 3.6 Non-Recurring Effects in 2011

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

Lower Revenues Weighing on Gross Profit from Sales

Gross profit from sales fell by €349.4 million to €813.1 million (2011: €1.16 billion), down 30 percent from a year earlier. The cost of sales edged higher year over year, up 2 percent to €3.82 billion. Diminished sales reduced the gross margin from 24 percent a year earlier to just under 18 percent in 2012. Specific production costs, which are governed primarily by energy and raw-material costs, did not rise overall compared with the previous year. Increased depreciation, at €66.7 million, resulted, among other things, from the shortened useful lives of polysilicon plants and from the start-up of the Poly 9 expansion stage at Nünchritz. Depreciation and amortization for full-year 2012 totaled €528.8 million (2011: €501.0 million). The prior-year figure included €41.4 million in impairment losses on property, plant and equipment. In Q3 and Q4 2012, WACKER POLYSILICON aligned plant utilization with the lower volumes demanded by customers. This resulted in higher fixed costs per kilogram of polysilicon. The provision of €79.6 million for contingent losses from purchase obligations under contracts with the Dow Corning associated company was reversed. The cost-of-sales ratio for the year stood at 82 percent (2011: 76 percent).

Cost-of-Sales Ratio
up Year over Year

Functional Costs Reduced

Other functional costs (selling, R&D and general administrative expenses) decreased by €3.8 million year over year to €573.9 million in 2012 (2011: €577.7 million).

Other Operating Income and Expenses

In 2012, the balance of other operating income and expenses was €101.3 million (2011: €26.1 million). The positive balance is mostly attributable to income from the retention of advance payments and from damages relating to the termination of individual polysilicon contracts, which added €113.1 million to earnings. Other operating expenses include not only project-specific start-up costs for the polysilicon facilities in Tennessee, but also costs for the shutdown of the 150 mm wafer line at Portland. Other operating income and expenses additionally include a net foreign currency loss of €7.9 million, which contrasts with the positive balance of exchange-rate gains and losses of €39.8 million reported a year earlier.

Operating Result

Due to the effects stated above, the operating result fell from €610.9 million in 2011 to €340.5 million – a drop of 44 percent.

Result from Investments in Joint Ventures and Associates

The investment result – the total income from investments in joint ventures and associates and other income from participations – amounted to €-82.5 million (2011: €-7.7 million) and was shaped by two specific circumstances. WACKER recorded a net loss of €5.6 million on its current equity investments and expenses. The joint venture with Samsung for the production of 300 mm wafers recorded investment losses in 2012, due to high levels of depreciation. As a consequence of the renegotiation of the transfer prices for siloxane with Dow Corning, we have adjusted the carrying amount of our 25-percent interest in the Singapore-based associated company Dow Corning (ZJG) Holding Co. Private Ltd. The new lower transfer

prices will reduce the associated company's future cash inflows substantially. The related impairment test resulted in a charge of €77.0 million.

Financial and Interest Result

The WACKER Group's financial result was €-64.8 million (2011: €-35.8 million). The interest result was also negative at €-10.2 million, which was €13.6 million lower than in 2011 (€+3.4 million). The high levels of liquidity and securities held previously were partially reduced during the second half of 2012 in order to fund our investment projects. WACKER generated interest income of €16.0 million from its investments in securities and money market instruments (2011: €16.9 million). Conversely, the loans we raised for capital expenditures increased interest expenses to €26.2 million (2011: €13.5 million). Construction-related borrowing costs capitalized in the year under review and amounting to €14.2 million (2011: €11.3 million) had a positive effect. The other financial result was €-54.6 million (2011: €-39.2 million). This amount primarily contains expenses recognized for the unwinding of discounted pension and other provisions and of financial-investment hedging.

Income taxes

The Group reported tax expenses of €86.4 million, down 59 percent from the previous year (2011: €211.3 million). The Group's tax rate for 2012 was therefore 44.7 percent (2011: 37.2 percent). Adjusted for expenses and losses at a number of Group companies that are not tax-deductible, the tax rate was approximately 30 percent. The tax expenses reported consist mainly of the Group's current income taxes.

Net Income

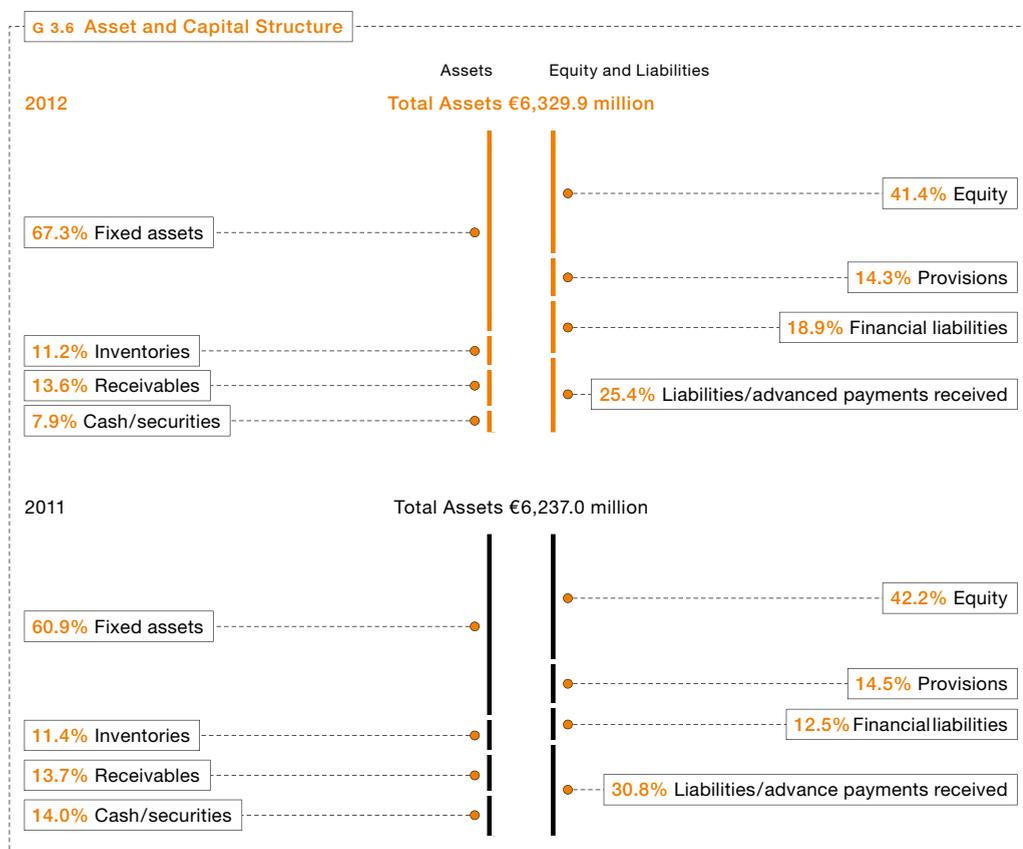
The Group's net income for 2012 amounted to €106.8 million (2011: €356.1 million).

T 3.7 Combined Statement of Income			
€ million	2012	2011	Change in %
Sales	4,634.9	4,909.7	-5.6
Gross profit from sales	813.1	1,162.5	-30.1
Selling, R&D and general administrative expenses	-573.9	-577.7	-0.7
Other operating income and expenses	101.3	26.1	>100
Operating result	340.5	610.9	-44.3
Result from investments in joint ventures and associates	-82.5	-7.7	>100
EBIT	258.0	603.2	-57.2
Financial result	-64.8	-35.8	81.0
Income before taxes	193.2	567.4	-65.9
Income Taxes	-86.4	-211.3	-59.1
Net income for the year	106.8	356.1	-70.0
Of which attributable to Wacker Chemie AG shareholders	112.8	352.6	-68.0
Of which attributable to non-controlling interests	-6.0	3.5	n.a.
Earnings per share (basic/diluted) (€)	2.27	7.10	-68.0
Average number of shares outstanding (weighted)	49,677,983	49,677,983	-
Reconciliation to EBITDA			
EBIT	258.0	603.2	-57.2
Depreciation/appreciation of noncurrent assets	528.8	501.0	5.5
EBITDA	786.8	1,104.2	-28.7
ROCE (%)	5.2	13.9	-62.6

Net Assets

As per December 31, 2012, WACKER's total assets rose by €92.9 million year on year to €6.33 billion, edging up 1.5 percent (2011: €6.24 billion). 2012 saw increases primarily in property, plant and equipment, in loans to associated companies, and in trade receivables, while noncurrent and current liquidity decreased. These effects were essentially balanced by higher financial debt on the liabilities side. Foreign currency translation effects reduced total assets by €33.4 million.

Total Assets Grow in 2012



Financial-Position Trends: Assets

Current and Noncurrent Assets

Noncurrent assets rose to €4.37 billion, up €376.7 million or 9 percent (2011: €4.00 billion). The share of noncurrent assets within total assets increased to 69 percent (2011: 64 percent). Conversely, current assets fell from €2.24 billion to €1.96 billion, down 13 percent from a year earlier. The share of total assets represented by current assets was 31 percent (2011: 36 percent). Higher investment spending, and the associated reduction in noncurrent and current liquidity, left their mark on the assets side of the balance sheet in 2012.

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

Intangible assets, property, plant and equipment, and investment property totaled €3.95 billion as of the reporting date (2011: €3.53 billion). Depreciation reduced fixed assets by €526.3 million (2011: €459.6 million). In 2012, impairment losses amounted to €2.5 million (2011: €41.4 million). Investments increased fixed assets by €977.3 million (2011: €927.9 million). Most of these capital expenditures increased spending went into the Tennessee production site, where the original end-of-2013 completion date was extended to mid-2015. With this rescheduling, WACKER has aligned its polysilicon-capacity plans with customer demand. WACKER POLYSILICON invested a total of €698.1 million. Additional investments funded the expansion of business at WACKER SILICONES, WACKER POLYMERS and Siltronic. WACKER invested a total of €301.1 million within Germany (2011: €553.8 million) and €676.2 million abroad (2011: €374.1 million).

Investment Activity
Boosts Fixed Assets

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

Investments in joint ventures and associates accounted for using the equity method fell from €124.5 million at the end of 2011 to €41.0 million. The lower transfer prices for siloxane purchased from our associated company with Dow Corning has reduced cash inflows. WACKER therefore tested its 25-percent interest in the company for impairment and, on the basis of these reduced cash inflows, recognized an impairment of €77.0 million on its carrying amount. The net current result from investments in joint ventures and associates was €-5.6 million (2011: €-7.7 million).

Noncurrent Financial Assets and Securities

Other noncurrent assets rose 13 percent to €381.8 million (2011: €339.3 million). They include loans to joint ventures and associates totaling €256.2 million (2011: €130.0 million). In 2012, the financing of the associated company with Dow Corning for producing siloxane was revised to replace outside borrowing with shareholder loans. WACKER's share of these loans amounted to €87.8 million. To expand 300 mm production, we funded our joint venture with Samsung with additional scheduled shareholder loans. WACKER invests part of its liquidity in long and short-term securities. These funds are available for future investment activity. As of the reporting date, WACKER held securities with maturities exceeding 12 months either directly or through an investment fund. The value of these securities was €61.1 million (2011: €162.5 million). As of December 31, 2012, noncurrent tax receivables and deferred tax assets amounted to €37.8 million (2011: €22.5 million).

Current Assets

Current assets declined 13 percent from the prior-year figure and amounted to €1.96 billion (2011: €2.24 billion). Liquidity was lower, mainly due to increased capital expenditures. Operating assets consisting of inventories were stable, while trade receivables rose slightly. As of year-end 2012, inventories were €712.1 million (2011: €713.7 million), with trade receivables at €600.2 million (2011: €566.1 million). The share of total assets represented by inventories and trade receivables together was unchanged from the previous year at about 20 percent.

Other current assets fell to €644.9 million, down 33 percent from a year earlier (2011: €961.2 million). This was caused in large part by the change in cash and cash equivalents, which were 59 percent lower than a year ago, falling from €473.9 million to €192.6 million at year-end 2012. The cash was mainly used to fund ongoing investment projects in 2012. Current securities with maturities of more than 3 months were constant at €243.0 million (2011: €237.2 million). Other current assets additionally include tax receivables of €90.8 million (2011: €117.3 million) and derivatives for foreign-exchange hedging of €8.5 million (2011: €16.9 million).

Financial-Position Trends: Equity and Liabilities

Group Equity Virtually Unchanged

Equity fell marginally to €2.62 billion as of December 31, 2012 (2011: €2.63 billion). Because of the increase in total assets, the equity ratio declined somewhat. As of December 31, 2012, it was 41.4 percent (2011: 42.2 percent). The Group's 2012 net income was recognized in equity in the amount of €106.8 million (2011: €356.1 million). Dividend payouts and distribution of dividends reduced equity by a total of €110.7 million (2011: €160.1 million). The effects reported as other equity items totaled €-8.0 million (2011: €-13.1 million).

Equity Ratio Remains
High

Liabilities

The WACKER Group's liabilities edged up, climbing 3 percent to €3.71 billion (2011: €3.61 billion). At 59 percent (2011: 58 percent), their share of total equity and liabilities rose slightly on the previous year.

Noncurrent Liabilities

Noncurrent liabilities amounted to €2.55 billion at year-end 2012, €64.8 million higher than in 2011 (€2.49 billion). As in the prior year, they still accounted for about 40 percent of total equity and liabilities. Noncurrent provisions dropped 3 percent to €762.7 million (2011: €782.3 million). As anticipated, provisions for pensions were higher in 2012. They rose by €42.2 million or 8 percent to €569.3 million (2011: €527.1 million). Other provisions were 17 percent lower at €161.3 million. Aside from the reversal of the noncurrent portion (€30.4 million) of the provision for contingent losses from obligations under contracts to purchase siloxane from the associated company with Dow Corning, this decline was mainly due to the reclassification of previously noncurrent tax provisions totaling €29.2 million as current. Noncurrent provisions for personnel include provisions for phased early retirement and for anniversary payments. Phased-early-retirement provisions were reduced as claims were paid out. Anniversary-payment provisions have risen because of lower interest rates.

As of the reporting date, noncurrent financial liabilities were up 45 percent to €958.5 million (2011: €662.1 million). On February 23, 2012, WACKER issued four promissory notes (German *Schuldscheine*) totaling €300 million, as part of its multiyear financing strategy. They have terms of three and five years, and contain standard market credit terms. In addition, long-term loans each totaling 5 billion Japanese yen were raised in Q3 and Q4 2012, respectively. Noncurrent financial liabilities account for 15 percent of total equity and liabilities (2011: 11 percent).

There also were changes in other noncurrent liabilities, which declined by a substantial 20 percent year over year, to €829.6 million (2011: €1.04 billion). This was mostly the result of the reduction in long-term advance payments for polysilicon received, which fell by €197.5 million to €803.4 million (2011: €1.0 billion). Long-term advance payments received accounted for 13 percent of total equity and liabilities (2011: 16 percent).

Current Liabilities

There was a slight increase in current liabilities. At €1.16 billion as of the reporting date, they rose 4 percent (2011: €1.12 billion). Their share of total equity and liabilities was 18 percent. Current financial liabilities increased by €115.8 million to €238.7 million, up 106 percent. Trade payables sank to €379.8 million (2011: €402.6 million), partly as a consequence of reduced capacity utilization in Q4 2012. They represent an unchanged 6 percent of total equity and liabilities.

Other current provisions and liabilities totaled €542.8 million (2011: €602.9 million). This figure is the result of a combination of different effects. €35.1 million was added to provisions for taxes. Certain noncurrent provisions for taxes were reclassified as current. The current portion of the provision for contingent losses from obligations to purchase siloxane from the

associated company with Dow Corning was partially reversed. Unlike the provisions, other liabilities fell to €382.6 million (2011: €458.3 million). This reduction mainly stemmed from payments of variable compensation and payments made in relation to the closure of the Hikari (Japan) site. Current advance payments received were higher than a year earlier.

Unrecognized Assets and Off-Balance-Sheet Financial Instruments

An important asset that does not appear on our statement of financial position is the value of the WACKER brand and other Group trademarks. We consider the high profile and reputation of our trademarks to be a key factor influencing customer acceptance of our products and solutions. Moreover, there are other intangible assets that are vital for success and positively impact our business – for example, long-standing customer relationships and customer trust in our product and solution-related expertise. Just as important are our employees' in-depth skills and experience, and our many years of expertise not only in R&D and project management, but also in designing production and business-process structures. In particular, our integrated production system gives us a competitive edge over our rivals. Another key success factor is WACKER's sales network, which has evolved over many years and enables the Group to market and sell its range of products and services locally to customers. The statement of financial position also does not include various German legal forms of rented and leased goods reported on in [Note 17](#). Additionally, other self-constructed assets are not included. WACKER does not use any off-balance-sheet financing instruments.

T 3.8 Combined Statement of Financial Position			
€ million	2012	2011	Change in %
Assets			
Intangible assets, property, plant and equipment, and investment property	3,949.9	3,532.2	11.8
Investments in joint ventures and associates accounted for using the equity method	41.0	124.5	-67.1
Other noncurrent assets	381.8	339.3	12.5
Noncurrent assets	4,372.7	3,996.0	9.4
Inventories	712.1	713.7	-0.2
Trade receivables	600.2	566.1	6.0
Other current assets	644.9	961.2	-32.9
Current assets	1,957.2	2,241.0	-12.7
Total assets	6,329.9	6,237.0	1.5
Equity and Liabilities			
Equity	2,617.8	2,629.7	-0.5
Noncurrent provisions	762.7	782.3	-2.5
Financial liabilities	958.5	662.1	44.8
Other noncurrent liabilities	829.6	1,041.6	-20.4
Of which advance payments received	803.4	1,000.9	-19.7
Noncurrent liabilities	2,550.8	2,486.0	2.6
Financial liabilities	238.7	115.8	>100
Trade payables	379.8	402.6	-5.7
Other current provisions and liabilities	542.8	602.9	-10.0
Current liabilities	1,161.3	1,121.3	3.6
Liabilities	3,712.1	3,607.3	2.9
Total equity and liabilities	6,329.9	6,237.0	1.5
Capital employed	4,979.0	4,342.8	14.6

Financial Position

Financial-Management Principles and Goals

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

WACKER pursues a careful financing policy targeted at a balanced financing portfolio, a diversified maturity portfolio and a comfortable liquidity buffer. In addition to the financing instruments already mentioned, WACKER expects to be able to tap the bond markets and other instruments, if necessary. Our aim is to maintain our corporate financial structures so that the Group's credit rating remains – at a minimum – in the investment-grade range.

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

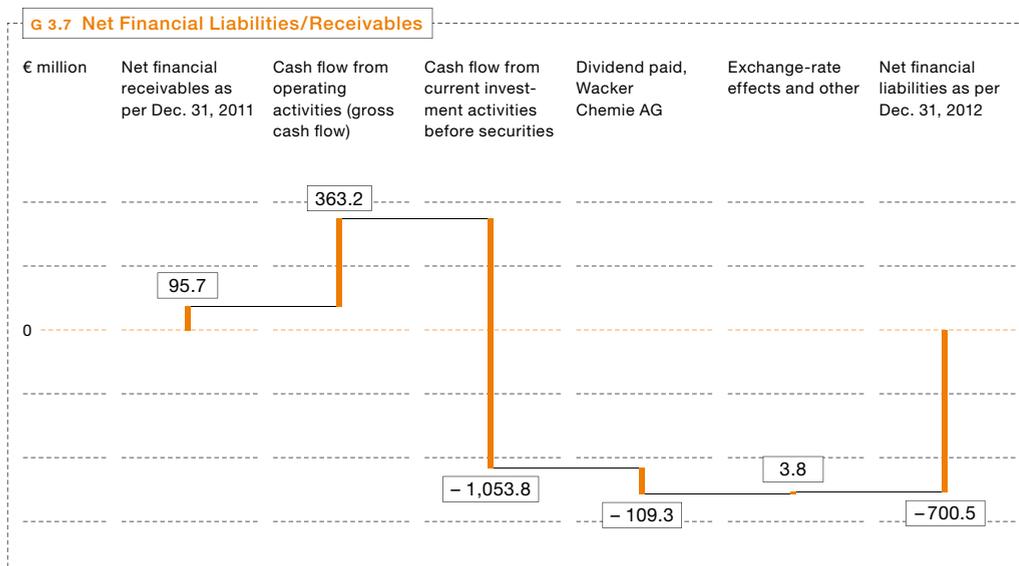
Financial Analysis

As of December 31, 2012, financial liabilities amounted to €1.20 billion, up €419.3 million on 2011 (€777.9 million). On February 23, 2012, WACKER issued four promissory notes (German *Schuldscheine*) totaling €300 million, as part of its multiyear financing strategy. They have terms of three and five years, and contain standard market credit terms. Additionally, we raised a long-term loan in both Q3 and Q4, each totaling 5 billion Japanese yen. By concluding these two transactions, WACKER has secured long-term financing at attractive interest rates, while at the same time improving the maturity profile of its financial debt even further.

Financial Liabilities
Rise as Planned

WACKER defines net financial liabilities – a key indicator – as the balance of gross financial debt (obligations to banks, including finance-lease obligations) and existing noncurrent and current liquidity, consisting of securities, cash and cash equivalents. The net financial liabilities reported for 2012 reflect our investment activity and the resulting capital requirements. At the reporting date, we had net financial liabilities totaling €700.5 million. In 2011, WACKER had net financial receivables of €95.7 million. WACKER invested a total of €1.10 billion in property, plant and equipment and in financial assets – equivalent to an investment ratio, based on total Group sales, of 24 percent (2011: 20 percent). The investments will enhance WACKER's global competitive position in the future.

Aside from the financial liabilities disclosed in the report on net assets, WACKER has at its disposal adequate unused credit lines with terms of over one year totaling some €640 million as of the reporting date. In Q2 2012, WACKER arranged a €400 million syndicated credit facility with a term of five years. Conversely, an existing syndicated loan of €300 million raised in 2007 was redeemed prematurely. Thus, we have enough financial leeway to secure the Group's continued growth. The Group does not use any off-balance-sheet financing components.



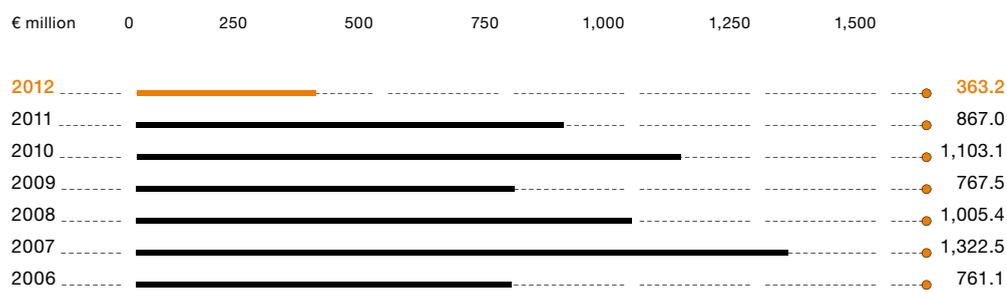
Cash Flow

The Group's current high level of investment spending is leading to a cash outflow that clearly exceeds operating cash flow. Consequently, WACKER has adopted a supplementary strategy of external borrowing alongside its long-term goal of essentially funding its investments from its own cash flow. Through this strategy, the Group is ensuring that it can finance important investment projects partly through long-term loans.

Gross Cash Flow

In 2012, gross cash inflow from operating activities (gross cash flow) was down 58 percent to €363.1 million (2011: €867.0 billion). This was mainly due to the Group's diminished net income of €106.8 million for the year (2011: €356.1 million) and to the decrease in advance payments received for polysilicon deliveries. There was a change of €-154.4 million in advance payments received (2011: €170.4 million). The determining factor here was polysilicon deliveries for which WACKER had in the past received advance payments from customers. In the previous year, cash inflows from customers' advance payments had improved cash flow. Operating cash flow was further reduced by payments associated with the Hikari (Japan) site's closure and with payments of variable compensation components. Higher inventories and trade receivables led to an increase in tied-up liquidity. The resulting impact on cash flow was €69.6 million (2011: €-149.1 million).

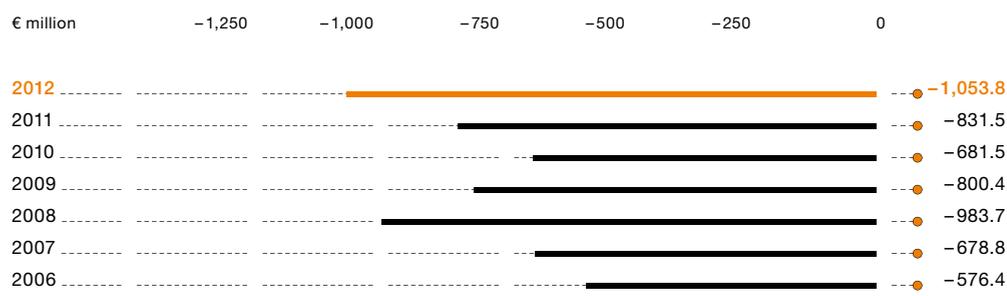
G 3.8 Cash Flow from Operating Activities (Gross Cash Flow)



Cash Flow from Investment Activities

As in 2011, cash flow from noncurrent investment activities was dominated by high capital expenditures for constructing polysilicon production facilities. In 2012, WACKER invested a total of €1.05 billion (2011: €831.5 million) primarily in property, plant and equipment, and in financial investments. A major part of the capital expenditures went to the WACKER POLYSILICON division, where it was used for the construction of the new polysilicon production site in Charleston (Tennessee, USA). Shareholder loans to associated companies and joint ventures resulted in cash outflows of €117.8 million (2011: €34.9 million).

G 3.9 Cash Flow from Noncurrent Investment Activities before Securities



In 2012, inflows and outflows of cash from securities with maturities exceeding three months were classified as cash flow from investment activities. Cash flow from investment activities totaled €-970.4 million in 2012 (2011: €-979.0 million). Matured securities led to incoming payments during the year.

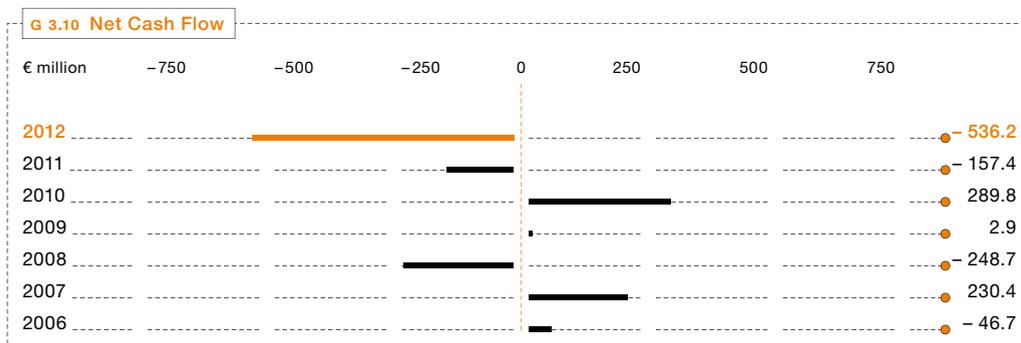
Net Cash Flow

As of December 31, 2012, net cash flow totaled €-536.2 million (2011: €-157.4 million). This figure reflects the high level of capital expenditures at the WACKER Group.

T 3.9 Net Cash Flow

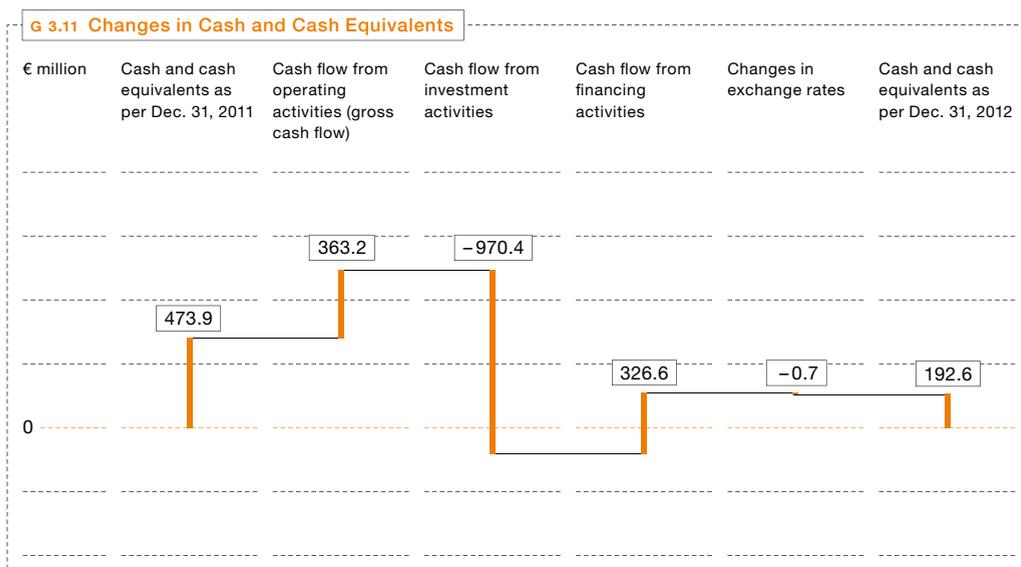
€ million	2012	2011	Change in %
Cash flow from operating activities (gross cash flow)	363.2	867.0	-58.1
Changes in advance payments received	154.4	-163.6	-
Cash flow from noncurrent investment activities before securities	-1,053.8	-831.5	26.7
Additions from finance leases	-	-29.3	-100
Net cash flow	-536.2	-157.4	> 100

Net cash flow is the sum of cash flow from operating activities (excluding changes in advance payments) and cash flow from noncurrent investment activities (before securities), including additions due to finance leases.



Cash Flow from Financing Activities

In 2012, cash inflow from financing activities came in at €326.6 million (2011: €37.4 million). The reported amount chiefly reflected the cash received under the new loans. The dividend payment by Wacker Chemie AG in Q2 2012 reduced cash flow from financing activities by €109.3 million. Cash and cash equivalents decreased by €281.3 million on the previous year and amounted to €192.6 million (2011: €473.9 million).



Proposal on Appropriation of Profits

In accordance with German Commercial Code accounting rules, Wacker Chemie AG posted a retained profit of €654.3 million in 2012. The Executive and Supervisory Boards will propose a dividend of €0.60 per share at the Annual Shareholders' Meeting. Based on the number of shares entitled to dividends as of December 31, 2012, the cash dividend corresponds to a payout of €29.8 million. Calculated in relation to WACKER's average share price in 2012, the dividend yield is 1.0 percent. At the Annual Shareholders' Meeting, the Executive and Supervisory Boards will propose treating the remaining amount as profit carried forward.

Dividend Proposal to the Annual Shareholders' Meeting: €0.60 per Share

Rating

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

General Overview of the Business Situation by the Executive Board

2012 was a challenging year for WACKER, primarily due to adverse conditions in photovoltaic and semiconductor markets. WACKER's chemical divisions performed well. Despite these difficult conditions, we adhered to our growth goals and invested €1.1 billion. Capital expenditures were higher than our operating cash flow, which meant our debt level increased as planned. At December 31, 2012, the net debt of €700 million was equivalent to 90 percent of the EBITDA posted in 2012 and thus far below the key figures specified in the loan agreements. Equity was almost unchanged at a high level of 41 percent.

† 3.10 Supplementary Information as per the Takeover Directive Implementation Act

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

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

Segments

WACKER SILICONES

Sales Grow 3.4 Percent to over €1.6 Billion

In 2012, WACKER SILICONES increased its sales by 3.4 percent to €1.65 billion (2011: €1.59 billion). Higher volumes and positive exchange-rate effects offset the price pressure on silicone products. All the division's business areas – apart from construction – generated sales growth. Silicone volumes were especially strong for personal-care products, the textile sector and paper coating. At the regional level, WACKER SILICONES expanded its sales in Asia, particularly Southeast Asia and China, by more than 13 percent. The Americas also delivered double-digit sales growth, with increases in the "Other Regions," as well. Amid the sovereign-debt crisis, European and German sales declined – down by 3.7 percent in Europe and 4 percent in Germany.

WACKER SILICONES
Continues to Grow

EBITDA edged higher year over year. It came in at €189.3 million, up 3.5 percent (2011: €182.9 million). Raw-material and energy costs remained high overall, although pricing factors did not cause them to rise again relative to the previous year. The average price for silicon metal was 6 percent lower than in 2011, while the price for methanol increased 7 percent. Price pressure, especially on standard products, dampened the division's sales performance. Conversely, the stronger us dollar supported earnings. At 11.5 percent, the EBITDA margin remained at the prior-year level.

Investments above Prior-Year Level

Capital expenditures were higher than a year earlier, climbing from €106.3 million to €158.8 million. They included capital contributions to our associated company with Dow Corning (Zhangjiagang), which were agreed for restructuring its financing via shareholder loans. Investments in property, plant and equipment were used to increase capacity at existing facilities and to expand downstream and specialty-product capacities.

WACKER SILICONES had 3,960 employees on December 31, 2012 (December 31, 2011: 3,956).

T 3.11 Key Data: WACKER SILICONES							
€ million	2012	2011	2010	2009	2008	2007	2006
Total sales	1,648.0	1,593.8	1,580.5	1,238.8	1,408.6	1,361.0	1,286.9
EBITDA	189.3	182.9	229.9	157.9	167.9	226.9	231.9
EBIT	106.4	103.3	150.0	33.5	86.3	144.6	147.8
Investments (asset additions)	158.8	106.3	92.9	102.2	107.0	102.2	140.9
Acquisitions	–	–	81.2	–	–	–	–
R&D costs	31.3	25.4	25.3	26.9	31.5	35.9	34.4
Employees (December 31, number)	3,960	3,956	3,892	3,873	3,927	3,871	3,767

WACKER POLYMERS

WACKER POLYMERS continued its upward trend in 2012. For the first time ever, its sales surpassed the billion-euro mark. At €1.0 billion, sales were 8.1 percent higher than in the previous year (2011: €928.1 million). Business was lifted by increased dispersion and polymer-powder volumes, by partially higher product prices, and by positive exchange-rate effects. Raw-material costs stayed at the prior-year level. Performance remained robust in the carpet and packaging markets, where WACKER's VAE dispersions are increasingly replacing styrene-butadiene and styrene-acrylate. Construction-sector sales also rose again.

In its regional markets, WACKER POLYMERS increased its sales across the board, except for Germany, where sales fell by 3.6 percent. In the Americas, sales gathered substantial momentum, mainly due to the substitution of materials in the carpet and packaging industries. Sales in this region rose by more than 20 percent. In percentage terms, India was where WACKER POLYMERS recorded its highest sales growth.

Substitution Business
Fuels Sales Growth

EBITDA was even stronger than sales, climbing 31.8 percent year on year to €147.4 million (2011: €111.8 million). This increase stemmed from higher volumes, rationalization, and positive pricing and exchange-rate effects. The EBITDA margin reached 14.7 percent (2011: 12.0 percent).

Capacity Expansion for Future Growth

Investments – which increased to €58.8 million after €30.4 million in 2011 – are focused on providing new capacities for future growth. Most of the expenditures were for expansion projects in Nanjing (China) and in Ulsan (South Korea). At both production sites, we are expanding our VAE dispersions facilities. This project will add 40,000 metric tons per year at Ulsan and increase Nanjing's annual capacity from 60,000 to 120,000 metric tons.

The number of employees at the division fell slightly to 1,365 as of December 31, 2012 (December 31, 2011: 1,412).

T 3.12 Key Data: WACKER POLYMERS

€ million	2012	2011	2010	2009	2008	2007	2006
Total sales	1,003.1	928.1	810.0	743.8	867.9	632.8	559.6
EBITDA	147.4	111.8	122.6	117.2	108.9	107.0	106.6
EBIT	110.7	76.2	82.2	77.8	64.9	80.5	88.8
Investments	58.8	30.4	13.1	40.0	74.4	41.0	17.8
(asset additions)							
R&D costs	13.0	14.1	14.0	14.2	15.0	7.6	7.1
Employees	1,365	1,412	1,377	1,362	1,579	1,128	1,050
(December 31, number)							

WACKER BIOSOLUTIONS

In 2012, sales were buoyant at WACKER BIOSOLUTIONS, up 9.1 percent to €157.6 million (2011: €144.5 million). Higher volumes and positive exchange-rate effects fueled the increase. With the exception of biopharmaceuticals, every business area generated growth. Regionally, the largest gain of 34 percent was achieved in Germany. In Europe and the Americas, sales climbed more than 10 percent in each region. Sales in Asia grew slightly.

EBITDA also performed strongly, rising by as much as 20.1 percent to €24.5 million (2011: €20.4 million) amid higher volumes and exchange-rate effects. The EBITDA margin increased to 15.5 percent (2011: 14.1 percent).

Investments over Double Prior-Year Figure

Investments more than doubled compared with a year earlier, reaching €19.3 million (2011: €8.6 million). The largest share of the funding went on constructing a new plant for polyvinyl acetate solid resins, which are used in the production of gumbase. With an annual capacity of 20,000 metric tons, the plant is being built at our Nanjing site (China). It will replace our former production site at Wuxi.

Production in China
Set to Expand

The number of employees at WACKER BIOSOLUTIONS as of December 31, 2012, rose to 357 (December 31, 2011: 354).

T 3.13 Key Data: WACKER BIOSOLUTIONS

€ million	2012	2011	2010	2009	2008	2007	2006
Total sales	157.6	144.5	142.4	104.9	97.7	112.4	112.6
EBITDA	24.5	20.4	25.0	9.9	9.2	9.5	10.5
EBIT	17.8	13.3	16.6	4.7	6.0	-7.5	-4.5
Investments (asset additions)	19.3	8.6	6.5	12.7	16.5	7.5	4.0
R&D costs	6.6	6.2	3.5	4.4	2.3	2.1	6.0
Employees (December 31, number)	357	354	363	344	259	245	300

WACKER POLYSILICON

Difficult Market for Photovoltaic Industry

As expected, WACKER POLYSILICON's sales fell in 2012, dropping 21.5 percent to €1.14 billion (2011: €1.45 billion). Although the division increased volumes by 20 percent to 38,000 metric tons in 2012, its sales were lower than a year earlier. The decline was due to significantly reduced hyperpure-polysilicon prices amid a difficult market environment, shaped by excess capacity, high inventories, ongoing consolidation pressures, and the financial problems facing many customers. To align production output with demand, WACKER POLYSILICON decided – as of the third quarter – to partially curb production and to introduce reduced working hours at some Burghausen facilities.

Around 38,000 Tons of
Polysilicon Sold

Overall, we sold about 38,000 metric tons of polysilicon last year. Asia, and especially China, was the main sales region. In the Americas and Europe, however, revenues declined appreciably.

EBITDA fell 42.8 percent to €427.5 million (2011: €747.3 million), dampened primarily by significantly reduced price levels. Terminations of supply contracts with customers who exited the solar business and payment of damages added a total of €113.1 million to EBITDA. The EBITDA margin was 37.6 percent (2011: 51.6 percent).

Renewed Rise in Investments

In 2012, WACKER POLYSILICON's capital expenditures continued to grow – up by 23.2 percent to €698.1 million (2011: €566.5 million). They were used mainly for the construction of the new Charleston site (Tennessee, USA). A smaller sum went into the new Nünchritz facilities, where production officially commenced in April 2012.

Given the current market difficulties and polysilicon overcapacities, WACKER decided to extend the timeline for completing the Tennessee project. Production is now expected to start in mid-2015, some 18 months later than originally planned.

Employee numbers edged up amid new and expanded production capacities. At year-end, the division had 2,349 employees (December 31, 2011: 2,251).

T 3.14 Key Data: WACKER POLYSILICON

€ million	2012	2011	2010	2009	2008	2007	2006
Total sales	1,135.8	1,447.7	1,368.7	1,121.2	828.1	456.9	325.6
EBITDA	427.5	747.3	733.4	520.8	422.0	182.2	118.3
EBIT	200.8	545.6	586.7	414.1	349.8	135.0	88.8
Investments (asset additions)	698.1	566.5	309.9	400.1	410.3	259.5	148.5
R&D costs	12.8	14.5	12.8	11.3	5.4	6.3	5.1
Employees (December 31, number)	2,349	2,251	1,763	1,600	1,289	1,003	875

SILTRONIC

Sales down on Previous Year

Lagging demand for silicon wafers and lower prices weighed on sales at Siltronic. Sales decreased 12.5 percent to €867.9 million (2011: €992.1 million). While 300 mm wafer business grew during full-year 2012, there was a slowdown in the 200 mm market and, above all, in the small-diameter wafer segment. Demand was down by more than 20 percent against the previous year. In response, we intensified structural efforts to concentrate smaller-wafer production, closing both the Hikari site (Japan) and a 150 mm wafer line at Portland. The consolidation measures benefited capacity utilization at the remaining facilities for these wafer diameters. Revenues fell below prior-year levels in all regions. Asia remains the strongest market although volumes also decreased there, by 10 percent.

Production of
Small-Diameter
Wafers Tightened

At €0.7 million, EBITDA was much lower than a year earlier (2011: €49.2 million). It included non-recurring expenses of around €15 million relating to the closure of the 150 mm silicon-wafer line at Portland. The EBITDA decline was due mainly to negative price effects and to reduced volumes for smaller-wafer diameters. The EBITDA margin was 0 percent (2011: 5.0 percent).

Investments Are Lower

Siltronic reduced its investments in 2012. At €103.2 million, they were 19.4 percent lower than the previous year (2011: €128.1 million). Expenditures were focused not only on further expanding our Singapore joint venture with Samsung Electronics for 300 mm silicon wafers, but also on improving technologies.

Due to structural measures, Siltronic's workforce shrank substantially, and the division had 3,978 employees on December 31, 2012 (Dec. 31, 2011: 4,974).

T 3.15 Key Data: SILTRONIC

€ million	2012	2011	2010	2009	2008	2007	2006
Total sales	867.9	992.1	1,024.8	637.5	1,360.8	1,451.6	1,263.1
EBITDA	0.7	49.2	87.7	-162.4	357.3	478.1	355.6
EBIT	-92.2	-56.7	-3.5	-414.7	193.8	337.2	213.1
Investments (asset additions)	103.2	128.1	75.5	73.0	199.6	200.0	167.7
R&D costs	67.4	71.7	72.3	62.9	67.7	63.9	63.2
Employees (December 31, number)	3,978	4,974	5,025	5,096	5,469	5,634	5,585

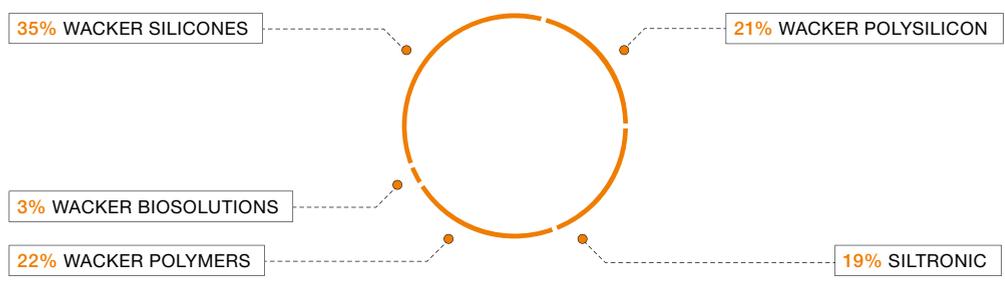
Other

In 2012, sales reported under "Other" totaled €169.9 million (2011: €176.9 million), 4.0 percent down on one year earlier.

"Other" EBITDA came to €-2.5 million in the year under review (2011: €-7.8 million).

As of December 31, 2012, the "Other" segment had 4,283 employees (December 31, 2011: 4,221). WACKER reports, for example, site management and infrastructure-unit employees at Burghausen and Nünchritz under this segment.

G 3.12 Divisional Shares in External Sales



Regions

WACKER's operations are highly international – with 85.2 percent of 2012's €4.63 billion in sales being generated by business abroad (2011: €4.91 billion). Germany accounted for 14.8 percent.

Modest Growth in Asia

Regionally, Asia offers us the greatest opportunities for business and growth. The main impetus driving sales higher is the rising standard of living in Asia's emerging economies. This is spurring demand for the high-quality products that we supply. Accounting for 40 percent of Group sales (2011: 37 percent), Asia remains our principal market. Sales there reached €1.86 billion (2011: €1.82 billion) – up 2.2 percent. In Greater China (including Taiwan), though, sales edged lower. In this region, the Group posted sales of €986 million, down 1.7 percent (2011: €1.03 billion). WACKER performed very strongly both in Southeast Asia, where sales were 31.5 percent higher, and in India, where sales climbed 17.0 percent. In both regions, more products were sold, above all by WACKER SILICONES and WACKER POLYMERS (two chemical divisions), but also by WACKER POLYSILICON.

Further Growth Potential in Asia

T 3.16 External Sales by Customer Headquarters

€ million	2012	2011	2010	2009	2008	2007	2006
Germany	686.0	899.4	887.3	774.6	948.6	723.5	657.6
Other European countries ...	1,090.7	1,186.7	1,175.4	944.1	1,008.2	1,034.7	960.8
The Americas	834.2	846.4	818.2	636.3	852.9	642.6	659.2
Asia	1,862.0	1,822.0	1,717.4	1,252.9	1,362.8	1,267.1	961.4
Other regions	162.0	155.2	150.1	111.4	125.6	113.4	97.9
Group	4,634.9	4,909.7	4,748.4	3,719.3	4,298.1	3,781.3	3,336.9

Europe Marked by Debt Crisis

In Europe, where WACKER has always had a very strong market position, sales retreated because of the sovereign-debt crisis and the weakness of many EU economies. European sales were down 8.1 percent to €1.09 billion (2011: €1.19 billion) – with Europe accounting for a 23.5 percent share in Group sales (2011: 24.2 percent). In Germany, sales fell more steeply, decreasing 23.7 percent to €686.0 million (2011: €899.4 million).

Business in the Americas Slightly below Prior Year

In the Americas, business edged below the year-earlier level, with sales falling 1.4 percent to €834.2 million (2011: €846.4 million). While the chemical business grew more than 15 percent, polysilicon sales were much lower than in the previous year. The Americas accounted for 18.0 percent of Group sales (2011: 17.2 percent).

Other Regions Continue to Grow

Sales in the “Other” regions continued to grow, rising by 4.4 percent to €162.0 million (2011: €155.2 million). WACKER generates a large portion of these sales in Middle Eastern countries.

T 3.17 External Sales by Group Company Headquarters							
€ million	2012	2011	2010	2009	2008	2007	2006
Germany	3,972.9	4,250.8	4,150.9	3,272.0	3,746.8	3,341.0	2,886.7
Europe	156.8	138.3	74.3	23.5	29.4	26.6	23.0
excluding Germany							
The Americas	817.6	783.0	779.4	599.2	736.4	659.1	700.8
Asia	729.7	750.4	684.1	491.4	546.3	480.2	418.9
Other regions	6.8	7.4	6.3	3.5	2.2	1.8	1.4
Consolidation	-1,048.9	-1,020.2	-946.6	-670.3	-763.0	-727.4	-693.9
Group	4,634.9	4,909.7	4,748.4	3,719.3	4,298.1	3,781.3	3,336.9

Non-Financial Performance Indicators and Other Information

Research and Development

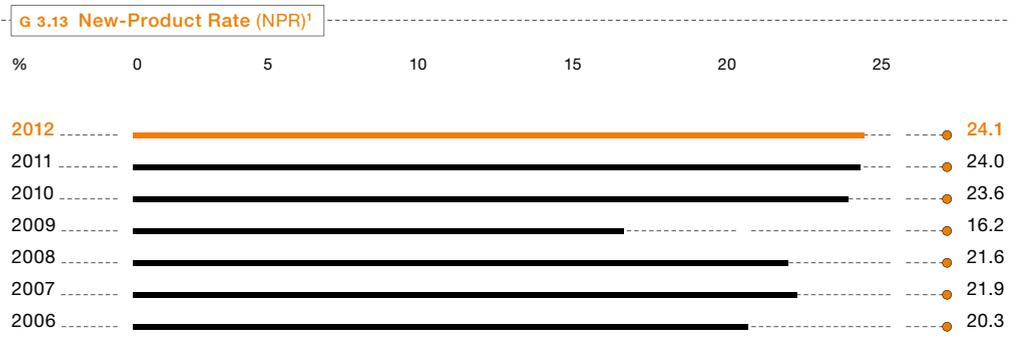
WACKER's research and development follows three goals. Firstly, we search for solutions that meet our customers' needs and contribute to their market success. Secondly, we optimize our processes in order to be the technology leader and to operate sustainably. Thirdly, we concentrate on creating innovative products and applications for new markets and on serving future trends – such as higher energy requirements, urbanization, digitization and growing prosperity.

WACKER ranks among the world's most research-intensive chemical companies. R&D expenditures in 2012 came in at €174.5 million (2011: €172.9 million). The R&D rate – research and development spending as a percentage of Group sales – was 3.8 percent, slightly above last year's figure.

New Products' Share of Sales Rises Slightly

The new-product rate (the percentage of sales accounted for by products launched in the last five years) rose slightly to 24.1 percent (2011: 24.0 percent). This was due to stronger sales for wafers of the new design rule generation, as well as for novel carpet-market dispersions.

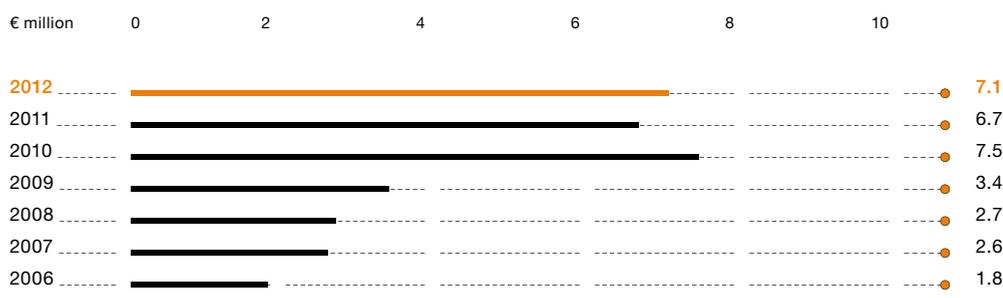
R&D Expenditure Has Increased



¹ Percentage of sales accounted for by products launched in the last five years

We received about €7.1 million from licensing agreements in 2012 (2011: €6.7 million). WACKER's innovative strength is reflected in the number of patents held and patent applications submitted. In 2012, we filed 119 patent applications (2011: 138). Our portfolio contains about 5,400 active patents worldwide, as well as 2,900 patent applications currently pending.

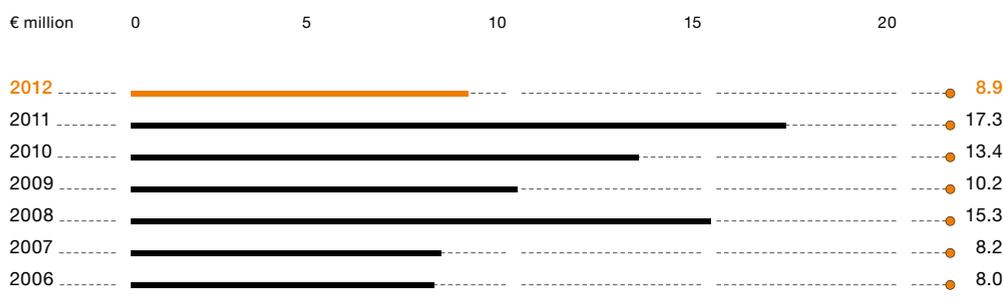
G 3.14 Licensing Income



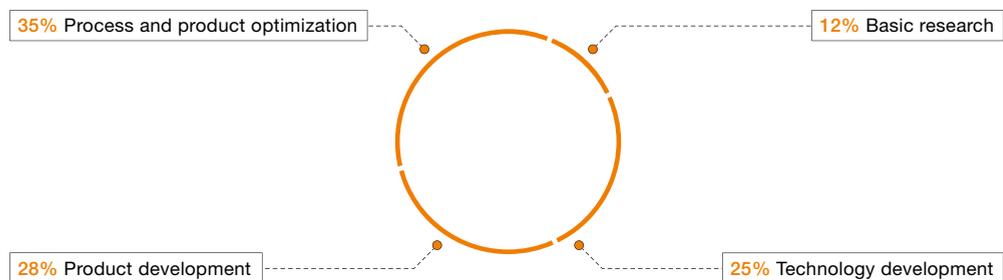
In 2012, WACKER invested €8.9 million in R&D facilities (2011: €17.3 million). At 0.8 percent of our total Group investments, R&D funding was lower than a year earlier due to long-term investment projects that had already been accounted for in 2011. Staff at our Munich-based corporate research facility (the “Consortium für elektrochemische Industrie”) moved into a new laboratory building there. And at the Burghausen site, WACKER SILICONES opened a new laboratory building for applications technology, R&D and quality assurance. Our Analytics unit is now working in this building, as well.

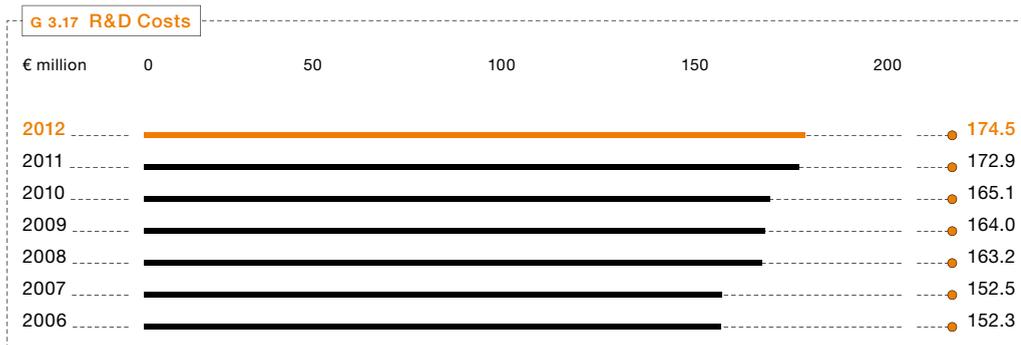
Additional R&D investment activity included the development of high-throughput screening for efficient protein production with ESETEC®, and the creation of simulation software that can predict the effects of process changes. We invested in laboratory facilities and pilot plants to enable process optimization in the production of VAE (vinyl acetate-ethylene copolymer) dispersions and vinyl acetate monomer (VAM), for instance, as well as in research on lithium-ion batteries. We opened a laboratory at Burghausen in which we develop test formulations from our raw materials for the food industry, to name one example.

G 3.15 Investment in R&D Facilities



G 3.16 Breakdown of R&D Expenditures





Most of the €174.5 million in R&D costs was spent on the development of new products and production processes. We acquired only a small amount of R&D expertise from third parties in 2012, spending some €250,000. This amount went to a total of six licensors, with four-fifths being used to acquire two particular know-how licenses, for which we paid €120,000 and €80,000 respectively.

Some of our research projects in 2012 were subsidized by government grants. Here are a few examples:

- Our participation in the National Platform for Electric Mobility (NPE, a joint initiative run by the German government and industry) has resulted in a number of collaborative projects involving our Central R&D facility (Consortium). Some of these projects are publicly funded, one example being the SafeBatt project to develop lithium-ion batteries that are fireproof and protected from explosion (making them intrinsically safe), which is supported by the Federal Ministry of Education and Research (BMBF). Another example is the alpha-Laion project funded by the Federal Ministry of Economics and Technology (BMWi), in which we conduct research on high-energy lithium batteries for electric vehicles.
- In a project funded by the Federal Ministry of Education and Research (BMBF), WACKER SILICONES is developing electrically-active silicone-based polymers for use in energy production.

Our business divisions and Central R&D have also applied for government research grants for further projects that are still in the approval phase. Our externally-funded research projects are coordinated through our Grant Management office, which evaluates candidate programs, submits our project proposals and manages contacts with funders.

Research and Development at Two Levels

WACKER conducts R&D at two levels: centrally at our Corporate Research & Development department and locally at our business divisions. Corporate R&D coordinates activities on a company-wide basis and involves other departments, such as engineering (during process development). We also use a portfolio-management process to keep our R&D project portfolio transparent throughout the Group. In 2012, we enhanced the Project System Innovation (PSI) program we use to manage our innovation portfolio. The improvements include better risk recognition and a greater focus on sustainability. Now, when we do research on new products, we also systematically examine the use of materials, energy and water, and we assess ecotoxicity over the entire product lifecycle.

WACKER scientists are currently working on around 260 topics based on more than 40 technology platforms. More than a quarter of these topics are key strategic projects, which account for 45 percent of all project costs (totaling €77 million) incurred in 2012. WACKER operates in highly promising fields, ranging from energy, construction and automotive engineering to household and personal-care products, food and biotechnology.

Strategic Collaboration with Customers and Research Institutes

Our business divisions conduct application-driven R&D. They focus on product and process innovations relating to semiconductor technology, silicone and polymer chemistry, and biotechnology, as well as on new processes for producing polycrystalline silicon. To achieve successful research results more quickly and efficiently, we collaborate with customers, scientific institutions and universities. In 2012, WACKER worked with more than 56 international research institutes on 59 research projects.

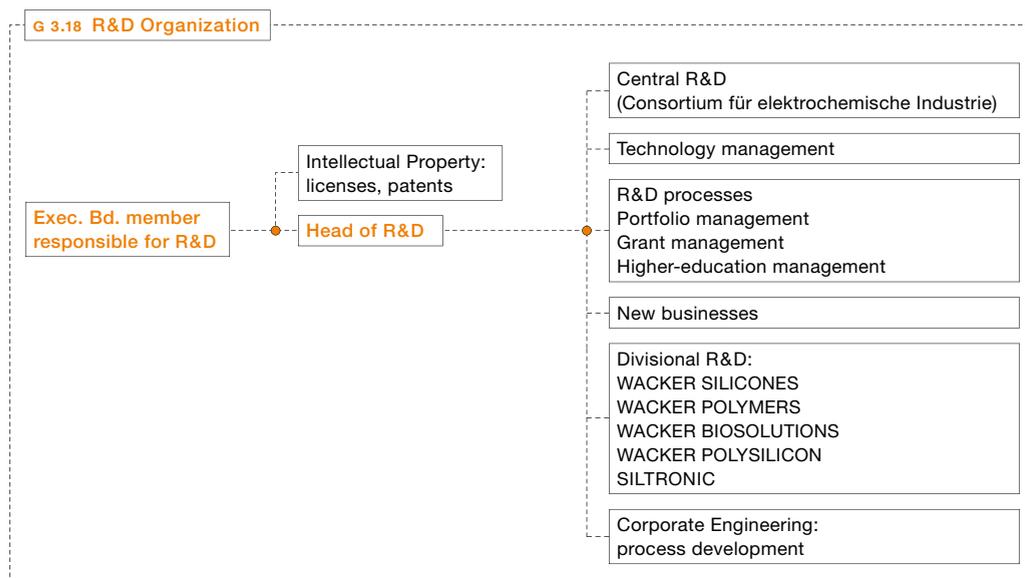
Our collaborative efforts cover topics such as electricity storage, biotechnology, process simulation and materials research for renewable energy production. One example is in the field of lithium-ion batteries, where Central R&D works with institutions including the University of Münster.

WACKER has also created a worldwide network of 21 technical competence centers worldwide that liaise between sales offices and local production sites. At these centers, our specialists customize products to regional requirements, taking account of climatic conditions, national standards and local raw materials, for example.

Research Work at WACKER

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

New Products and Production Processes Account for the Majority of R&D Costs



WACKER had 1,008 research and development staff in 2012, which represents 6.2 percent of the Group's employees. Our scientists and engineers conduct basic research, develop new products and processes, and improve existing processes. The lab and technical staff at our R&D, applications-technology and production-support facilities work in our laboratories and in our production and pilot plants, or on-site at our customers' plants. Our other R&D personnel construct research equipment in our workshops, or perform administrative functions in such fields as market research and trend analysis.

Over 1,000 Employees at WACKER are Involved in R&D

T 3.18 Employees in R&D as of December 31, 2012

Number	2012	2011	2010	2009	2008	2007	2006
Group R&D employees	1,008	1,100	1,057	1,072	1,078	1,038	1,024
R&D ratio ¹ in Group (%)	6.2	6.4	6.5	6.9	6.8	6.9	7.0
R&D employees, Germany	849	868	855	860	836	835	819
R&D employees, international	159	232	202	212	242	203	205
R&D employees, Germany by qualification	849	868	855	860	836	835	819
Scientists and engineers	339	346	337	332	311	302	288
Lab staff and technicians	332	350	344	349	345	344	349
Other personnel	178	172	174	179	180	189	182
R&D employees, international by qualification²	92	93	95	90	113	66	63
Scientists and engineers	32	35	31	30	34	29	25
Lab staff and technicians	32	30	32	29	34	36	34
Other personnel	28	28	32	31	45	1	4
R&D employees, international Siltronic AG only (without differentiation by qualification)	67	139	101	122	127	136	141

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

Alexander Wacker Innovation Award

In recognition of a product innovation at WACKER POLYMERS, three of the division's employees were presented with WACKER's 2012 Alexander Wacker Innovation Award. The researchers developed two novel dispersions based on vinyl acetate-ethylene copolymers. These kinds of dispersions are increasingly used for coating paper, especially in the USA. A noteworthy feature of these coatings is that they make the print on cardboard packaging particularly durable and vividly colored. Compared with acrylate-based products, the two VINNAPAS® dispersions EF 101 and EF 575 offer customers an alternative technology with significant cost advantages.

Novel Dispersions Win
"Alexander Wacker
Innovation Award"

Selected Corporate R&D Research Topics

In the energy sector, we continued our activities in electricity storage and conversion. We are working on materials used in lithium-ion batteries to enhance this type of battery for automotive and consumer-product applications. We are also focusing on lightweight construction, as lighter materials can be used to conserve raw materials and energy, for instance in the automotive and aviation industries. In these fields, we are developing building blocks for use in composites.

In one of our Corporate R&D projects, we produced modified plastics and launched the VENTOTEC® brand on the market. Today, technological innovation calls for ever better materials – plastics that can be produced cost-efficiently and withstand extreme temperatures without becoming brittle; components that offer higher performance yet are still lighter in weight. Often, there is a need for properties that cannot be realized in a single material. The solution is VENTOTEC®, which uses core-shell technology to modify impact strength. This powder-form additive is composed of spherical particles that have a low-modulus silicone core and a hard outer shell of organic polymer. Only small quantities of VENTOTEC® are needed to increase the toughness of the hardened resin significantly. Because the silicone particles retain their elasticity down to around – 130 °C, this effect remains intact even at very low temperatures.

Selected Divisional Research Projects

WACKER SILICONES has been working on further optimizing the production processes for methylchlorosilane and HDK®, thereby also reducing production costs. Another focus at this division was on tailoring solutions to specific customer requirements. We have not only developed silicone products for use in hydroelectric power generation, but have also launched new items for the personal-care market, and new GENIOSIL® product grades for the adhesives industry.

New Product Types for
the Adhesives Industry

Focusing on sustainability, WACKER POLYMERS launched projects to free its product portfolio of poorly biodegradable substances. We have also eliminated additives that could release formaldehyde. Another key objective at this division was to continue enhancing the production processes for dispersions and dispersible polymer powders. That saves us raw materials and energy. We have made improvements in our production processes for vinyl acetate monomer (VAM) and for vinyl acetate-ethylene (VAE) dispersions.

WACKER BIOSOLUTIONS optimized its ESETEC® process for pharmaceutical proteins. In a feasibility study, we did research on how to produce a PASylated human growth hormone at high yields. (PAS denotes the amino acids proline, alanine and serine collectively.) PASylation® technology enables the development of biopharmaceuticals that are more compatible, longer lasting and do not have to be administered as frequently. Our facilities for food, pharmaceuticals and agrochemicals are expanding. We have identified new cyclodextrin applications in areas such as dairy products and reduced-fat foods, and received European Commission approval to use gamma-cyclodextrin as a food and beverage ingredient. The addition of cyclodextrin can mask a bitter taste in green-tea products, for example. Cyclodextrins enhance the bioavailability of ingredients such as curcumin and coenzyme Q10. WACKER BIOSOLUTIONS also collaborated with customers to launch new plant-protection agent projects.

To improve the energy balance of solar cells and lower our costs, we make every effort to reduce energy consumption in polysilicon production. WACKER POLYSILICON optimized processes in its closed production loop. We have increased the purity of polysilicon through improved production steps and continued to reduce energy consumption during deposition and conversion.

The efficiency of semiconductor devices doubles about every two years. Among the key performance-boosting parameters are the design rules achieved on a silicon wafer. They determine how many transistors fit on a device per square centimeter. Today, the semiconductor industry's standard design rules are 32 and 22 nanometers (nm). In the coming years, they will decrease to 16 and eventually 11 nm. We are developing processes to produce 300 mm wafers that are used for 16 and 11 nanometer design rules. The first 16 nm products are in customer approval processes. We have evaluated the technology for 11 nm wafers and produced the first experimental products.

Transferring Knowledge Locally

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

WACKER attaches considerable importance to fostering young scientific talent and close contacts with universities. In 2012, we enlisted around 31 students from 19 international universities to write theses. We additionally sponsored 19 students at the Institute of Silicon Chemistry, which was founded at the Technical University of Munich in 2006. Seven of our sponsored students completed their studies in 2012. Other graduates are now pursuing careers in R&D at WACKER, while still more are about to join the Group.

T 3.19 Key Product Launches in 2012

Product	Description	Application	Sector
ELASTOSIL® N 9111	Tin-free, general-purpose adhesive and sealant	Bonding, sealing and coating of ceramic hobs, electric-cooker screens and control elements, and microwave-oven windows	Household-appliance, automotive and electronics industries
ELASTOSIL® LR 3040 and ELASTOSIL® R plus 4020	Liquid silicone rubber grades with high tear strength	Fast production of soft, yet bite-resistant, silicone pacifiers and bottle nipples	Baby care
WACKER® SILICONE PASTE P 250 and P 300	Silicone lubricant pastes, free of boron-containing additives	Fitting of cable accessories	Transmission and distribution (T&D) industry
POWERSIL® 570 PLUS	Solvent-free silicone coating	Coating of electrical insulators	Transmission and distribution (T&D) industry
GENIOSIL® XB	Adhesive binder (hybrid polymer), formulated without plasticizers, solvents or tin catalysts	Structural adhesives for wood, glass, metal and ceramics	Adhesives and sealants industries, construction
SILRES® BS 5137	Aqueous, low-viscosity silicone fluid emulsion	Impregnation of mineral wool	Insulation and construction industries
SILRES® BS POWDER S	Highly efficient, water-soluble hydrophobic additive	Greatly reduced water uptake in gypsum applications	Building materials, construction industry
ELASTOSIL® Catalyst NEO	Tin-free catalyst for two-part, room-temperature-curing silicone rubber grades	Moldmaking and encapsulation applications	Manufacturing facilities, mold collections, restorers, institutes
SILPURAN® UR	High-purity specialty silicones	Long-term medical applications, such as port catheters, voice prostheses, gastric bands, pacemakers and disk, joint and hearing implants	Medical technology
ELASTOSIL® E 91 and ELASTOSIL® E 92 N	Tin-free, condensation-curing silicone rubber grade	Textile coatings, with good adhesive and non-slip properties; compatible with Öko-Tex® Standard 100	Textile industry

Product	Description	Application	Sector
VINNAPAS® EP 8010	Vinyl acetate-ethylene (VAE) copolymer dispersion	High-performance adhesives, especially for hard-to-bond paper products and packaging	Packaging and adhesives industries
VINNAPAS® LL 5111 L	Dispersible polymer powder with a very low VOC content (volatile organic compounds)	Extremely smooth, self-leveling flooring compounds and grouts, certified to EMICODE® EC1+ and the Blue Angel eco-label	Construction industry
CAPIVA® S	Solid resin	Manufacture of gumbase for faster release of flavor, with simplified and cost-efficient production processes	Gumbase manufacturers

Procurement and Logistics

WACKER's procurement volumes continued to increase in 2012, due to gains in both quantities and prices. Volumes are broken down into raw materials and energy, and into services, materials and equipment, with a high proportion for investments. WACKER spent €3.49 billion (2011: €3.42 billion) on raw materials, other materials and services. The 2012 figure includes investment-project-related procurements of €907 million (2011: €870 million). Our procurement rate – the volumes purchased for raw materials, services and other materials in relation to sales revenue – was 75.4 percent (2011: 69.6 percent). In 2012, we procured some 1,300 different raw materials, and numerous technical goods and services for plant-engineering and maintenance-related purposes. Our suppliers number 9,900 (8,800 in the Technical Procurement & Logistics department and 1,100 in Raw Materials Procurement).

Higher Procurement Rate

T 3.20 Procurement Volumes (including Procurement for Capital Expenditures)							
€ million	2012	2011	2010	2009	2008	2007	2006
Procurement volumes	3,493	3,418	2,799	2,342	2,660	2,291	1,977

Energy and Raw-Material Procurement Volumes at Prior-Year Level

At €1.64 billion, the Group's energy and raw-material procurement volumes remained at the prior-year level. We purchased less silicon metal at lower prices. Similarly, our demand for vinyl acetate monomer (VAM) dropped, and VAM prices were down. The prices of ethylene and methanol, in contrast, were higher than a year earlier. Gas prices in 2012 were also up year on year. Unlike in 2011, we were not weighed down by increased raw-material and energy prices. Instead, we registered a slightly positive price effect of about €5 million.

Because the markets for the raw materials we need are so liquid, new procurement contracts are often short-term in order to achieve greater price flexibility.

WACKER Signs New Contracts for Key Raw Materials

We signed a new three-year (2013–2015) contract for methanol. Our supply of vinyl acetate monomer (VAM) was secured with a new contract in China and multiyear contracts in the USA and South Korea. Existing contracts in China, South Korea and the USA have been extended. We had already secured our medium and long-term supply of ethylene in 2011. Having phased out our own acetic acid production, our procurement needs for this raw material

have risen and are covered by multiple contracts. For silicon, we entered into a number of new and highly flexible contracts at attractive terms. The supply of the silicon we need for our future polysilicon production in Tennessee is secure. The contract is linked to the start-up of production and has a three-year term.

The supply of gas for the Burghausen site has been contractually secured for the coming years by means of a new contract concluded at attractive market terms.

Technical Procurement & Logistics

The order volume at the Technical Procurement & Logistics department remained at the prior-year level. Reduced demand for technical materials and services meant that there were no further price increases. Delivery times are much faster. WACKER – including Siltronic – issued a total of 400,000 orders worldwide. At Technical Procurement & Logistics, 10 percent of our suppliers cover 90 percent of our procurement volume.

In 2012, we concluded major framework agreements in IT, logistics and engineering, as well as for security services. Invitations for bids are mandatory at WACKER for procurement volumes of €25,000 or more. Our Project Procurement unit handled 20 projects at various stages of planning in 2012. The four largest were the polysilicon expansion projects in Nünchritz (Germany) and Tennessee (USA), as well as the polysilicon purification facility and the new lab building at Burghausen (Germany).

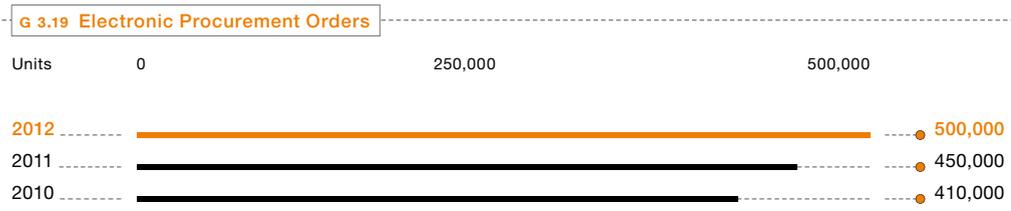
Project Procurement Supported 20 Projects in 2012

During investment projects in the USA, Asia and Europe, we worked with a large number of qualified local suppliers. We shall continue this kind of collaboration because it will deliver the benefits of a global procurement market for WACKER and enhance competition with our long-standing suppliers. Our aim here is to optimize our procurement costs even further.

Systematic review of supplier risks is an important tool at WACKER for correctly evaluating our supplier relationships. Reviews are conducted using analyses from rating agencies, our own supplier assessments and, increasingly, direct contact with our partners. In 2012, we ourselves conducted 374 supplier assessments. We also approved, and entered into contracts with, new suppliers in the areas of assembly and logistics. For example, we collaborate with 48 partners in the field of intra-Europe transport.

Electronic Procurement Transactions Continue Rising

Electronic procurement is becoming increasingly important for WACKER. Once again, the share of electronic procurement transactions has risen. The reasons for the increase include the expansion of automated processes to more WACKER sites, process landscape changes in IT and in purchasing, the outsourcing of inventory warehousing to service providers, and the introduction of new e-catalogs. Out of a total of around 636,000 orders, some 500,000 were processed electronically, compared with 450,000 in 2011. Broken down, these figures account for some 80 percent of all purchasing transactions in Germany, over 45 percent in the USA, and 15 percent in China. Procurement via e-catalogs also rose, with the number of suppliers using them climbing by 40 to 190. There are over 1.7 million e-catalog articles, and about 205,000 orders were placed using this system (2011: 180,000).



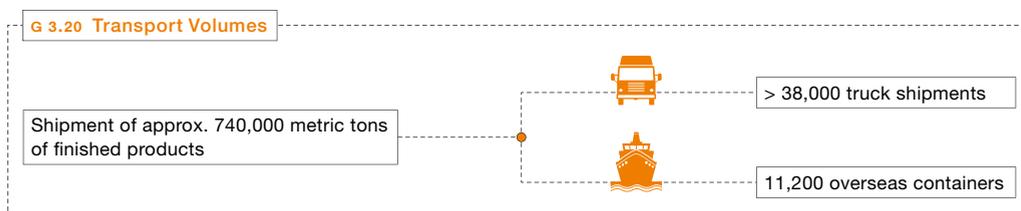
Direct Contact with Our Suppliers

At WACKER, we have always valued direct contact with our suppliers. More than 200 companies participated in our 17th Supplier Day in Nünchritz. Anton Paar (an Ostfildern-based firm) was recognized for innovative products and services, and for its flexible, customer-oriented service. Max Streicher (a company based in Deggendorf) received an award for superior service quality at numerous WACKER sites. At WACKER's Logistics Day in Burghausen, the honors for 2011 went to the following companies: Hohenlinden-based Leo Prünster as best shipping specialist, Schütz (based in Seiters) as best packaging supplier, and DB Schenker as best logistics partner. WACKER values its long-term collaboration with suppliers, and at the same time, focuses on reducing its dependency on individual ones. In Germany, which remains our largest procurement market, we cooperate with some 6,900 suppliers. The average length of business relationships between Technical Procurement & Logistics and its suppliers is 10 years.

Shipping Volume Rises

Shipping volume increased slightly year on year, by approximately 4 percent. Our Burghausen logistics hub shipped some 740,000 metric tons (2011: 715,000 metric tons) of finished products to customers. That volume involved about 38,000 truck loads and 11,200 overseas containers.

740,000 Metric Tons
 of Finished Products
 Shipped



New Freight Gate at Burghausen Plant to Facilitate Shipping

We are responsible for all of the project logistics entailed in the construction of the new polysilicon facility at Charleston (Tennessee, USA). The infrastructure that was put in place will be used during plant start-up, and for subsequent supply and waste-disposal operations. Logistics plans for the Nünchritz and Zhangjiagang sites have been implemented in accordance with the respective local requirements. Planning for a direct connection between the Burghausen plant and the new public freight terminal (combined road/rail) is concurrent with terminal construction, which commenced in December 2012. The medium-term plan is to upgrade this connection into a new freight gate, which will facilitate incoming and outgoing traffic and speed up throughput times at the plant.

Production

Mixed Trends in Divisional Production Output

In 2012, the changes in production volumes varied across the individual business divisions. While output was higher at the chemical divisions and WACKER POLYSILICON, Siltronic saw declines. Capacity utilization at the chemical divisions was in excess of 80 percent. There were no unplanned facility shutdowns of any significance. Combined production output at all divisions rose, while production costs were up 5 percent. Maintenance costs were at prior-year levels and totaled €355 million.

T 3.21 Plant-Capacity Utilization in 2012

%	Plant Utilization
WACKER SILICONES	83
WACKER POLYMERS	84
WACKER POLYSILICON	85
SILTRONIC	76

Capital expenditure on new manufacturing plants amounted to €975 million in 2012, with most funds flowing into the expansion of our polysilicon facilities. Expansion stage 9 at the Nünchritz site is now fully operational. In the us state of Tennessee, the construction of a new polysilicon site has been underway since April 2011.

We are building two new plants for WACKER POLYMERS and WACKER BIOSOLUTIONS at our Nanjing site in China. At WACKER POLYMERS, we are adding a new reactor with an annual capacity of 60,000 metric tons to the existing production facilities for vinyl acetate-ethylene copolymer (VAE) dispersions. WACKER BIOSOLUTIONS will have a new polyvinyl acetate solid resins plant built at Nanjing, with an annual capacity of 20,000 metric tons. Dispersion capacity was also expanded at our production site in Ulsan (South Korea), by 40,000 metric tons, and at our American site in Calvert City, by 30,000 tons. In 2012, capital expenditures on these four projects totaled €38.3 million.

As announced in December 2011, Siltronic closed its production plant for 200 mm silicon wafers at Hikari (Japan) in mid-2012. The 150 mm wafer production line at Portland was shut down in the third quarter. Both measures have benefited capacity utilization at the remaining facilities for silicon-wafer diameters below 300 mm. We have also stopped making our own acetic acid at Burghausen, now procuring the quantities we need.

Hikari Site Closed
 as Planned

T 3.22 Key Start-Ups

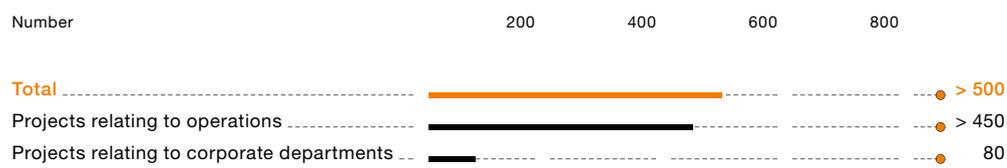
Location	Project	Start-Up
Nünchritz	Poly 9 expansion stage	2012
Ulsan	VAE dispersions	2012
Burghausen	Laboratory buildings	2012
Burghausen	Polysilicon facilities	2012
Zhangjiagang	Compounding plant	2012

Corporate Engineering is responsible for implementing all investment projects at WACKER. Continued internationalization, however, makes it increasingly important to set up local on-site project teams. In China, WACKER has a dedicated planning group that handles small and mid-sized projects independently. We plan to do the same in the USA, where we currently have 20 us employees working on constructing the new polysilicon site in Tennessee.

Productivity Program Targets Lower Raw-Material Consumption and Higher Energy Efficiency

High productivity throughout the supply chain is a key to WACKER's success. WACKER boosts productivity along the entire supply chain via its Wacker Operating System (WOS) program. Our goal is to continue to reduce specific operating costs every year. 2012 saw the processing of more than 500 projects at our operating divisions and corporate departments. Almost 200 of these related to cost savings in raw materials and energy.

G 3.21 Productivity Projects According to Focus



During the year under review, our WOS Academy (founded in 2009) trained some 100 employees in the application of new productivity methods, such as Six Sigma.

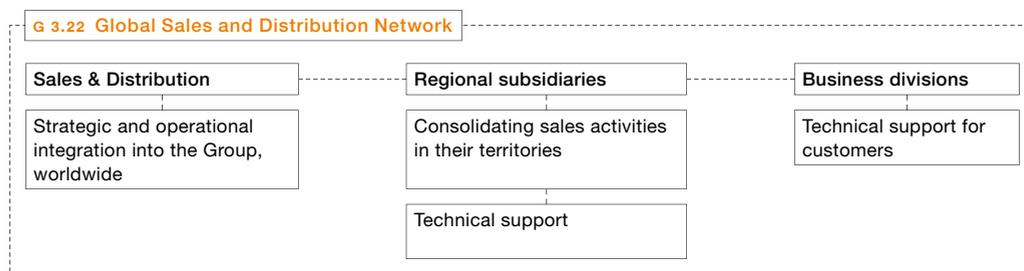
Sales and Marketing

Sales of WACKER Products Decline Slightly

Our products' overall sales were slightly lower in 2012. Revenues at WACKER POLYSILICON and Siltronic remained below the previous year, mainly due to pricing policies. Conversely, WACKER POLYMERS posted significant volume gains in its dispersions and dispersible polymer powders. WACKER SILICONES and WACKER BIOSOLUTIONS also saw volume gains.

Our business is characterized by high repeat-purchase rates. 93 percent of Siltronic's 2012 product sales were transacted with customers we had supplied in 2011. At WACKER POLYMERS, the repeat-purchase rate was 97 percent (by revenue), and the rate at WACKER SILICONES was over 90 percent. The repeat-purchase rate at WACKER POLYSILICON is not meaningful, since there are customers who have completely withdrawn from the solar business.

Having introduced "SMART" (a new customer management system) for our three chemical divisions in 2011, we extended its coverage to WACKER POLYSILICON in 2012. This highly integrated system allows customer data to be recorded and documented, as well as combined with customer-related data from all SAP modules.



WACKER customers break down into three groups: key accounts, customers, and distributors. Key accounts are customers of special strategic significance for WACKER and with high sales levels. WACKER currently has 37 key accounts with whom we generated around 25 percent of our 2012 revenue in the chemical divisions (WACKER SILICONES, WACKER POLYMERS, WACKER BIOSOLUTIONS). About 60 percent of our chemical-related revenue was from our approximately 8,000 other active customer relationships and around 15 percent from distributors.

The share of sales transacted through platforms, which are in place in 63 countries, increased further in 2012. E-business is used most frequently in Asia, where it accounts for around 45 percent of sales at the chemical divisions.

Increasing Sales via
 Electronic Sales
 Platforms

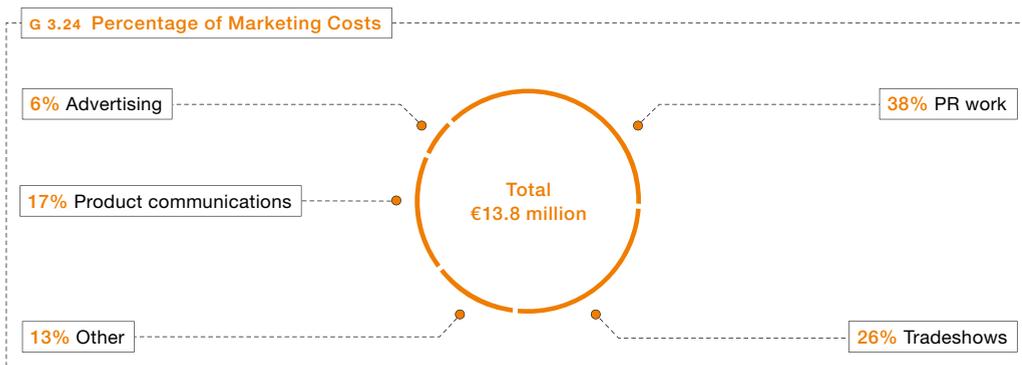
Sales and Distribution Network Extended

We are working with a new distributor in Asia, DKSH, in order to improve sales of our products for the region's pharmaceutical, food, cosmetics and medical-technology sectors. Similarly, WACKER BIOSOLUTIONS has engaged the services of a new partner for cyclodextrin, cystine and cysteine in most European countries. As of 2012, new distributors have been appointed in China, India, Taiwan and Turkey, as well. Despite these developments, distributor numbers have not changed from a year earlier. We collaborate with 280 distributors (2011: 280) and five distributor groups. WACKER is thus active in 87 countries. 80 percent of our business with distributors is transacted with about 50 partners.

Collaboration with New
 Distribution Partners

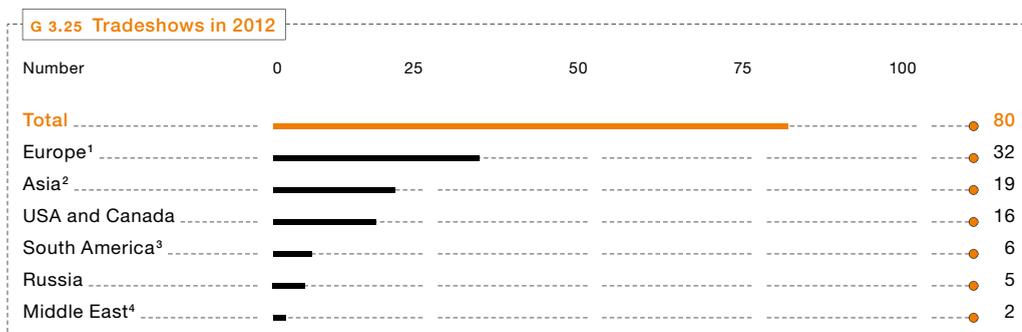


Marketing communication is a key element for strengthening WACKER's branding and for supporting product sales effectively. In 2012, we spent €13.8 million (2011: €14.2 million) on marketing communication.



Attendance at 80 Tradeshows Worldwide

WACKER decreased its tradeshow presence slightly in 2012, having a booth at a total of 80 tradeshows (2011: 86). We presented our products at 32 tradeshows in Europe (2011: 26), at 19 shows in Asia (2011: 21) and at 16 shows in the USA (2011: 23). WACKER's key tradeshows of the year were Paint India for our construction chemicals business, the photovoltaic industry's PVSEC conference in Frankfurt, and Incosmetics in Barcelona, where WACKER presented new hair-care products. We analyze the success of our tradeshow communications qualitatively and quantitatively, with 23 shows reviewed in 2012.



¹ Austria, Belgium, France, Germany, Italy, Latvia, Spain, Sweden, Switzerland, Turkey
² China, India, Indonesia, Singapore, Thailand, Vietnam
³ Brazil
⁴ Saudi Arabia, United Arab Emirates

Employees

Workforce Reduced by Restructuring Measures

Employee numbers at WACKER declined in 2012. We had 16,292 employees worldwide as of December 31, 2012 (December 31, 2011: 17,168), 5.1 percent down on a year earlier. The decrease was mainly due to the restructuring measures at Siltronic.

Restructuring at
Siltronic Impacts
Employee Numbers

The division closed the production site at Hikari (Japan) effective May 31, 2012. Around 500 employees were affected by the closure. Siltronic supported these employees in their search for new jobs, and as of December 31, 2012, 413 employees had received offers at other companies. Siltronic ceased production of 150 mm silicon wafers at its Portland site in the third quarter of 2012. The result was a loss of some 350 jobs. As part of a redundancy plan, the affected personnel received severance packages. At Burghausen (Germany), Siltronic is also adapting 150 millimeter wafer production to permanently low demand levels. Combined with additional productivity measures, about 150 jobs will be eliminated at the site by the end of 2013. As of December 31, 2012, 70 jobs had already been cut. While not involving involuntary layoffs, cuts will be achieved primarily through job offers at the Group's other units and through natural staff turnover. With a few exceptions, temporary employment contracts were not extended beyond January 2013.

WACKER POLYSILICON introduced short-time work in October 2012 due to reduced capacity utilization. In December 2012, 662 employees were on a short-time work schedule.

T 3.23 Number of Employees on December 31, 2012							
	2012	2011	2010	2009	2008	2007	2006
Germany	12,635	12,813	12,235	11,925	12,110	11,624	11,340
International	3,657	4,355	4,079	3,693	3,812	3,420	3,328
Group	16,292	17,168	16,314	15,618	15,922	15,044	14,668

12,635 WACKER employees (77.6 percent) work in Germany and 3,657 employees (22.4 percent) at non-German sites. We also employed 91 temporary workers in the year under review.

T 3.24 Number of Temporary Workers on December 31, 2012							
	2012	2011	2010	2009	2008	2007	2006
Germany	14	48	374	247	80	333	313
International	77	65	114	53	58	213	208
Group	91	113	488	300	138	546	521

As a manufacturing company, WACKER has a large contingent of industrial employees (55 percent), about one-eighth of whom are women (13 percent).

Personnel expenses fell to €1.21 billion (2011: €1.28 billion), down 6.0 percent from the previous year. These expenses included outlays for social benefits and the company pension plan amounting to €231.7 million (2011: €257.3 million).

T 3.25 Personnel Expenses							
€ million	2012	2011	2010	2009	2008	2007	2006
Personnel expenses	1,205.3	1,282.5	1,135.7	1,090.3	1,086.1	1,014.9	962.4

In addition to a fixed base salary (which includes vacation and Christmas bonuses), WACKER employees receive variable compensation – a voluntary payment to employees on standard and above-standard pay scales. It consists of a profit-sharing amount and a personal-performance component. In 2012, WACKER's chemical-sector employees in Germany received a profit share for 2011 amounting to 12.5 percent of their annual salary. The Group's business performance precludes any payment of a profit share for 2012. Variable compensation payments totaled €96.6 million groupwide in 2012.

The "Working Life and Demography" collective-bargaining agreement concluded by chemical-industry employers and the German mining, chemicals and energy labor union (IG BCE) addresses the challenges posed by demographic trends. The "demographic sum 1" agreed by the parties – €312.30 per full-time employee in 2012 – is paid into the company pension plan at WACKER. The amount represents compensation for any statutory pension losses that might result from early retirement. The "demographic sum 2" of €200 per full-time standard-pay-scale employee for the years 2012 through 2015 that was additionally agreed by the parties in the 2012 collective bargaining agreement is used for lifecycle-oriented working-time models. These include, for example, phased early retirement and various leave-of-absence options. Separate rules apply in the collective bargaining region of eastern Germany. In this region, a company fund will be formed and 2.5 percent of all standard-pay-scale compensation for the previous year will be paid into it each year. Additionally, the fund will be topped up by the respective "demographic sum 2" of €200 per full-time standard-pay-scale employee for the years 2012 through 2015. The purpose of the fund is to permit the working hours of selected employees to be adjusted in line with the particular stages in their lives (such as raising children, caring for relatives), while taking into account the company's specific business situation.

New Collective-Bargaining Agreement for the Chemical Industry since May 2012

IG BCE and chemical-industry employers agreed on a new 19-month collective-bargaining agreement in May 2012. The standard pay scale increased by 4.5 percent, and training allowances were raised by €50 per month. WACKER increased the salaries of above-standard-pay-scale employees by 4.0 percent for a twelve-month period.

A WACKER company pension is an important compensation component and is available at most of our German and non-German sites – except for regions where the statutory pension appears sufficient or legal provisions are inadequate. In Germany, we offer employees a company pension via Wacker Chemie AG's pension fund – Pensionskasse der Wacker Chemie VVaG (a mutual insurance company). The fund has around 17,000 members and provides pension payments to some 7,450 retirees. The average pension paid was around €630 per month. WACKER pays in up to 3.5 times its employees' annual pension contributions, with the exact amount being determined by the type of agreement. In addition, employees have the opportunity to enlist in a private plan that minimizes their tax burden while saving for retirement.

Sharing the Training

Vocational training has been one of the first steps of personnel development at WACKER. In 2012, 205 young people began their training at WACKER or at the Burghausen Vocational Training Center (BBiW). In total, the company employed 665 trainees, roughly the same as a year earlier (2011: 663). At 5.0 percent, the percentage of trainees (number of trainees to Group employees in Germany) also stands at the previous year's high level (2011: 4.9 percent). 560 trainees are in scientific and technical disciplines and 105 in business-related fields. We offered permanent jobs at WACKER to most of our suitable trainees – 174 graduates – in 2012. The Burghausen Vocational Training Center (BBiW) also provides training for some 30 partner companies. Thus, the public foundation set up by WACKER also satisfies an inter-company training mandate, with 56 trainees from partner companies starting courses at the BBiW in 2012.

Training Remains at High Level

WACKER also trains young management talent, offering a General Management Trainee Program. In 2012, four graduates participated in the 18-month program. Since its launch in 1997, 75 young people have completed the management trainee program.

To help WACKER employees perform their tasks even better, we provide them with opportunities for additional training. At least once a year, employees and supervisors discuss development measures during performance reviews. This approach applies to all hierarchy levels. In 2012, our workforce completed about 95,000 e-learning sessions, and more than 15,500 participants attended seminars, advanced training courses and conventions, or received tutoring.

Another goal of our personnel management is to identify and prepare candidates for future leadership positions. WACKER handles this aspect in a uniform groupwide process. The 2012/2013 round of the OFK Management Circle for recently appointed executives started with 12 participants, half of them from locations outside Germany. Overall, WACKER invested €7.0 million in personnel-development measures and advanced training, 6 percent less than in the previous year (2011: €7.4 million).

HR Marketing Intensifies University Ties

To remain competitive in the face of demographic trends, WACKER intends to intensify its efforts to recruit graduates in critical disciplines. Now in its second year of existence, the Corporate Recruiting & HR Marketing department is focused on fostering contacts with academic institutions. Beside enhancing its presence at college fairs, WACKER offers a wider range of production site visits, and has intensified its contact with academically outstanding university departments. We set up a new semester-break academy in collaboration with the universities of Erlangen-Nürnberg and Stuttgart and with the Technical University of Munich. This one-week seminar program targets highly talented students in relevant academic disciplines.

WACKER is building a facility for the production of polysilicon at its new Charleston site (Tennessee, USA). To help recruit qualified employees for the new facility, we founded a training center with the local Chattanooga State Community College in 2012. The WACKER INSTITUTE trains mechanical, electronics, chemical and lab technicians. WACKER is providing \$3 million to support this program. Due to the altered market environment in the solar industry and the polysilicon overcapacities, WACKER announced in 2012 that it would to extend the timeline for production start-up in Tennessee until mid-2015. The approximately 280 employees at the site will continue their work until the plant is completed.

WACKER INSTITUTE
 Opened in Charleston,
 Tennessee

A New Record Number of Improvement Suggestions

In order to do things better and stay competitive, WACKER relies on the ideas submitted by its employees. 2012 saw more employee suggestions than ever before. Overall, we received 8,982 suggestions (2011: 8,220) – roughly 9.3 percent more than in the previous year. The participation rate (number of submitters per 100 employees) was constant at 34 percent (2011: 34 percent). Our goal is still for every second employee to contribute ideas. The calculable benefit fell to €4.9 million (2011: €7.8 million). In its annual idea management rankings for 2012, the German Institute of Business Administration (“dib”) put WACKER in ninth place among companies with more than 5,000 employees. That makes us one of the most imaginative companies in Germany.

High Level of
 Participation in Idea
 Management

	2012	2011	2010	2009	2008	2007	2006
Number of improvement suggestions	8,982	8,220	7,702	5,724	5,808	4,440	3,816
Participation rate (%)	34	34	33	28	28	24	24
Calculable benefit (€ million)	4.9	7.8	10.5	11.2	13.5	7.6	3.8

WACKER has been addressing the demographic trend for many years. Regional variations in age structure are not exclusive to WACKER; they reflect the age structures of the populations in each continent and country. The average age of the Group's workforce at the reporting date was 42.0. Employees at non-German sites are younger (average age: 40.0) than in Germany (42.6). The age structure abroad varies greatly from region to region. Staff at Asian sites are comparatively young (average age: 34.3), while staff at us locations have an average age of 47.2.



We Want to Uphold Our Employees' Performance Levels

To maintain our long-term innovative and competitive strength at WACKER, we have set ten strategic goals. Long-term measures for the workforce range from basic and advanced training opportunities to health programs. In health management, the focus is on five fields. We seek to avoid spinal disorders and cardiovascular diseases in our workforce, increase mental resilience, enable age-appropriate work and find suitable jobs for staff with health restrictions.

The pilot project we launched with the South German branch of the statutory pension insurance system (Deutsche Rentenversicherung Süd) in 2010 has developed into a permanent collaboration. The goal of the program is to improve the effectiveness of rehabilitation measures for employees, the Group and the insurer. WACKER's Health Services department can now submit rehabilitation applications on an employee's behalf, for expedited processing by the insurance system. Our company doctors work with partner clinics to tailor rehab measures to the requirements of the employee's job. 33 rehab procedures were managed this way in 2012.

Since 2012, we have been offering preventive checkups to third-level executives ("FK3" personnel) at all locations in Germany. In addition to organ examinations, the FK3 checkups also focus on giving employees advice on how to deal better with mental stress situations.

Good social benefits, performance-oriented compensation and motivating tasks make WACKER an attractive employer. This is demonstrated by the long-term commitment of our employees to our company. The average length of service in Germany (permanent staff) was 16.8 years (2011: 16.7 years). The 2012 employee turnover rate rose to 7.9 percent groupwide (2011: 2.9 percent). The higher rate is due to the closure of Siltronic's production site at Hikari (Japan) and the layoffs at the Portland (USA) site. As a consequence of these measures, the turnover rate at non-German sites rose from 8.9 percent in 2011 to 30.8 percent in 2012. It was unchanged in Germany at 0.9 percent (2011: 0.9 percent).

T 3.27 Employee Turnover Rate

%	2012	2011	2010 ¹	2009 ¹	2008	2007	2006
Germany	0.9	0.9	0.6	0.7	0.9	0.9	0.8
International	30.8	8.9	8.7	8.6	9.3	9.1	8.5
Group	7.9	2.9	2.5	2.5	2.9	2.8	2.6

¹Figures changed to reflect current data from the Sustainability Report for 2009/2010.

External Reviews Reaffirm WACKER'S Top-Employer Ranking

As rated by its own executives, WACKER continues to be one of the most popular chemical-sector employers in Germany. The annual satisfaction survey by Germany's Association of Chemical-Industry Executives (VAA) ranked WACKER fourth out of 25 companies surveyed, with a score of 2.78 (on a scale of 1 to 5, with 1 being the highest). WACKER was ranked first place in 2011, with a score of 2.77. The Corporate Research Foundation (CRF) gave WACKER Greater China its "Top Employer 2012" seal of approval in the year under review. CRF is an independent organization that has been rating companies since 1991 for such aspects as social benefits, working conditions, professional training and career opportunities, and corporate culture.

Good Ranking for
 WACKER as an Employer

Sustainability

Managing Sustainability

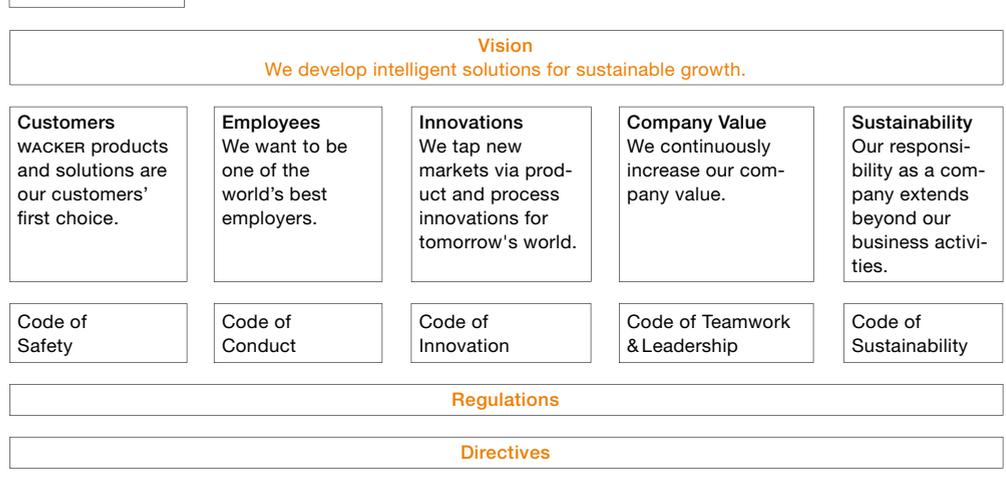
Companies can only be profitable in the long term if they take their responsibility toward the environment and society seriously. That is why sustainability has been firmly rooted in our business processes for many years.

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

New Vision and Goals Fully Integrated in the Group

We redefined our vision and goals at the beginning of 2012. This repositioning will enhance WACKER's profile and establish a common set of values for the entire Group. During the year, our executives began introducing the vision and goals at moderated group discussions throughout the company.

G 3.27 Our Vision



Aside from our vision and goals, we have revised our business principles, which represent the third pillar of our corporate policy guidelines. These principles – laid down in five corporate codes – govern how the Group should achieve its objectives. The five codes are the Code of Safety, the Code of Conduct, the Code of Innovation, the Code of Teamwork & Leadership, and the Code of Sustainability. The codes are supplemented by a body of regulations and directives.

Energy Management Certified to ISO 50001

We control operational processes via our integrated management system (IMS). The system regulates workflows and responsibilities, and defines groupwide standards for quality, the environment, and health and safety. In the future, we intend to use the IMS to control additional sustainability-related activities more closely, for instance the effective use of resources such as energy in our production processes. We have our Group management system analyzed by an international certification organization in accordance with uniform standards based on ISO 9001 (quality) and ISO 14001 (environment). At Siltronic, every site is certified to ISO/TS 16949, to ISO 14001 and to OHSAS 18001 (occupational safety), due to this subsidiary's specific processes and customer requirements.

Substantial progress was made on strategic sustainability-management projects in 2012:

--- Group Certificate:

Our maintenance of the Group certificate ensures that customer-driven specifications and our corporate standards are implemented at all WACKER sites. In 2012, we expanded our Group certification to include our Norwegian site in Holla (certified to ISO 9001 and ISO 14001) and our sales regions (certified to ISO 9001). Almost all our production sites are now included in the Group certificate. Not yet included are the sites in Brazil and India, as well as Jincheon (South Korea), which have corresponding individual certificates, though.

--- Energy Management:

2012 saw WACKER acquire its first-ever certificate under the energy-management standard ISO 50001, covering its sites in Germany. Maintaining the certificate will stimulate further reductions in our energy consumption and costs.

--- Occupational Health and Safety Management:

In the years ahead, we intend to add another international standard – OHSAS 18001 – to our Group certification. OHSAS regulates occupational health and safety management processes and standards. Our Siltronic subsidiary and our site in Jincheon (South Korea) have an OHSAS certificate.

--- Greenhouse Gas Emissions:

Having conducted the first survey of our indirect greenhouse gas emissions from bought-in energy (as per Greenhouse Gas Protocol Scope 2) in 2011, the next phase, begun in the year under review, was to measure our Scope 3 emissions. These include all emissions generated along the supply chain, e.g. by suppliers or through waste disposal and the transportation of products. The Group's carbon footprint is an important tool for improving climate protection.

--- Lifecycle Assessments:

We have developed an analytical tool that enables us to estimate, already in the R&D phase, the environmental impact of new products. Launched in 2012, the environmental analysis performed with the Eco Assessment Tool is gradually being established within the Group. This analysis allows us to assess and improve the sustainability of our products.

Lifecycle Analyses
Assess WACKER
Products

--- Sustainability Platform:

We are in the process of standardizing our various IT systems for groupwide sustainability reporting. Standardization includes not only the management of environmental metrics, energy data, and environmentally relevant and safety-related events, but also audit planning and follow-up measures within the integrated management system. In 2012, we defined software requirements and began implementing them.

Safety Goals now Part of Performance Target Agreements

Workplace and plant safety are of vital importance at WACKER. This is why, in 2012, we included safety goals in the annual performance reviews for Executive Personnel and management employees in Germany. As personal goals, their achievement is mandatory, especially for executives with responsibilities involving hazardous situations. They also influence the final performance evaluation.

Compliance Officers Available Worldwide

WACKER's ethical principles of corporate management exceed legal requirements. Employees can direct their questions to 22 compliance officers worldwide. Alongside the existing officers in Germany, the USA, China, Japan, India, South Korea, Brazil and Singapore, additional compliance officers were appointed and trained in Mexico, Taiwan and the United Arab Emirates during 2012.

Employees are instructed to inform their supervisors, the compliance officers, the employee council or their designated HR contacts of any violations they notice. In 2012, Compliance Management focused on devising and implementing globally applicable measures (in response to the UK Bribery Act 2010, for example) in consultation with international sites to ensure compliance with local requirements.

Environmental Protection

All WACKER's processes focus on the need to protect the environment and to manufacture products safely. We attach particular importance to integrated environmental protection. This commences with product development and plant planning. In 2012, WACKER spent €8.6 million on environmental investments (2011: €7.9 million). Environmental operating costs amounted to €79.3 million (2011: €73.3 million).

Higher Environmental
Operating Costs

In the course of setting up the polysilicon facilities at our Nünchritz site, we expanded the wastewater treatment plants as well. We have been using a hydraulic groundwater remediation process since 2012. The process involves pumping the groundwater into a treatment system, and returning it to the ground after purification. By the end of 2012, we had cleaned a total of 65,000 cubic meters of groundwater there.

Since fiscal 2011, our environmental indicators include our silicon-metal plant in Holla (Norway), acquired in 2010. The environmental impact of metallurgical production there differs greatly from that of WACKER's typical chemical operations. The environmental indicators, particularly regarding airborne emissions, have risen as a result of the acquisition. In the case of wastewater, chemical oxygen demand (COD) and halogenated organic compounds (AOX) were both down because we closed the Burghausen acetaldehyde plant in 2012. Disposable waste has been reduced, since the filter cake from wastewater treatment in Burghausen is now being recycled instead of disposed of as before.

WACKER continuously strives to close its material loops and recycle byproducts from other areas back to production and thus to prevent or reduce waste. We have only some benchmark figures on how the chemical industry recycles or disposes of hazardous chemical waste because of the industry's product-mix variations and unique site infrastructures.

T 3.28 Emissions into the Air: Business Divisions/Metallurgy

	2012 Group	2011 Group	2012 Business divisions ¹	2011 Business divisions ¹	2012 Metal- lurgical production ²	2011 Metal- lurgical production ²
Air						
CO ₂ emissions (t)	1,294,000	1,341,000 ³	983,200	1,020,000 ³	310,800	321,000
Nitrogen oxides (NO _x) (t)	2,225	2,221	1,072	1,052	1,153	1,169
Non-methane volatile organic compounds (NMVOCs) (t)	418	396	411	389	7	7

¹WACKER business divisions, without silicon-metal production in Holla, Norway

²Holla site, Norway

³Figure contains final measured emissions for the Burghausen power station in accordance with the monitoring guidelines of the European emissions trading system (EU ETS).

Our indirect greenhouse gas emissions from procured energy (as per Greenhouse Gas Protocol Scope 2) rose by 5.9 percent in 2012. The main reason is production-capacity expansion for polysilicon via commissioning of new facilities at the Nünchritz site.

Indirect Greenhouse
Gas Emissions
Measured for the First
Time in 2012

T 3.29 Environmental Indicators 2006–2012¹

	2012	2011	2010	2009	2008	2007	2006
Air							
CO ₂ emissions ² (t)	1,294,000	1,341,000	986,000	969,000	976,041	912,260	941,572
NO _x nitrogen oxides (t)	2,225	2,221	926	963	997	838	804
Non-methane volatile organic compounds ³ (NMVOCs) (t)	418	396	415	383	501	687	560
Greenhouse gases							
Direct ⁴ (t CO ₂)	1,294,000	1,347,000	-	-	-	-	-
Indirect ⁵ (t CO ₂)	1,150,071	1,086,192	-	-	-	-	-
Water							
Water consumption ⁶	242,072	268,657	252,151	264,532	241,286	244,173	228,283
(thousand m ³)							
COD chemical oxygen demand (t)	1,460	1,680	1,820	2,730	4,782	2,162	1,993
AOX halogenated organic hydrocarbons (t)	3	5	6	6	7	6	5
Waste							
Disposed of (t)	39,920	47,410	48,520	80,860	87,293	43,100	42,250
Recycled (t)	96,880	80,290	77,030	63,430	74,327	74,676	73,774
Hazardous ⁷ (t)	73,620	68,230	69,320	100,860	108,458	70,027	75,263
Non-hazardous ⁷ (t)	63,180	59,470	56,230	43,430	53,161	47,538	41,049
Energy							
Electricity consumption (TWh)	4.6	4.4	3.8	2.7	2.4	2.1	1.9
Primary energy⁸							
Natural gas (TWh)	5.9	5.8	5.5	5.4	5.4	-	-
Solid fuels ⁹ (coal, charcoal, wood) (TWh)	0.9	0.9	0.4	-	-	-	-
Heat (supplied by third parties) ¹⁰ (TWh)	0.2	0.2	0.2	0.2	0.2	-	-
Heating oil (TWh)	0.02	0.02	0.01	0.01	0.01	-	-

¹In 2011, the environmental indicators reflected for the first time the silicon-metal production site in Holla (Norway), acquired in 2010.

²Reduction in 2012 due to optimized operation of the Burghausen power station. The figure for 2011 contains final measured emissions for the Burghausen power station in accordance with the monitoring guidelines of the European emissions trading system (EU ETS).

³Increase via higher plant utilization in Burghausen, Germany, and Calvert City, USA.

⁴As per Greenhouse Gas Protocol "A Corporate Accounting and Reporting Standard," Scope 1: direct emissions without emissions from consumption of purchased energy, CO₂ only.

⁵As per Greenhouse Gas Protocol "A Corporate Accounting and Reporting Standard," Scope 2: indirect emissions from consumption of purchased energy (electricity, heat), CO₂ only; surveyed for the first time in 2011; recalculation of 2011 values based on the modified emission factors published by the International Energy Agency (IEA), in which a distinction is made between the emission factors for electricity and heat (Source: "CO₂ emissions from fuel combustion, 2012 edition").

⁶Decrease at the Burghausen site due to lower capacity utilization of a cooling-water-intensive production line.

⁷Production-related increase in waste streams at the Nünchritz and Burghausen sites.

⁸WACKER has been reporting the more detailed primary-energy indicator since 2008.

⁹Used in silicon-metal production at Holla, Norway

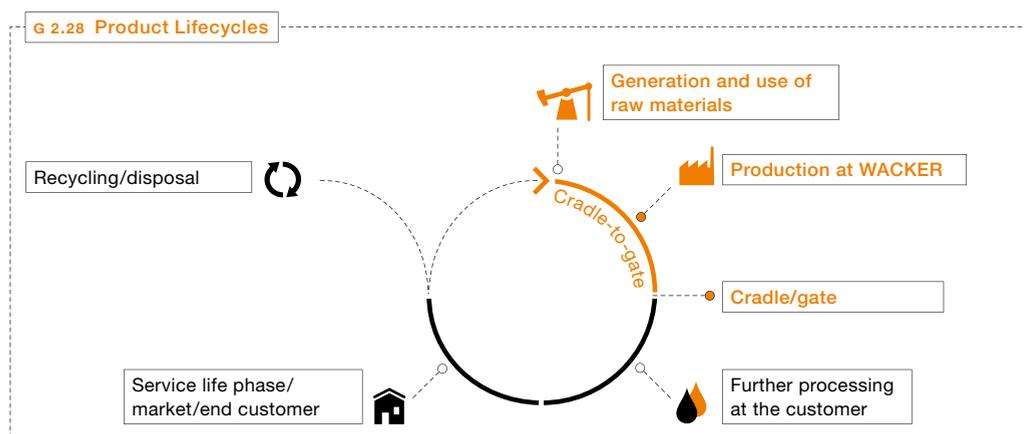
¹⁰Steam, district heating

Last year, we started measuring further indirect greenhouse-gas emissions, as per the Greenhouse Gas Protocol. These are greenhouse-gas emissions generated along the supply chain – for example, through production and transportation of raw materials or through waste disposal. We have forwarded these data to the Carbon Disclosure Project (CDP), which WACKER joined in 2007. Founded in London in 2000, CDP is a not-for-profit organization working to achieve greater transparency in greenhouse-gas emissions.

Product Stewardship

In 2012, we continued with our lifecycle assessments to determine the “cradle-to-gate” environmental impact of our products. WACKER was a participant in a study published by the European Silicones Center (CES) in 2012. This study comprises the entire product lifecycle of silicones and related products, such as silanes. The study assessed the CO₂ emissions caused by producing the silicones compared with the resultant reduction of CO₂ achieved by using the silicones. It found that the use of silicones and related products (such as siloxanes and silanes) reduces the carbon footprint of many significant products by a factor of 9. At 54 million metric tons of CO₂ a year, this reduction is equivalent to the emissions generated to heat 10 million homes.

We have introduced a tool to evaluate systematically the risks and opportunities of our product line from an environmental perspective. In the Eco Assessment Tool, we take into account not only material, water and energy use, but also ecotoxicity over the entire product lifecycle. We have assessed initial products in this fashion and will expand our analysis.

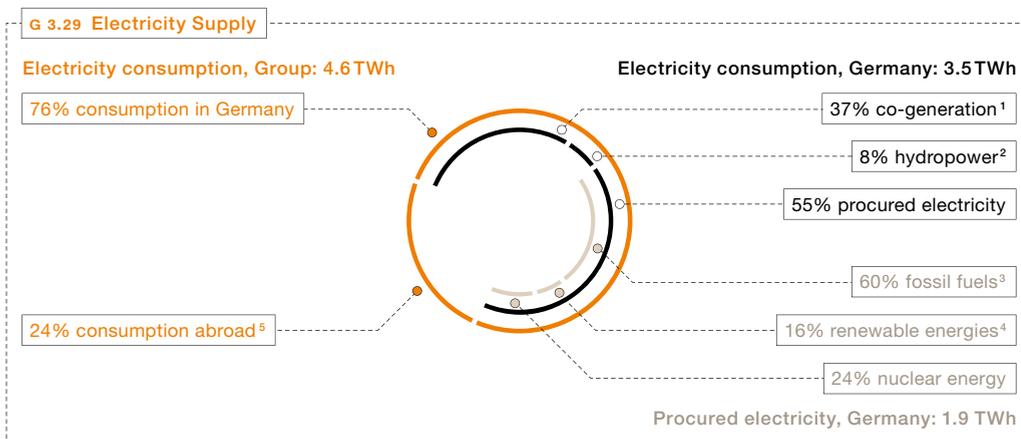


Energy Management

The chemical industry is an extremely energy-intensive sector. WACKER is one of Germany's major energy consumers. For this reason, globally competitive energy prices are of considerable significance to us. WACKER is constantly improving the energy efficiency of its processes. This enables us to remain globally competitive and to support climate protection. In 2012, we had our energy management system for WACKER Germany certified to the ISO 50001 standard. Since 2007, we have reduced our average specific energy consumption (amount of energy per unit of net production output) by 22 percent, mainly due to our POWER PLUS energy-conservation program.

Hydroelectric power is used at the Burghausen site, while our production facility in Holla, Norway, generates electricity mainly from hydro-power. Our primary source of energy, though, is climate-friendly natural gas. At WACKER's large Burghausen and Nünchritz sites, we produce steam and electricity in cogeneration systems. Our combined heat and power (CHP) plants have more than 80 percent fuel efficiency, twice that of conventional power-generation plants.

In 2012, WACKER's electricity consumption rose to 4.6 million MWh (2011: 4.4 million MWh). This was due to higher polysilicon production in 2012. The Group's power plants – the hydro-electric and CHP (gas and steam turbine) generating stations at Burghausen and the CHP at Nünchritz – produced around 1.6 million MWh in 2012 (2011: 1.5 million MWh). This means that WACKER covered about a third of its total electricity needs itself. Groupwide, CO₂ emissions remained at the prior-year level of some 1.3 million metric tons, of which 60 percent resulted from captive power plants that are subject to emissions trading rules.



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

WACKER's German production sites account for 76 percent (2011: 73 percent) of its electricity needs. In Germany, we purchased enough electricity from utilities to cover 55 percent (2011: 53 percent) of our electricity requirements there. In line with the utilities' primary energy sources, 60 percent (2011: 58 percent) of this electricity was generated from fossil fuels. 24 percent (2011: 20 percent) came from nuclear energy, and 16 percent (2011: 22 percent) from renewable energy sources. Heat consumption, which includes the use of solid carbon-based and biogenic fuels (coal, charcoal, wood) in silicon-metal production at Holla (Norway), fell slightly across the Group to 3.8 TWh (2011: 3.9 TWh).

T 3.30 Energy Consumption

TWh	2012	2011	2010	2009	2008
Energy consumption	4.6	4.4	3.8	2.7	2.4
Heat consumption ¹	3.8	3.9	3.4	2.8	2.8
Primary energy					
Natural gas	5.9	5.8	5.5	5.4	5.4
Solid fuels ² (coal, charcoal, wood)	0.9	0.9	0.4	-	-
Heat (supplied by third parties) ³	0.2	0.2	0.2	0.2	0.2
Heating oil	0.02	0.02	0.01	0.01	0.01

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

Workplace and Plant-Safety Projects

Designing plants and processes in a way that poses no risk to people or the environment is an important objective at WACKER. We consequently make safety management a groupwide undertaking that includes workplace and plant safety.

To ensure the safety of our plants, we ascertain and evaluate risks in a systematic way. We not only analyze how well we control the energy (pressure, heat) existing in a process, but also determine what influence an individual fault might have on a chain of events leading up to a failure or accident. On completion of this comprehensive analysis, we specify safety measures to prevent the occurrence of undesirable incidents.

In the year under review, we initiated a new safety project. Our “ANSIKO 2012/2013” project identifies machinery that poses a risk of injury, reviews safety plans for such machinery critically and, where needed, specifies additional measures to protect employees. The project was launched at the German sites in 2012. The non-German production sites will be included from mid-2013.

The expansion of polysilicon production at Nünchritz involved a corresponding upgrade of the site’s emergency-response procedures. We now have gas detectors to quickly identify releases of hazardous substances, sirens for warning local residents, and signaling to divert traffic from all roads in the vicinity of the plant.

WACKER attaches particular importance to providing ongoing training to its safety experts. We hold regular training sessions, for example, on plant safety and explosion protection. Group experts organize safety training at WACKER sites outside Germany. In 2012, experts from all production sites met to share information and attend training sessions at Burghausen. We formed a committee (the “Expert Committee on Plant and Process Safety”) to organize advanced training in site and process safety issues. We conducted health and safety audits at sites in the USA during the year under review.

Groupwide, there were 4.7 workplace accidents with missed workdays per 1 million hours worked in 2012 (2011: 3.9 accidents). This result puts us behind those chemical companies that lead the way in occupational safety. Bayer, BASF, Dow, Evonik and Henkel collectively had an average of 1.5 workplace accidents with missed workdays per 1 million hours worked in 2011. WACKER’s figures for reportable accidents (accidents with more than three missed workdays) compare much more favorably with the average for the German chemical industry. The reportable accident rate in 2012 was 2.1 per 1 million hours worked, while, in 2011, Germany’s BG RCI (the statutory employer liability insurance carrier of the basic materials and chemical industries) registered 9.5 reportable accidents per 1 million hours worked in chemical companies.

Regrettably, a partner company had one fatal workplace accident during the reporting period. At our Charleston site (Tennessee, USA), two construction workers from a partner company laying concrete were caught by a loose molding and fell to their deaths. After a temporary closure of the building site, we worked with the construction company involved to improve safety precautions.

Most accidents at our sites are not chemical in nature. The most common causes are tripping, slipping and falling or inattentiveness during manual activities. Not satisfied with our accident rate, we will be increasing our occupational-safety efforts. We are systematically implementing our new safety program – WACKER Safety Plus (WSP), which incorporates successful safety elements from sites with particularly low accident rates. Such elements include safety patrols, discussions with the workforce and emergency drills. WACKER Safety Plus has the goal of recognizing and avoiding unsafe behavior – on the way to and from work, in the office, at the plant, when operating machinery, or when handling chemicals. We organized WSP seminars for executives at all of our production sites in 2012.

“Safety Plus” Initiative
to Prevent Accidents

T 3.31 Reportable Accidents per 1 Million Hours Worked

Number	2012	2011	2010	2009	2008	2007	2006
Accidents ¹ involving Group employees	4.7	3.9	4.3	4.0	3.7	3.8	4.1
Reportable accidents ² involving Group employees	2.1	1.4	1.2	1.2	1.0	1.4	1.2

¹Accidents leading to at least one day off work
²Accidents leading to over three days off work

Stringent Controls for Safe Transportation

WACKER ensures that its products are safely stored and transported. Before loading vehicles, we carry out stringent checks on them. This applies especially to hazardous materials. We inspected in excess of 6,600 trucks in 2012. If a vehicle fails inspection, we continue sending it back until it passes. Failure rates have been low for years now. In 2012, it was 2.2 percent for transporting hazardous goods (2011: 3.6 percent). WACKER audits hazardous goods shippers at least every two years.

We rely on well-trained personnel for transport safety as well. In 2012, we instructed over 1,000 employees throughout the Group in classroom seminars on the transport of hazardous goods. Another 1,500 completed an online training course.

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

In 2012, we recorded ten transport incidents (2011: eight). This number includes not only accidents and incidents involving the distribution of our intermediates and products where we commissioned the transport, but also incidents that do not involve hazardous goods, as well as those that do not adversely impact people or the environment. Such incidents are likewise listed in shipper evaluations.

T 3.32 Transport Accidents

Number of Accidents	2012	2011	2010	2009	2008	2007 ¹	2006 ¹
Road	8	6	4	5	11	-	-
Rail	2	1	1	-	4	-	-
Sea	-	1	-	-	2	-	-
Inland waterways	-	-	-	-	-	-	-
Air	-	-	-	-	-	-	-

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

A New Kind of Experiment Kit for Schools

Companies can be commercially successful only if they have society's trust, which is why WACKER takes its social responsibilities seriously, especially in communities near its sites. We attach considerable importance to giving young people training in the natural sciences and technology. After all, we will need committed chemists and engineers in the future if we are to remain competitive.

Focus on Youth
Education

2012 was the eighth time that we had taken the helm as statewide sponsor and organizer of the “Young Scientists” competition in Bavaria. We also again sponsored the Dresden/East Saxony regional heat of “Young Scientists.” We have launched a new experiment kit called CHEM2DO. With it, students get the opportunity to experiment with modern silicones and cyclodextrins. It includes a lesson plan and can be used in various kinds of German secondary schools. The experiments and documentation have been completely revised, and we have now also developed a preparatory course for teachers across Germany. Run by the teacher-training centers of the Society of German Chemists and selected universities, the course is the perfect way to prepare chemistry teachers for the experiments.

WACKER has set up a scholarship program at Liangfeng Senior High School in Zhangjiagang (China). Awarded annually to 25 students and six teachers with outstanding academic performances, the WACKER Scholarship provides financial support that extends to students from disadvantaged families. In addition, WACKER experts share their know-how at the high school by giving specialized classroom instruction on industrial silicone applications.

Employees Donate to Sustainable Projects

As a true corporate citizen, we support projects to help children and young people in communities near our sites and elsewhere in the world. Since 2007, WACKER has supported a German religious charity, “Die Arche” (The Ark), which aids children and young people from socially disadvantaged families in several German cities. It provides the children with hot meals and extra tutoring, organizes leisure activities and offers counseling. In the reporting year, WACKER presented its sixth annual donation of €100,000 to the charity’s Munich branch.

Renewed Support
for Children’s Charity
“Die Arche”

In 2012, the company relief fund (WACKER HILFSFONDS), our foundation for disaster relief, gave employees the option to donate the cents from their monthly paychecks to the fund on a regular basis. About 4,300 people in Germany have responded to the call and are thus helping to sustain relief fund projects centered on the reconstruction and running of schools and training facilities. As in other fund campaigns, the WACKER Group is participating in the cent-donation program with a contribution that matches employee donations. With the help of the cent donations, the foundation can now support an entire school of about 200 students in Kosgoda (Sri Lanka) up to the tenth grade. WACKER HILFSFONDS also supported schools in Gressier (Haiti) and Murghazar (Pakistan). Destroyed in natural disasters, they now have their students back in class in new buildings dedicated in 2012.

In 2012, the WACKER site in Nanjing (China) opened its gates to the public. The open house was organized by the Association of International Chemical Manufacturers and the Nanjing Chemical Industry Park. Some 400 guests from municipal government and the surrounding communities – as well as students and journalists – came to take a closer look at the WACKER POLYMERS site.

Risk Management Report

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

Risk Management Is an Integral Part of Corporate Management

Risk management is an integral part of corporate management at WACKER. As a globally active company, WACKER is exposed to numerous risks directly attributable to our operational activities. Starting from an acceptable level of overall risk, the Executive Board decides which risks we should take to utilize opportunities available to the company. The goal of risk management at WACKER is to identify risks as early as possible, to evaluate them appropriately, and to limit them through suitable measures. We define risks as internal and external events that have a negative effect on the attainment of our targets. Compared with the previous year, we made no fundamental changes to the existing risk management system in 2012. One new risk for our polysilicon business emerged in the shape of anti-dumping proceedings instigated in Europe against Chinese solar businesses, as well as the instigation of anti-subsidy proceedings against European polysilicon manufacturers by the Chinese government. The scope of consolidation for risk reporting purposes comprises all WACKER majority shareholdings as well as companies consolidated using the equity method.

Risk Management
Forms Part of All
Decision-Making and
Business Processes

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

Risk Management

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

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

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

Risk Management Structures and Tools

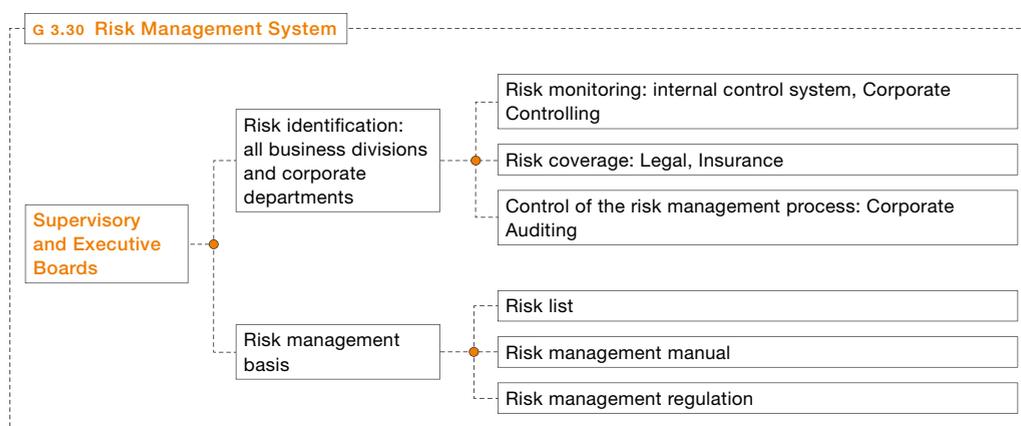
WACKER's risk management system spans a variety of aspects. This groupwide system draws on existing organizational and reporting structures, supplemented by additional elements:

- The risk management manual: This contains the risk management system's principles and processes. It explains reportable levels of risks and how risks are to be covered and mapped.
- The risk management regulation: It stipulates groupwide reporting requirements, including when a specific committee must be informed.
- The risk management coordinator: This coordinator is responsible for the risk management system and is supported by local risk coordinators.
- The risk list: This records each specific risk facing our corporate divisions and other corporate sectors. Reporting is mandatory for individual risks where the effect on earnings would exceed €5 million.

Risk Identification

WACKER identifies risks at two levels: for the individual divisions, and at a Group level. We employ various instruments to ascertain and identify risks. These include contract development, market and competition analyses, customer talks and ongoing observation and analysis of the economic environment.

Two Levels of Risk Identification



Assessment, Quantification and Management of Risks

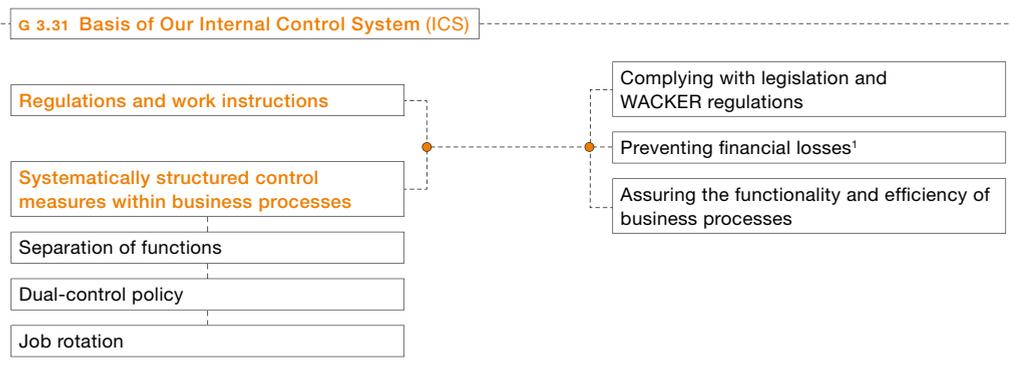
We analyze each identified risk's probability of occurrence and potential effects on earnings. Corporate Controlling compiles a monthly report to inform the Executive Board of current and future business developments. We evaluate and balance risks and opportunities at regular meetings with our divisions.

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

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

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

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



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

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

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

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

Internal Control System Ensures All Business Transactions are Accounted for Promptly, Uniformly and Correctly

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

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

Managers at our divisions, corporate departments and subsidiaries confirms that all key issues for quarterly and annual financial statements are reported via quarterly area-specific notification.

The Supervisory Board is also integrated into the internal control system through the Audit Committee. In particular, the Audit Committee monitors the accounting process and the effectiveness of the internal control, risk management and auditing systems. Moreover, it reviews the documents for Wacker Chemie AG's separate financial statements and the WACKER Group's annual financial statements and the combined management report for these statements, and discusses this with the Executive Board and the auditors.

Internal Controls

Corporate Auditing rounds out our risk management system. Supported by the auditing manual, this department – on behalf of the Executive Board in consultation with the Audit Committee – checks all corporate entities. The Executive Board adopts a risk-driven approach when choosing audit topics, which, if necessary, are flexibly adjusted during the year to take account of changes in underlying conditions. In 2012, WACKER focused on the following topics:

- The settlement of investment projects and external maintenance work
- The protection of know-how by planners whenever they handle WACKER data
- Auditing of cross-functional business processes at nine subsidiaries

In total, Corporate Auditing conducted 32 audits in 2012 (2011: 37 audits). The proposed audit plan was largely implemented, with nine topics or items for review to be completed in the course of 2013. No major complaints came to light. Audit recommendations to optimize processes are being implemented and systematically followed up.

Corporate Auditing
Conducted 32 Audits in
2012

External Controls

When auditing our annual financial statements, the external auditor examines our early-warning system for detecting risks. The auditor then reports to the Executive and Supervisory Boards.

Central Risk Areas

Overall Economic Risks

Scenario

Continuing economic slowdown.

Impact on WACKER

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

Measures

We counter this risk by continuously monitoring economic trends in our key sales markets. If we detect economic weakness, we take early precautions to flexibly adjust production capacities, resources and inventories in line with customer demand. In such cases, we focus on production locations with the best cost position and temporarily shut down some production facilities. To counter an economic slowdown, we also use the instrument of short-time work and do not extend temporary employment contracts. In response to weaker business in our WACKER POLYSILICON and Siltronic divisions in 2012, we reduced the number of temporary workers, introduced short-time work and postponed the scheduled recruitment of additional personnel indefinitely.

Assessment

We expect the global economic environment to remain difficult in 2013. The ongoing crisis surrounding the euro continues to weigh on the world economy. Growth in the emerging economies (Brazil, China and India) could regain momentum following weaker growth in 2012. However, the risk of economic activity slowing remains.

Sales-Market Risks

Scenario 1

Chemical-segment overcapacity.

Impact on WACKER

Price and volume pressure on our products.

Measures

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

Assessment

Overcapacity-related risks for our products are expected to remain constant in 2013. At WACKER POLYMERS, we anticipate overcapacity for dispersions and dispersible polymer powders in Asia. Nevertheless, we expect plant utilization to be strong despite this overcapacity. WACKER SILICONES faces overcapacity for siloxane production in China and for certain segments (such as liquid silicone rubber) – which could reduce plant utilization. Our chemical divisions' product prices will remain under pressure in 2013.

Scenario 2

Cyclical fluctuations and intense competition on the semiconductor market.

Impact on WACKER

Volume and price declines.

Measures

Siltronic tries to reduce these risks through systematic cost management and through flexible structures and production operations. We have aligned our capacity for < 300 mm diameters with market trends by closing the Hikari, Japan, site in 2012 and halting 150 mm silicon-wafer production at Portland.

Assessment

2013 will be another challenging year for the semiconductor industry. Market researchers expect volumes to increase by 7 percent, with the pressure on prices remaining high. We expect stronger demand for 200 and 300 mm silicon wafers. Our capacity adjustments for < 300 mm silicon wafers will improve plant utilization.

Scenario 3

Polysilicon price and volume risks among producers, harsher market conditions due to lower state incentives, and an increasingly difficult financial situation for many customers.

Impact on WACKER

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

Measures

We counter this risk by continually improving our productivity, cost positions and quality. If demand falls, we adjust our production capacities flexibly in line with the market trend. We responded to market developments in 2012 by agreeing additional individual arrangements with our customers to adjust to the situation. In October 2012, we introduced short-time work

in individual areas of the Burghausen plant. Due to the difficult market environment, we have decided not to start up the new site in Tennessee until mid-2015, 18 months later than planned.

Assessment

The photovoltaic industry continues to suffer from production overcapacity and price pressure at all stages of the value chain. The industry's consolidation process will continue in 2013. In certain countries, we also expect to see further cuts in state incentives for photovoltaics. Conversely, some markets – such as China, Japan and the USA – saw a considerable expansion of incentives. There remains a high risk that not all the volumes manufactured will be sold to customers. On the other hand, the marked fall in prices for polysilicon, wafers, cells and modules makes photovoltaics more competitive. The levelized cost of solar systems will therefore be lower than for other renewable energies. This trend will make it easier to access new markets and will promote further growth in the global market for photovoltaic applications. Overall, as a cost and quality leader, we expect to emerge from this consolidation process with renewed strength.

Procurement-Market Risks

Scenario

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

Impact on WACKER

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

Measures

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

Assessment

Our good position for energy and raw-material procurement means we are now better able to manage the risks inherent in both economic upturns and downturns. If the global economy should weaken markedly, our contracts for key raw materials allow us to adjust purchase volumes flexibly and to benefit – wherever possible – from price decreases through escalator clauses. If the global economy grows, we have volume and price guarantees such that we do not see any major risks affecting the supply of raw materials. Prices for methanol and ethylene (petrochemical raw materials) are likely to climb further. However, that will largely depend on how the world economy performs. A recession would cause raw-material prices to fall. We expect energy prices to remain relatively stable in 2013. The risk of rising energy prices is low in the short term. Silicon prices are falling slightly. Regulatory requirements or additional costs, such as electricity tax or levies or future changes relating to German renewable energy (EEG) legislation, can influence energy costs.

Market-Trend Risks

Scenario

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

Impact on WACKER

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

Measures

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

Assessment

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

Investment Risks

Scenario

Bad investments, higher-than-expected investment costs, postponed plant start-ups and deterioration of original market projections, acceptance of risk from investments in joint ventures and associates.

Impact on WACKER

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

Measures

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

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

By establishing partnerships with companies such as Samsung or Dow Corning, we have reduced our own investment risk. In this regard, however, there are long-term purchasing and financing commitments with the respective associated companies or joint ventures. At the same time, the result from investments in joint ventures and associates can influence our profitability.

Due to the difficult market environment, we have decided not to start polysilicon production at the new site in Tennessee until mid-2015, 18 months later than planned. This can lead to higher investment or other costs stemming from contractual agreements with suppliers.

Assessment

Over the past few years, WACKER has demonstrated that it can complete complex technical investment projects on schedule, or even earlier than planned. WACKER's Corporate Engineering department plays a major role here by providing engineering expertise. Nothing has changed in this regard. The investment project in Tennessee has been extended over a longer time horizon in view of the market environment. We will keep a close eye on the market and adjust the project's timescale as appropriate.

Production Risks

Scenario

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

Impact on WACKER

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

Measures

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

Assessment

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

Financial Risks

WACKER is exposed to financial risks from ongoing operations and financing. Such risks include credit, market-price, financing and liquidity risks. They are managed by the individual WACKER departments responsible for them. We employ primary and derivative financial instruments to cover and control the financial needs and risks necessitated by our operations. Such financial instruments are not to be used unless they are based on actual or planned operational business. The Notes to the Consolidated Financial Statements provide extensive information about risk hedging using derivative financial instruments. [See further details on page 225 of the Notes section](#)

T 3.33 Controlling Financial Risks

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

Credit Risks

Scenario

Customers or business partners fail to meet their payment obligations.

Impact on WACKER

Losses on trade receivables, and bank failures due to the banking crisis.

Measures

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

Assessment

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

[See further details on page 225 of the Notes section](#)

Market-Price Risks and Risks of Fluctuating Payment Flows

Scenario

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

Impact on WACKER

Effect on earnings, liquidity and financial investments.

Measures

Currency-exchange risks primarily arise from exchange-rate shifts for receivables, liabilities, and cash and cash equivalents that are not held in euros. The currency risk stemming from financial instruments is of particular importance in respect of the us dollar, Japanese yen, Singapore dollar and Chinese renminbi. WACKER hedges the resultant net exposure – as of a certain level – via derivative financial instruments, with the exception of the Chinese renminbi. The use of such instruments is governed by WACKER's regulation on currencies. We employ currency-option and forward-exchange contracts, and foreign-exchange swaps. Foreign currencies are hedged predominantly for the us dollar, Japanese yen and Singapore

dollar. Plus, we counter exchange-rate risks through our local production sites, and through local bank financing.

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

Assessment

We hedge part of our us dollar, yen and Singapore dollar business. We assume that the euro will develop unfavorably by becoming stronger against the main foreign currencies relating to WACKER. The possible impact of a stronger euro will be partially cushioned by hedging measures. Consequently, we do not expect any major effects from exchange-rate shifts in 2013. Currently, we consider the influence of interest-rate risks to be low.

Liquidity Risk

Scenario

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

Impact on WACKER

Higher financing costs, and modifications to further expansion plans.

Measures

Liquidity risk is managed centrally at WACKER. Our Corporate Finance department employs efficient systems for both cash management and rolling liquidity planning. In order to counter financing risks, WACKER holds adequate long-term, contractually-agreed credit-lines, and has set aside sufficient liquidity. By means of cash pooling, liquid funds are passed on internally within the Group as required.

Assessment

WACKER's liquidity declined in 2012 compared with the previous year as a result of high investment spending. Liquidity totaled €496.7 million at the reporting date. At that time, financial liabilities exceeded liquidity (consisting of current and noncurrent securities, and cash and cash equivalents) by €700.5 million. Concurrently, there were unused credit lines of some €640 million. We invest liquid funds only in issuers or banks that have a credit rating in the sound investment-grade range. The investment of liquid funds is, moreover, subject to limits that we have defined. We consider the probability of financing and liquidity risks actually materializing to be low. At the moment, we see no risks relating to financial-covenant infringements.

Pensions

Scenario

The greater life expectancy of pension-fund beneficiaries, additional obligations due to pay and pension adjustments, and falling discount factors increase the volume of pension obligations. Significant changes in the composition of the invested fund assets and capital-market interest rates produce a rise or fall in fund assets. Altered criteria used in the measurement of pension plans influence the net pension cost for the period.

As from 2013, IAS 19 requires enterprises to report actuarial gains and losses as well as other changes in value immediately and in full in other comprehensive income. This approach replaces the widely-used corridor method of not accounting for actuarial gains and losses immediately in the income statement. Equity will consequently drop upon first-time applica-

tion of the new regulations, subsequently leading to greater volatility in equity. Other future changes to the principles applied in accounting for pensions may adversely affect the Group's earnings, net assets and financial position.

Impact on WACKER

A large proportion of WACKER's pension guarantees are covered by the Wacker Chemie VVaG pension fund, by pension-related funds and special-purpose assets, and by insurance plans. The largest contribution comes from the pension fund. A rise in the pension provisions as well as reduced plan assets and a possible injection of financial resources into the pension fund or into the plan assets will affect the financial position and earnings of the Group. Over and above the basic pension plan, there are defined-benefit insurance policies in the form of direct commitments. Additionally, employees have the option of converting part of their remuneration into direct benefit commitments. What is more, the greater life expectancy of pension-fund beneficiaries, pay and pension increases, and the discount factor (calculation of the present value proceeding from the final capital amount) also impact WACKER's financial position and earnings to a substantial extent.

Measures

A large proportion of WACKER's pension guarantees are covered by the Wacker Chemie VVaG pension fund, by pension-related funds and special-purpose assets, and by insurance plans. The pension fund manages the pension insurance of our German-based employees in accordance with its Articles of Association and General Terms and Conditions of Insurance. To ensure a sufficient rate of return and to limit investment risks, the fund diversifies its investment portfolio among various asset classes and regions. In managing its assets and liabilities, the pension fund controls and optimizes all asset items to attain the required return within specified risk limits. As one of the fund's sponsoring entities, WACKER makes payments to it (when necessary), thereby ensuring sufficient coverage for pension obligations. We periodically adjust the calculation parameters of the other defined-benefit pension commitments (e.g. the minimum interest rate).

Assessment

Pension-fund beneficiaries are living longer, and capital-market interest rates have steadily declined in recent years. The rate of return will be insufficient to fulfill long-term pension obligations. The contribution for Wacker Chemie AG's defined-benefit pension commitments thus rose from 250 to 350 percent of the employee contribution in 2012 to protect the pension fund. WACKER anticipates that it will have to make further payments to the pension fund in the future, along with increased pension payments to cover its other commitments.

[See further details on page 208 of the Notes section](#)

Other Risks

Emission Allowances

Scenario

From 2013, WACKER's CO₂ emissions exceed the expected number of allotted emissions certificates.

Impact on WACKER

Acquisition of emissions certificates, and higher specific production costs.

Measures

So far, WACKER has had a surplus of emissions certificates and the only effects we have experienced to date relate to electricity price rises. From 2013, according to EU and national decisions, we will need to include individual production facilities in the trading system, in addition to our power plants, which are already subject to emissions trading. We limit the costs for the emissions required by constantly working to improve our facilities' energy efficiency.

Assessment

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

Legal Risks

Scenario

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

Impact on WACKER

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

Measures

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

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

We limit risks arising from possible legal infringements by means of compliance programs. WACKER's Code of Conduct, which we expanded in 2012, defines and stipulates binding rules of behavior applicable to all employees. Through training programs, WACKER enhances awareness of these issues and attempts to prevent reputation-related risks.

Assessment

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

Anti-Dumping Proceedings

Scenario

Anti-dumping proceedings by the European Union against Chinese solar businesses and anti-dumping proceedings by the Chinese Ministry of Commerce against polysilicon manufacturers from America, South Korea and Europe.

Impact on WACKER

Negative impact on the company's net assets, financial position and earnings; influence on the plans for the further expansion of polysilicon, impact on long-term customer relations.

Measures

The EU is currently conducting anti-dumping and anti-subsidy proceedings against Chinese solar manufacturers. At the same time, the Chinese Ministry of Commerce has launched anti-dumping and anti-subsidy proceedings against polysilicon manufacturers from America, South Korea and Europe. By actively participating in these proceedings, WACKER is striving to prevent the imposition of punitive tariffs not only on Chinese solar manufacturers but also on polysilicon producers delivering into China. We have been registered by the EU as an interested party affected by the outcome of its proceedings. WACKER rejects all forms of restraints on trade. We are arguing our position in Brussels and holding numerous talks with various policymakers with a view to preventing the imposition of punitive tariffs against Chinese solar manufacturers. In addition, we are making our stance publicly known.

For the proceedings against polysilicon manufacturers from outside China, we are cooperating with the Chinese Ministry of Commerce. Both WACKER and its Chinese customers are making every effort to highlight the adverse impact of punitive tariffs on their business performance and the market as a whole.

A decision in both sets of proceedings is expected by mid-2013. The proceedings instigated by the Chinese Ministry of Commerce allow for an interim judgment, which may be published at an earlier date.

Assessment

It is unclear what verdicts the EU and the Chinese Ministry of Commerce will reach in their respective cases. WACKER anticipates that the rejection of punitive tariffs for Chinese solar businesses might have a positive influence on the outcome of proceedings in China. However, if both sides impose substantial punitive tariffs, there is a high risk to the future development of WACKER POLYSILICON, because our business would be seriously affected, and the asset value of our production facilities could be impacted.

IT Risks

Scenario

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

Impact on WACKER

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

Measures

We continually monitor our use of information technology and do everything we can to ensure that IT-supported business processes function reliably. Our IT security and risk management specialists are responsible for handling hazards in a cost-efficient way. Their work is based on ISO 27001. Using risk analyses, we define the requirements for WACKER's central systems – in terms of availability and data integrity/confidentiality. We anchor these requirements in service level agreements at our business divisions and corporate departments, and continually monitor compliance with those agreements. For our central ERP systems (Enterprise Resource Planning), we set – and exceeded – an availability goal of 99.5 percent for 2012. We achieved this primarily by designing our systems for maximum availability and by installing an associated backup and recovery procedure. We have taken appropriate precautions to cover emergency situations (business continuity management).

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

As part of the risk management process, we log and evaluate any operations-related risks that arise and initiate countermeasures. We also optimize IT service management processes on an ongoing basis. We use state-of-the-art hardware and software solutions to counter network downtime, data loss or manipulation, and unauthorized access to our network. We use efficient software security programs to protect ourselves against malware. We have set up an international security team to address problems with the confidentiality, integrity and availability of data and systems by means of organizational and technical measures, and awareness programs. In addition, we regularly conduct comprehensive penetration tests and audits at domestic and international sites to prevent the risk of hacker attacks.

Assessment

We can never completely rule out interference with, and attacks on, our IT systems and networks. The long-term failure of IT systems or a major loss of data can considerably impair WACKER's operations. Thanks to our precautionary measures, we do not consider the possible occurrence of such events – and the risks associated with them – to be high.

Personnel-Related Risks

Scenario

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

Impact on WACKER

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

Measures

We counter these risks through personnel-policy measures. For example, we offer a wide variety of training programs, good social benefits and performance-oriented compensation. We also offer our employees various working-time arrangements and models, as well as opportunities to achieve a positive work-life balance.

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

Assessment

Demographic change will increase the risk of not being able to find enough appropriate personnel for qualified technical and managerial positions in the medium to long term. For 2013, we see only minor risks to our personnel needs.

External Risks

Scenario

Pandemic, natural disaster, war or civil war.

Impact on WACKER

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

Measures

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

Assessment

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

G 3.32 Development of Risks in 2013

Risks	Unchanged	Decreased	Increased
Overall economic risks	●		
Sales-market risks			●
Procurement-market risks		●	
Market-trend risks	●		
Investment risks	●		
Production risks		●	
Financial risks	●		
Credit risks	●		
Market-price risks and risks of fluctuating payment flows	●		
Liquidity risk	●		
Pensions			●
Other risks	●		
Legal risks	●		
Anti-dumping			●
IT risks	●		
Personnel-related risks		●	
External risks	●		

Executive Board Evaluation of Overall Risk

The Executive Board bases its estimate of the overall risk situation on the risk management system in place. The system assesses every risk indicated by our divisions, corporate departments and regional entities. It is regularly reviewed by the Executive Board. One new sales-market risk for WACKER emerged in 2012 in the shape of anti-dumping proceedings instigated in Europe against Chinese solar businesses, as well as the anti-dumping and anti-subsidy proceedings brought against European polysilicon manufacturers by the Chinese government. The result of these proceedings is open and poses a significant risk for our polysilicon business. In numerous talks at a political level, we are actively striving to avoid punitive tariffs against Chinese solar manufacturers in Europe and European polysilicon producers in China, respectively.

The overall risk has therefore increased compared with 2011, although all other stated risks have remained more or less constant. As per this report's publication date, the Executive Board does not see any individual or aggregate risk that could endanger WACKER's future in any material way. Market risks in the photovoltaic industry, which is marked by overcapacity and price pressure along the entire supply chain, as well as intra-sector consolidation, continue to impede our polysilicon business. Despite these risks, we see good opportunities for WACKER to be successful in this market in the medium to long term. We remain confident that WACKER is strategically and financially so well-placed that we can take advantage of any opportunities that arise.

No Risks that Could Endanger the Company's Status as a Going Concern

Supplementary Report

No major events took place between the closing date of December 31, 2012, and this Annual Report's preparation date of February 25, 2013. There were no fundamental changes in our overall economic and business environment.

The Group's organizational and legal structures remained unchanged in the first few weeks of 2013.

Management Report of Wacker Chemie AG

(Summary as per the German Commercial Code)

The management report of Wacker Chemie AG and the Group management report for fiscal 2012 are combined in accordance with German Commercial Code (HGB) Section 315, Subsection 3 in conjunction with Section 298, Subsection 3. The annual financial statements of Wacker Chemie AG, prepared in accordance with the German Commercial Code (HGB), and the summarized management report are published simultaneously in the Elektronischer Bundesanzeiger (the electronic version of Germany's Federal Gazette).

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

Wacker Chemie AG is the parent company of the WACKER Group and is headquartered in Munich, Germany. The parent company operates through four business divisions – WACKER SILICONES, WACKER POLYMERS, WACKER POLYSILICON and WACKER BIOSOLUTIONS – which generate a substantial part of the Group's sales. Siltronic AG is affiliated with Wacker Chemie AG on the basis of a profit and loss transfer agreement. Wacker Chemie AG's business is also strongly characterized by its directly- and indirectly-held subsidiaries and investments located in Germany and abroad. Wacker Chemie AG has 55 subsidiaries, joint ventures and associated companies in total. The company also handles the Group's corporate functions. Wacker Chemie AG's Executive Board exercises key leadership functions for the whole Group. This Board determines the Group's strategy, allocates resources (such as funds for investment) and is responsible for the management of executive personnel and of corporate finances. It also oversees communication with important target groups, especially capital markets and shareholders.

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

Wacker Chemie AG had 9,467 employees as per December 31, 2012.

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

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

T 3.34 Statement of Income		
€ million	2012	2011
Sales	3,298.1	3,539.5
Changes in inventories	- 0.1	124.7
Other capitalized self-constructed assets	31.7	41.6
Operating performance	3,329.7	3,705.8
Other operating income	279.4	194.1
Cost of materials	- 1,481.7	- 1,470.5
Personnel expenses	- 726.1	- 777.2
Depreciation and amortization	- 341.3	- 330.1
Other operating expenses	- 670.9	- 641.3
Operating result	389.1	680.8
Result from investments in joint ventures and associates	- 245.7	18.8
Net interest income	- 40.0	- 10.7
Other financial result	- 4.9	- 7.7
Financial result	- 290.6	0.4
Pre-tax income	98.5	681.2
Income taxes	- 83.6	- 179.0
Net income	14.9	502.2
Profit carried forward from the previous year	978.7	775.2
Dividends paid	- 109.3	- 158.9
Allocations to retained earnings	- 230.0	- 139.8
Retained profit	654.3	978.7

Earnings at Wacker Chemie AG in fiscal year 2012 were marked by a lower operating result and depreciation of investments in China. Net income fell from €502.2 million in 2011 to €14.9 million.

The drop in the operating result was primarily due to lower sales revenue, in particular at WACKER POLYSILICON. In 2012, Wacker Chemie AG retained advanced payments and received damages related to terminated long-term supply contracts for polysilicon totaling €113.1 million. This had a positive effect on earnings. The financial result also includes depreciation of investments in the amount of €175.0 million. Pre-tax income came in at €98.5 million (2011: €681.2 million).

Sales fell from €3.54 billion to €3.30 billion – down by 7 percent – with performance varying among the individual divisions. WACKER SILICONES saw a slight increase in revenue year-on-year, from €1.26 billion in 2011 to €1.27 billion in 2012. WACKER POLYMERS also posted a positive sales performance, with an increase from €625.7 million to €642.0 million, almost 3 percent over a year earlier. Revenue in the WACKER POLYSILICON division dropped by some 20 percent to €1.10 billion (2011: €1.37 billion), due to the difficult photovoltaic-market environment. WACKER BIOSOLUTIONS posted an increase in sales from €103.4 million to €114.4 million, a gain of nearly 11 percent year on year. Operating performance fell by €376.1 million to €3.33 billion. In contrast to a year earlier, there was no positive effect resulting from inventory build-up (2011: €124.7 million) because inventories remained at the 2011 level.

The cost of materials was basically the same as 2011, coming in at €1.48 billion (2011: €1.47 billion). Lower raw-material costs and higher energy expenses balanced each other out over the year as a whole. Energy consumption went up, due in part to the new polysilicon production plant in Nünchritz, which was ramped up to full capacity in 2012. WACKER produced substantially more polysilicon overall in Germany in 2012 than in 2011. The average prices for strategic raw materials such as ethylene and methanol were 7 percent higher than in 2011. On the other hand, the price of silicon, a strategic base material for all silicon-based products, dropped by 6 percent compared with 2011.

Personnel expenses fell 7 percent to €726.1 million (2011: €777.2 million), primarily due to lower variable compensation payments, in part stemming from the decline in the operating result. Current personnel costs for wages and salaries remained nearly constant in comparison with 2011. Wacker Chemie AG had 9,467 employees at December 31, 2012 (December 31, 2011: 9,511). Current expense for pensions rose as a result of the increased company contribution in respect of defined-benefit pension commitments. For the first time, Wacker Chemie AG paid 350 percent of the employee contribution into the company pension fund in 2012 (2011: 250 percent).

In 2012, Wacker Chemie AG's R&D expenses were 9 percent higher at €105.0 million (2011: €96.0 million).

Depreciation and amortization increased slightly, from €330.1 million in 2011 to €341.3 million in 2012 – up 3 percent. In 2011, however, depreciation of property, plant and equipment in the amount of some €25 million had been included in this amount. One reason for the rise in depreciation and amortization was the shortening of the useful lives of polysilicon-plant infrastructure and technical facilities. Another reason was that depreciation of the polysilicon production plant in Nünchritz was recorded for the first time in 2012.

The other operating result, consisting of other operating income less other operating expenses, improved by 12 percent (on balance), coming in at €–391.5 million (2011: €–447.2 million). This increase is largely due to advance payments retained and damages received – relating to terminated polysilicon contracts – which amounted to €113.1 million in 2012 (2011: €66.2 million). The foreign currency result from operations showed a net exchange rate loss of €10.0 million (2011: € +19.2 million). Additions to and reversals of provisions led to an increase in the other operating result, on balance, of €3.7 million (2011: €8.6 million). As for other operating expenses, major effects beside the foreign currency loss were: outgoing-freight expenses, customs duties, other selling expenses, other contractor work, and repair and maintenance.

At €389.1 million, the operating result was down by 43 percent compared with the prior year (2011: €680.8 million), lower revenue being the main cause of this drop. Owing to decreased operating performance, the material-cost ratio rose to 44.5 percent (2011: 39.7 percent). The personnel-cost ratio increased only marginally in 2012, from 21.0 percent in 2011 to 21.8.

The result from investments in joint ventures and associates was affected by depreciation of Chinese companies and expenses for losses assumed under profit-and-loss transfer agreements.

In 2012, the intercompany transfer price policy between the Chinese WACKER companies and the associated company Dow Corning (ZJG) Co. Ltd., which produces siloxane at the Zhangjiagang site in China, was adjusted to reflect altered market conditions. This led to a substantial reduction in transfer prices for siloxane and an impairment of €105.0 million in the carrying amount of the investment in Dow Corning (ZJG) Holding Co. Private Ltd., Singapore. Wacker Chemie AG holds a 25 percent share in this company.

In the process of adjusting transfer prices for siloxane, the transfer price was lowered for the HDK®-branded pyrogenic silica produced by Wacker Chemicals Fumed Silica (ZJG) Co. Ltd. at the Zhangjiagang site. That resulted in an impairment of €20 million in the carrying amount of the investment in Wacker Chemicals Fumed Silica (ZJG) Holding Co. Ltd., Singapore. Wacker Chemie AG holds a 51 percent share in this company.

In addition, the carrying amount of the investment in Wacker Chemicals (China) Company Ltd. (Holding), in Shanghai, China, was impaired by €50.0 million. These impairments represent WACKER's response to the current market situation for silicone business.

The losses assumed, resulting principally from Siltronic AG and amounting to €112.0 million (2011: €20.4 million), were partially compensated by combined earnings from chemical subsidiaries in the amount of €41.3 million (2011: €39.2 million).

Net interest income amounted to €-40.0 million, €29.3 million lower than the 2011 figure of €-10.7 million. The net income figure stems mainly from lower interest income from investments in securities and fixed deposits. The increase in financial liabilities was due to higher interest expenses in 2012. The expense for interest accruing to provisions for pensions also rose.

At €83.6 million, income tax expenses fell significantly (2011: €179.0 million), reflecting the lower operating result. Adjusted for non-tax-deductible impairment of investments, the tax rate was around 30 percent.

Net income for 2012 amounted to €14.9 million (2011: €502.2 million). Retained profit for 2012 – which was calculated as the profit carried forward from 2011 less €230.0 million in allocations to retained earnings and less €109.3 million in dividends paid – amounted to €654.3 million (2011: €978.7 million).

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

T 3.35 Statement of Financial Position

€ million	2012	2011
Assets		
Intangible assets	5.9	6.2
Property, plant and equipment	1,823.0	1,919.0
Financial assets	1,453.6	1,174.4
Fixed assets	3,282.5	3,099.6
Inventories	447.5	454.6
Trade receivables	330.1	303.1
Other receivables and other assets	805.7	650.8
Receivables and other assets	1,135.8	953.9
Securities	175.4	374.2
Cash on hand, demand deposits	125.2	350.7
Current assets	1,883.9	2,133.4
Prepaid assets	3.4	1.7
Total assets	5,169.8	5,234.7
Equity and Liabilities		
Subscribed capital	260.8	260.8
Less nominal value of treasury shares	- 12.4	- 12.4
Issued capital	248.4	248.4
Capital reserves	157.4	157.4
Other retained earnings	1,000.0	770.0
Retained profit	654.3	978.7
Equity	2,060.1	2,154.5
Provisions for pensions and similar obligations	535.7	498.6
Other provisions	297.6	350.5
Provisions	833.3	849.1
Financial liabilities	1,056.2	818.6
Trade payables	154.4	202.7
Other liabilities	1,065.8	1,209.8
Liabilities	2,276.4	2,231.1
Total equity and liabilities	5,169.8	5,234.7

The amount of total assets held by Wacker Chemie AG, at €5.17 billion, dropped by 1 percent compared to year-end 2011 (€5.23 billion). The individual asset items were affected by several contrary effects.

Fixed assets increased in 2012 by 6 percent, from €3.10 billion to €3.28 billion. Property, plant and equipment grew by €244.9 million due to investment in strategic projects, primarily technical plants and machinery. Depreciation reduced property, plant and equipment by €337.6 million (2011: €325.8 million), while financial assets grew from €1.17 billion to €1.45 billion. On the one hand, €285.7 million was added to the equity base of Wacker Polysilicon North America, LLC, an intermediate holding company for production purposes. The purpose of this measure was to finance construction work at the Tennessee production site. On the other hand, impairments totaling €175.0 million were recognized on the carrying amounts of the two joint ventures Dow Corning (zJG) Holding Co. Private Ltd., Singapore, and Wacker Chemicals Fumed Silica (zJG) Holding Co. Ltd., Singapore, as well as for Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, China. The reason for these impairments was adjustments made to the intercompany transfer price policy between the Chinese WACKER Group companies and the two joint ventures.

The closed investment fund recognized as a financial asset was increased from €100.0 million to €140.0 million. Liquidity not required in the short term is invested in this fund and held for future investment projects. Furthermore, a long-term loan in the amount of €87.9 million was extended to WACKER Finance B.V. Kommenie in Amsterdam in the Netherlands. The ratio of fixed assets to total assets at Wacker Chemie AG was 63 percent, up from 59 percent in 2011.

Inventories remained constant year on year, at €447.5 million (2011: €454.6 million). Trade receivables rose by 9 percent, from €303.1 million in 2011 to €330.1 million. In addition, other receivables and other assets increased 24 percent year on year to €805.7 million. Receivables from affiliated companies rose from €467.7 million to €676.7 million in 2012. This increase was due to the ongoing financing provided by the production company Wacker Polysilicon North America, LLC for construction work taking place at the new production site in Charleston, Tennessee. Other assets decreased 32 percent to €118.8 million (2011: €175.7 million). Other assets mainly comprise tax receivables and other receivables.

In 2012, as in the previous year, Wacker Chemie AG invested excess liquidity in securities. The bonds in question have maturities of more than three months. As of December 31, 2012, Wacker Chemie AG held more than €175.4 million in securities, €198.8 million less than in 2011 because liquidity was required for ongoing investments.

Wacker Chemie AG's cash on hand and demand deposits amounted to €125.2 million as of December 31, 2012 (December 31, 2011: €350.7 million). The decline was attributable to substantial capital expenditure in 2012.

Equity on the reporting date amounted to €2.06 billion (2011: €2.15 billion), corresponding to an equity ratio of 39.8 percent (2011: 41.2 percent). Pursuant to a shareholders' meeting resolution, €230 million in retained profit from 2011 was allocated to other retained earnings. The remaining retained profit of €654.3 million primarily comprised current net income in 2012 of €14.9 million and the profit carried forward from 2011 that was not distributed as dividends. The company paid €109.3 million in dividends to its shareholders in 2011.

As expected, provisions for pensions and similar obligations rose compared with the previous year, by €37.1 million to €535.7 million (2011: €498.6 million). However, other provisions decreased 15 percent to €297.6 million (2011: €350.5 million). This balance sheet item consisted primarily of provisions for taxes and provisions for personnel and environmental protection. In particular, provisions for personnel were reduced by €69.3 million, the reason being a decrease in profit-based compensation elements and lower provisions for phased early retirement. All in all, provisions constituted 16 percent of total equity and liabilities.

Financial liabilities amounted to €1.06 billion at the reporting date (2011: €818.6 million), up 29 percent. Bank loans amounted to €857.1 million (2011: €469.0 million). Wacker Chemie AG took advantage of low interest rates to secure long-term financing on the capital market. On February 23, 2012, WACKER issued four promissory notes (German Schuldscheine) totaling €300 million, with maturities of three and five years at standard market credit terms. In addition, long-term loans each totaling 5 billion Japanese yen were raised in the third and fourth quarters of 2012. Financial liabilities from cash pooling and intercompany loans decreased by €154.3 million. Liabilities due to affiliated companies amounted to €190.0 million (2011: €344.3 million). Financial liabilities accounted for 20 percent of total equity and liabilities (2011: 16 percent).

Trade payables decreased from €202.7 million in 2011 to €154.4 million in 2012. One reason for this decline was lower production volumes, especially at the WACKER POLYSILICON divisions, in the fourth quarter of 2012. Other liabilities also decreased, from €1.21 billion in 2011 to €1.07 billion at the reporting date. This was primarily due to the drop in advance payments received under polysilicon contracts, which decreased €155.0 million during 2012 to €1.02 billion (2011: €1.18 billion). Advance payments received for polysilicon deliveries represented 20 per cent of total equity and liabilities.

Wacker Chemie AG's financial position was impacted in 2012 both by high capital expenditure and by markedly reduced cash flow from operating activities. Cash flows from operating activities amounted to €399.0 million, €450.3 million less than the previous year (2011: €849.2 million). This was primarily due to the lower net income, at €14.9 million, and to high offsets in connection with advance payments received for deliveries of polysilicon to customers. The change in advance payments received amounted to €155.0 million. Non-cash accounting transactions such as depreciation of property, plant and equipment and impairments of financial assets had a positive effect on operating cash flow. Declining trade receivables and other receivables led to cash outflows during the reporting period.

At €-482.2 million, cash outflows for Wacker Chemie AG investment activities in 2012 were substantially below the previous year's level of €-908.0 million. This amount includes the purchase and sale of securities totaling €129.1 million. Investment in securities in the previous year amounted to €151.6 million. At €251.9 million, investments in property, plant and equipment were down year on year (2011: €390.4 million). The greater part of these funds was invested in further expansion of the polysilicon production facilities in Nünchritz and Burghausen. Financial investments primarily comprised capital increases for Wacker Polysilicon North America, LLC, for the purpose of financing construction of the Tennessee production site. Financing was via an intermediate holding company. Adjusted for the effect of securities, the cash outflow from noncurrent investment activities amounted to €611.2 million (2011: €756.4 million).

Net cash flow from investment activities and operating activities, less securities and advance payments received, amounted to €-57.3 million in 2012 (2011: €-70.6 million). WACKER redefined the meaning of net cash flows for Wacker Chemie AG, as well. From now on, advance payments received under polysilicon agreements will no longer be recognized in net cash flow. According to the previous definition, Wacker Chemie AG would have reported net cash flow for 2012 of €-212.3 million (2011: €92.9 million).

Cash flow from financing activities amounted to €-207.2 million (2011: €3.7 million), reflecting financing measures taken in 2012. Wacker Chemie AG took out loans of €398.7 million to finance investment projects. In addition, the company transacted intra-Group financing, which increased by a total of €496.6 million. The dividend payout of €109.3 million for 2011 also impacted cash flow.

Liquidity – defined as the balance of securities in current assets, of fund shares, and of cash on hand and demand deposits – dropped from €824.9 million at year-end 2011 to €440.6 million at year-end 2012. In 2011, Wacker Chemie AG reported net financial receivables in the amount of €355.9 million, after offsetting liquidity against liabilities toward financial institutions. At the end of 2012, net financial liabilities amounted to €416.5 million.

Risks and Opportunities

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

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

For further details, see pages 225 to 227 of this Annual Report. The description of the internal control system for Wacker Chemie AG, as mandated by Section 289, Subsection 5 of the German Commercial Code (HGB), can be found in the section on Internal Control System (ICS) and Internal Control System for Accounting, from page 122

Outlook

Essentially, Wacker Chemie AG's prospects for the next two years mirror the business trend at WACKER described in detail in the Group's Outlook section.

Uncertainty remains high about the global economic outlook. Despite the risks, WACKER expects the world economy to expand slightly in 2013. Growth in China and other emerging economies could regain some momentum during 2013. There will also be moderate growth in the USA. In Europe, economic activity is still dampened by the sovereign-debt crisis.

For 2013, we expect sales to come in at the previous year's level. From today's perspective, our 2014 forecast is for sales growth. We anticipate that net income will be in positive territory in 2013 and 2014.

Publication

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

4

Combined Management Report Outlook

Energy-Saving Chips

Wafers (1) are cut from a silicon ingot (2). Chips for electronic devices (3) are made from these wafers. Sensors, power devices, microcontrollers and other electronic chips ensure that state-of-the-art electrical appliances, and hybrid and electric cars are safe and economical.



40%

of new cars are expected to be fitted with a hybrid or electric motor by 2025.



2



1



3

Combined Management Report Outlook

Outlook 147

Outlook

Uncertainty remains high about the future direction of the global economy. The risks that economic weakness will continue in 2013 are still considerable. The ongoing sovereign-debt crisis in Europe is weighing on EU economies. WACKER, though, anticipates that the downward GDP trend in many EU countries will not continue for very much longer. The US should see its economic output rise relative to the past year. And growth in China and other emerging economies could regain some momentum in 2013. The key task facing the European Union remains finding a solution to the sovereign-debt crisis. That would stabilize economic trends not only in Europe, but also in other regions of the world.

In our scenario, we assume that the global economy will expand slightly in 2013. Stronger growth should then follow in 2014.

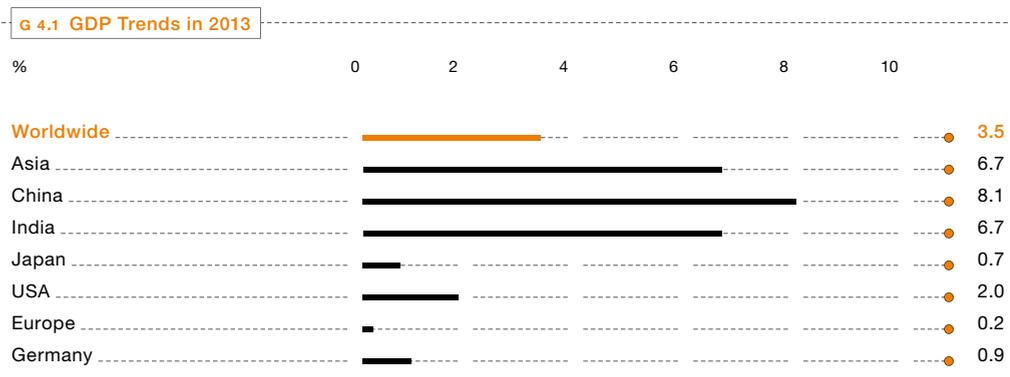
Global Economy to Grow Slightly in 2013

Underlying Economic Conditions

According to the International Monetary Fund (IMF), the global economy will experience slightly higher growth in 2013 than in the previous year. The IMF forecasts that world GDP will rise by 3.5 percent (2012: 3.3 percent). For 2014, the IMF predicts 4.1 percent. Upward momentum in 2013 will mainly come from emerging markets, with 5.6 percent growth. Advanced economies will deliver GDP growth of only 1.5 percent.

Moderate Expansion for us Economy

High unemployment remains the major problem facing the US economy. The US real-estate market, though, is expected to continue its recovery in 2013, bolstering the economy. The Organisation for Economic Co-Operation and Development (OECD) expects growth of 2.0 percent there. For 2014, the OECD estimate is 2.8 percent.



Sources – worldwide: IMF; Asia: ADB; China: ADB; India: ADB; Japan: OECD; USA: OECD; Europe: IMF; Germany: IMF (Dec. 2012)

Asia Remains Growth Driver of Global Economy

In China, monetary easing – and the infrastructure projects already planned – will generate more growth in 2013 than in the previous year. The Asian Development Bank expects the Chinese economy to expand by 8.1 percent. Growth in India has been dampened by insufficient investment, climbing unemployment, strong inflation and high sovereign debt. Despite these problems, the ADB anticipates a 6.7 percent year-on-year rise in GDP for 2013. In Japan, the economy will only see moderate growth in 2013. A strong recovery after the earthquake meant that the Japanese economy expanded by 1.6 percent in 2012. This performance will not be repeated during the current year. The OECD forecasts growth of just 0.7 percent year on year, and 0.8 percent for 2014. To spur the economy, the new Japanese government agreed on a stimulation package of €175 billion in January. Overall, Asia will deliver much higher growth rates than all other regions over the next two years. According to the ADB, Asian economies will expand 6.7 percent compared with 2012.

China Set to Grow
More Strongly Again

Growth in Europe Held Back by Sovereign-Debt Crisis

The IMF expects Europe to pull out of recession in 2013 and achieve marginal growth. After last year's economic contraction, the IMF estimates that 2013's GDP will improve slightly by 0.2 percent. Successful budgetary consolidation in individual countries could then lead to stronger GDP growth in 2014. The OECD takes the view that an increase of 1.3 percent is possible. In Germany, business experts anticipate a similar growth rate to last year. The IMF's estimates are for a rise of 0.9 percent. Consumer spending and the construction industry are stabilizing demand. The OECD predicts that GDP will increase by 1.9 percent in 2014.

General Sector-Specific Conditions

In the key industries for our business, we expect economic trends to present a mixed picture in 2013.

Demand for Semiconductor Wafers to Rise in 2013

According to Gartner's market research experts, the semiconductor-wafer market will grow in 2013. Worldwide silicon-wafer sales by surface area sold will rise 4.1 percent year on year to around 62,389 million cm², with the 300 mm segment expected to perform even better, growing by 13.1 percent. Slight growth is also anticipated for 200 mm wafers. Conversely, 150 mm-wafer sales are likely to fall again compared with the previous year. The Gartner analysts expect semiconductor-revenues to rise by 4.3 percent globally in 2013 to around \$9.8 billion. Gartner's 2014 projections are for further increases in worldwide volumes and revenues. WACKER has scaled back production of smaller wafer diameters over the past 12 months and should benefit from further market growth for 300 mm wafers. This, however, depends on whether price pressures in this segment persist.

T 4.1 Key Customer Sectors for WACKER

Sectors	Trends in 2012	Trends in 2013
Construction	Growth	Growth in all regions, except for Europe
Photovoltaic	Moderate growth	Growth, continuing market overcapacity and ongoing consolidation
Semiconductor	Decline	Moderate growth
Energy/electrical	Slight growth	Growth
Chemical	Stagnation	Weak growth

Photovoltaic Market Remains Challenging

The photovoltaic market of 2013 continues to face production overcapacity, price pressures and uncertainty about financial incentives for renewables. These challenges could weigh on polysilicon volumes sold to our customers. The market's development also faces another hurdle – anti-dumping investigations by the EU against Chinese solar manufacturers, and by the Chinese Ministry of Commerce against foreign polysilicon manufacturers. The consolidation process in the industry will continue.

Photovoltaic Market
Grows – Trend
toward Consolidation
Continues

T 4.2 Photovoltaics' Sales Trend in 2013

€ million	Installation of New PV Capacity (MW)		Growth in 2013
	2013	2012	%
Germany	5,000	7,600	-34
Italy	2,000	4,300	-53
Other European countries	4,800	3,500	9
USA	3,500	3,000	17
Japan	3,000	2,400	25
China	8,000	5,000	60
Other regions	10,400	6,300	81
Total	36,700	32,100	14

Sources: UBS AG, UBS Investment Research – Wacker Chemie, January 15, 2013

The substantial fall in prices right along the supply chain has made photovoltaics even more competitive compared with other energy sources. This trend is opening up new markets and promoting global growth in the photovoltaic-applications market. Europe, led by Germany and Italy, has been the largest market until now. Over the next two years, other countries outside Europe will grow at a faster rate. According to the EPIA (European Photovoltaic Industry Association), countries with additional growth potential include China, the USA, Japan, India and South Africa.

Based on its own research, WACKER anticipates moderate photovoltaic-market growth in 2013, with newly installed photovoltaic (PV) capacity likely to come in at between 35 and 40 gigawatts (GW).

Chemical Industry Again on Track for Slight Growth in 2013

After a somewhat weaker year in 2012, the German Chemical Industry Association (vci) expects production and sales to edge up in 2013. Output should rise 1 percent and sales 2 percent. Exports remain the growth driver in Germany's chemical sector. Its German and European business will barely expand. The vci anticipates a steady rise in German chemical exports to emerging markets. The USA remains by far the biggest trading partner.

WACKER's chemical divisions see growth opportunities primarily in BRIC countries, in other emerging economies and in the USA. Given the increasing prosperity of emerging economies, our sales will climb further in such countries as China and India, as well as in South-east Asia. The WACKER portfolio includes many higher-quality products that are in demand among new customer groups. Additionally, WACKER POLYMERS continues to see good growth prospects for VAE dispersions in the USA, where they are replacing conventional dispersion grades. WACKER SILICONES, too, expects rising sales in the USA over the next two years.

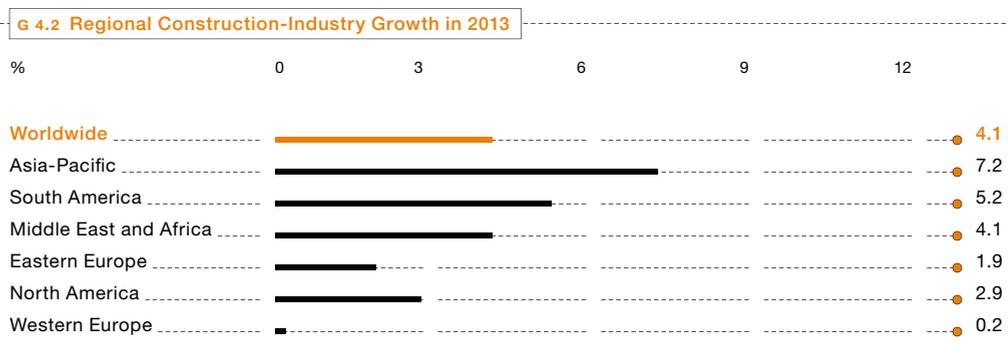
Global Construction Industry Remains on Growth Path

According to Global Insight's market researchers, the construction industry will continue expanding over the next few years. Its positive performance is being somewhat dampened by Europe's sovereign-debt crisis. Except for Europe, where only marginal growth is fore-

Positive Outlook
for the Construction
Industry in 2013

cast, all other regions are expected to pick up momentum in 2013. Asia will remain a growth engine. In China, the infrastructure sector is benefiting from the economic stimulus program launched in 2012. Major infrastructure projects in Latin America are generating growth, as well. The recovery in the us real-estate market means the private housing sector, too, will expand slightly. Conversely, Global Insight expects there to be a further drop in construction activity in Western Europe in 2013. The issue of energy efficiency continues to offer WACKER very good growth prospects for the coming years.

WACKER POLYMERS anticipates higher sales to the construction industry in all regions during 2013 – the areas of continued growth being carpet coatings, interior paints and dry-mix mortars. Europe will remain a difficult market for WACKER SILICONES in 2013. We expect to post increased sales in all other regions. There are good growth opportunities not only for hybrid products made from silane-modified organic polymer building blocks, but also for the (all-round) adhesives and (crystal-clear joint) sealants formulated from them, and for silicone cartridges sold under our own brand.



Source: Global Insight (Jan. 2013)

Electrical and Electronics Industries Optimistic

The 2013 outlook for the electrical and electronics sectors is one of confident optimism. According to the German Electrical and Electronic Manufacturers' Association (ZVEI), market volumes could rise further in 2013. The ZVEI expects to see growth of 6 percent. There will be double-digit expansion in the BRIC countries, which remain the key driving force behind the global electrical and electronics sectors. In Germany, the electronics market is expected to grow by 1.5 percent to around €177 billion (2012: €175 billion). The expansion of electricity grids will benefit business at WACKER SILICONES. In established industrial markets, old grids are being renewed or upgraded and new grids are being constructed (for example, in Germany) for the distribution of wind power. New electricity grids in emerging economies are improving the power supply and providing better availability. WACKER is a leading player in the USA, Europe and India with its high-temperature-curing silicone rubber for long-rod insulators and its liquid silicone rubber for hollow insulators and cable fittings.

We also anticipate good growth prospects in automotive electronics, which remains a dynamic market. Demand for products exhibiting superior temperature and media resistance is rising. This is an area in which WACKER SILICONES supplies UV-initiated silicones and innovative temperature- and media-resistant potting compounds for engines. Additionally, we expect to generate growth with products for optical applications (LEDs) and screens (displays).

Positioning the Group for the Next Two Years

Three levers will continue to determine WACKER's business strategy over the next two years: expansion into emerging markets and regions, innovations, and the substitution of existing products with WACKER products. The focal regions for further growth are Brazil, China, India,

Three Levers Determine
Business Strategy over
the Next Two Years

Southeast Asia and the Middle East. Of these, China offers the greatest potential. We also see opportunities for sales growth in the USA, an established market.

Adhering to its strategy, WACKER will drive forward its international expansion over the next two years. We will make a concerted effort to build up our network of technical competence centers and WACKER ACADEMY locations. Other priorities for spurring international business include transferring greater operational responsibility to the regions and tailoring new products even more closely to local requirements.

We will be placing greater emphasis on managing resources in 2013, which specifically entails the following:

T 4.3 Resource-Management Measures

Pursuing investment policies that are cash-flow oriented

Creating more competition in procurement and expanding our global supplier base

Limiting our material costs

Streamlining our workflows

Exercising caution when creating new jobs

Productivity measures at WACKER POLYSILICON

Executive Board Responsibilities Reorganized from January 1, 2013

The Supervisory Board of Wacker Chemie AG appointed Dr. Tobias Ohler as a new Executive Board member with effect from January 1, 2013. Dr. Wilhelm Sittenthaler left the Executive Board for personal reasons with effect from December 31, 2012. The appointment of Dr. Tobias Ohler to the Executive Board of Wacker Chemie AG prompted a reorganization of board responsibilities.

T 4.4 Executive Board Responsibilities as of January 1, 2013

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

Structural Changes

Several, non-core units and business activities were reorganized effective January 1, 2013.

- Pyrogenic silica (HDK®) production at the Burghausen plant, previously under the umbrella of WACKER POLYSILICON, has now been allocated to WACKER SILICONES. As a result, the HDK® production employees are now managed by WACKER SILICONES.
- WACKER's salt business, the sales and profit for which were previously reported under WACKER POLYSILICON, is now treated as part of the "Other" segment.
- Apart from sales between WACKER POLYSILICON and Siltronic, WACKER will no longer report internal sales separately.

These measures will reduce WACKER POLYSILICON's 2013 sales total by around €100 million, on a comparable basis to the previous year.

The infrastructure units in China and the USA will also be reported under "Other" from now on. WACKER already reports site management and infrastructure-unit employees at Burghausen and Nünchritz under this segment.

Value Management

The pre-tax cost of capital employed dropped in 2013. Every year, we review the cost of capital at each business division and determine specific risk premiums (beta coefficient). To calculate the WACC, the cost of capital and non-operational factors are deducted from EBIT. Every division is set a WACC target that is calculated during the planning stage. This target is combined at the Group level into one value.

The pre-tax cost of capital employed for 2013 is 11 percent (2012: 12 percent). Two factors prompted us to adjust the cost of capital employed:

- First, interest rates on the international capital market remain low, resulting in a historically low rate of return on so-called risk-free investments.
- Second, the change in our target capital structure. Amid low interest rates and our high capital expenditures, we raised our financial leverage.

The target capital structure for 2013 is thus 60 percent equity and 40 percent debt.

The WACKER Group's Prospects

Our expectations are based on the assumption that the global economy will grow in 2013. With Europe not providing any major stimulus, the BRIC countries and other emerging markets will be the main growth drivers.

WACKER's priority is to grow its business organically. In our opinion, applications and markets continue to offer good growth potential. We will align our investments with the wider economic framework. Our investment spending over the next two years will prioritize the completion of our polysilicon production facilities in the US state of Tennessee, which are to be commissioned 18 months later than originally scheduled. Owing to inflation, the amount invested in the new plant will increase by around 10 percent to US\$2 billion. At the same time, the longer construction period will make it possible to optimize the plant technology and production process, meaning that the annual nominal capacity of the completed facility will rise by at least 10 percent to over 20,000 metric tons.

We are building two new production plants at Nanjing (China) for WACKER POLYMERS and WACKER BIOSOLUTIONS. The new reactor for vinyl-ethylene copolymer dispersions will have an annual capacity of 60,000 metric tons, doubling WACKER POLYMERS' capacity there to 120,000 metric tons. WACKER BIOSOLUTIONS is building a new plant to produce polyvinyl acetate (PVAc) solid resins, with an annual capacity of 20,000 metric tons.

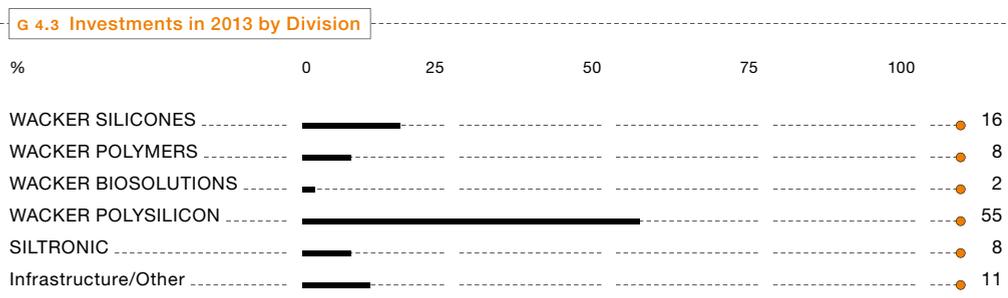
This investment project will strengthen our position as the world's leading manufacturer of polymers for dispersions and gumbase. The dispersions plant is expected to come on stream in 2013 and the PVAc solid-resin plant in 2014.

Investments at WACKER
POLYMERS Reinforce
Our Position as Global
Market Leader

Additionally, dispersions production is scheduled to start in Q1 2013 at a new plant in Calvert City (USA), with an annual capacity of 30,000 metric tons.

In 2013, WACKER SILICONES will be investing in facilities for manufacturing downstream products. At Siltronic, capital expenditures will focus on meeting the latest design rules for 300 mm technology.

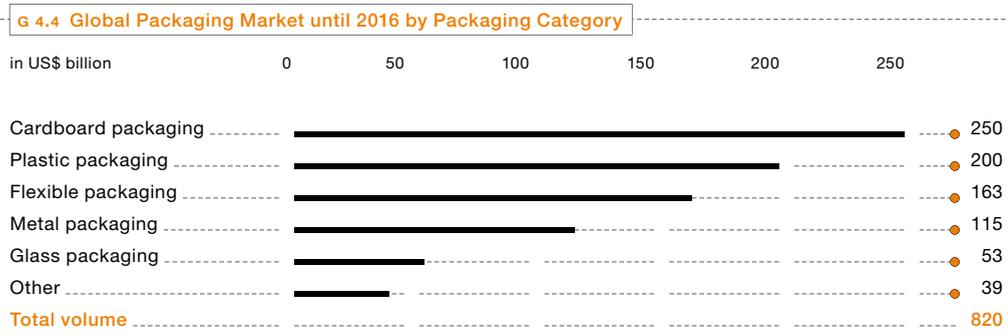
Investment spending is expected to come in at just under €600 million in 2013. It is unlikely that the anticipated cash flow from operating activities will fully cover capital expenditures. Investments in 2014 are budgeted to reach some €600 million. Depreciation will be about €550 million in 2013 and, in 2014, will also reach about €550 million.



Future Products and Services

The substitution of styrene-butadiene with WACKER's VAE dispersions will continue. The packaging and carpet sectors are the main target industries for this substitution business. But VAE dispersions are also suitable for packaging coatings. We expect the strongest substitution-business growth in the USA, which is the world's largest carpet market, accounting for 50 percent (\$9.5 billion) of global sales. Currently, only a small section of this market uses VAE dispersions from WACKER or other manufacturers. In packaging, WACKER POLYMERS is not only benefiting from substitution potential, but is also launching new products for this industry. An innovative surface coating resin, for example, reliably seals aluminum foil against non-polar plastics. The resin is ideal for heat-sealable closure systems, such as yoghurt lids or juice cartons. What is more, we are introducing a binder for advanced industrial and packaging coatings. It has been specially designed for applying printing inks to food packaging. Both this binder and the resin will be presented at the ECS tradeshow in Nuremberg (Germany) in March. The global packaging market reported sales of \$696 billion in 2011. Market researchers from Pira International estimate that this sector's sales will rise to \$820 billion by 2016. The largest single packaging market is the USA, accounting for \$127 billion of the total.

Packaging and
Carpeting Industries
Hold Growth Potential
for WACKER



At WACKER SILICONES, we intend to launch various new adhesives onto the market. They range from a parquet adhesive composed of silicone and organic polymer building blocks, to an adhesive for high-strength wood bonding or automotive applications, through to an adhesive that bonds metal to wood extremely firmly. Ceresana, a market-research institute, expects the global adhesives market to grow by 2.9 percent a year and to generate sales of \$50 billion in 2019. The construction and wood-processing industries will account for the largest share of the adhesives market by 2019.

WACKER supplies a range of innovative products for color applications and coating purposes. In the dispersions field, we have developed a versatile VINNAPAS® binder for high-quality interior and exterior paint and plaster applications. For heat-resistant coatings, WACKER SILICONES is launching a silicone resin emulsion that greatly enhances the heat resistance of binders.

At WACKER BIOSOLUTIONS, our product portfolio now includes a new solid resin for the production of gumbase. This resin simplifies the process of manufacturing gumbase because it reduces the number of ingredients required for formulation. At the same time, the chewing gum gains a longer shelf life and is easier to remove from surfaces. Every year, about one million metric tons of chewing gum are consumed around the world.

Looking ahead to 2014, we not only plan further product launches in the interior and exterior paints sector, but also intend to introduce innovative sealing materials for door and window frames, and to spur the substitution of acrylates by VAE dispersions.

Research and Development

The Group's research and development work remains focused on key strategic projects. In 2013, WACKER is planning to allocate 25 percent (2012: 21 percent) of its R&D budget to such projects. The R&D budget planned for 2013 amounts to about €175 million. Our R&D priorities remain the highly promising fields of energy, catalysis, biotechnology, construction applications and semiconductors. We are devoting particular attention to energy storage and renewable energy generation.

In 2014, WACKER will partner with the Technical University of Berlin in organizing an international science convention. The 17th International Symposium on Silicon Chemistry (ISOS XVII) and the jointly organized 7th European Silicon Days in Berlin are expected to attract as many as 600 researchers from silicon and silicone chemistry. During the convention, WACKER will present the WACKER Silicone Award for outstanding achievements in this area of research for the 14th time.

Production

Over the next two years, WACKER will bring additional production capacity on stream. The Nanjing site will start up a new WACKER POLYMERS' plant for VAE dispersions in 2013 (annual capacity: 60,000 metric tons), and the WACKER BIOSOLUTIONS' facility for PVAc solid resins will commence operation at the end of 2013 (annual capacity 20,000 metric tons). Once the Nanjing site has met the necessary requirements to qualify for food manufacturing, the old site in Wuxi will close. We will be stepping up existing production capacity for VAE dispersions at our American site in Calvert City by 30,000 metric tons.

**New Production
Capacity in Calvert City
and Nanjing Set to
Come on Stream in 2013**

At WACKER SILICONES, we are implementing smaller-scale projects and expansion measures for products such as silicone emulsions and vinyl polymers, with production expected to start over the next two years.

Due to the difficult solar-market situation, WACKER has extended the timeline for completing its production facilities in Tennessee. The site is now scheduled to start up in mid-2015, some 18 months later than originally planned.

T 4.5 Production Facility Start-Ups in 2013

Location	Project	Start-Up
Nanjing	VAE dispersions	2013
Nanjing	Solid resins	2013
Calvert City	VAE dispersions	2013
Zhangjiagang	Silicone emulsions	2013
Burghausen	Vinyl polymers	2013

We will press ahead with implementing the groupwide “Wacker Operating System” (wos). Our aim is to realize further productivity gains by scrutinizing all the main productivity levers (raw-material and energy efficiency, capacities, and labor productivity). We will place the emphasis on key projects that have a high economic impact on costs and benefits.

Maintenance costs will remain at around €370 million in 2013, the same as the previous year.

Procurement and Logistics

Energy and raw-material procurement has an important bearing on WACKER’s profitability. In our case, energy and raw-material costs account for over one-third of the cost of goods sold. We expect to see some easing of raw-material costs in 2013. Our four key raw materials are subject to mixed price trends, even within individual regions. For silicon metal, prices are likely to continue their slight decline in 2013. We expect vinyl-acetate-monomer (VAM) prices to be a little lower in the Americas, but to edge up in Europe. Ethylene will cost slightly less, especially in the Americas. We anticipate price rises for methanol.

Raw-Material Costs to Ease Slightly in 2013

On the energy front, price movements are dominated by regulatory effects. Their influence is greater than any of the market fluctuations on power exchanges. Due to the increased levy on electricity consumers under Germany’s Renewable Energies Act (EEG), energy prices will rise in 2013 – even though electricity and gas prices are actually lower than in 2012. Energy costs for 2013 will be at the prior-year level.

Over the next two years, we do not anticipate any supply-side problems for raw materials or energy. The markets where we source our raw materials are sufficiently liquid for bottlenecks to be unlikely. We have largely secured the required volumes of our four main raw materials for 2013. A part of our 2013 energy requirements has been contractually secured, as well.

In our supplier contracts, we are focusing on greater flexibility, with a shift toward market-based price formulas and contractual escalator clauses covering purchase quantities. As a result, we can respond better, and in either direction, to strong market fluctuations. We will continue to work toward securing WACKER a broader-based portfolio of raw-material suppliers over the next two years. At the same time, we will keep an even closer and keener eye on the raw-material purchasing sources that are relevant to us, so that we can access new suppliers.

We have adopted the same approach for technical procurement. There, too, our aim is to systematically reduce our dependence on individual suppliers and to qualify new partners. Over the next two years, we will carry on expanding our global procurement network. We have two main priorities. For new projects in Asia, primarily China, we will systematically scout out suitable local suppliers for WACKER, according to a policy of “from the region and for the region.” At the same time, we will start to supply our production operations in the Americas and Europe with equipment from China, India and South Korea. To that end, we will also be improving our international procurement organization’s IT and communication networks. Areas of focus include the gradual internationalization of work on goods classes and regular information-sharing by the regional purchasing organizations.

On the logistics front, the creation of a link to Burghausen's new public freight terminal (combined road/rail terminal) is an important development. As the operator, we are involved in its construction and the tendering process. Medium term, we will be adding a new freight gate to optimize the link to the combined road/rail terminal. At Nanjing and Zhangjiagang in China, we are adapting logistics infrastructures and processes to the growing needs of production lines. The master plans drawn up in recent years are now being successively implemented.

Sales and Marketing

Over the next two years, we will be working on enhancing and expanding our sales and distribution network. We will steadily increase our share of E-business, so that this channel accounts for even more sales. WACKER's calendar of events for 2013 features two key trade-shows: the European Coatings Show (ECS) in Nuremberg in March, followed by the Düsseldorf International Plastics Trade Fair (K 2013) in October. At the ECS, WACKER will showcase its latest products and solutions for applications in the paint, surface-coating, adhesive and construction industries. At K 2013, we will be presenting new silicone products for the automotive, electrical, medical, solar and plastics-processing sectors.

Two Key Tradeshow
on WACKER's Agenda
in 2013

Employees

WACKER will adopt a conservative approach to hiring new employees. During 2013, restructuring at Siltronic will result in further job cuts in 150 mm wafer manufacturing. As previously practiced in 2012, the plan is to avoid involuntary layoffs. With a few exceptions, temporary employment contracts have not been extended beyond January 2013. Overall, we estimate that WACKER's workforce will grow slightly in 2013 amid higher production volumes. We expect employee numbers to increase in 2014.

WACKER has set itself the goal of increasing the proportion of women in middle and senior management positions over the medium term. It is focusing on around 100 female employees who have the requisite potential for such tasks. We intend to extend the diverse flextime arrangements already in place by introducing a family care-time model in the next few years. Employees will be able to switch to part-time work schedules if they need to care for family members. For that period, their part-time salary will be topped up with a financial contribution from WACKER. This contribution is then effectively paid back in the form of working time after the care period. Under this model, employees will be able to cope better financially if they need to take time off to provide care.

In 2013, WACKER will launch another preventive healthcare project in partnership with the South German branch of the country's statutory retirement plan (Deutsche Rentenversicherung Süd). The aim here is to promote the health of shift workers. During a healthy living week tailored specifically to this group of workers, participants will learn exercises designed to help them cope better with the pressures of shift work. The effectiveness of these measures will then be assessed six months later.

Sustainability

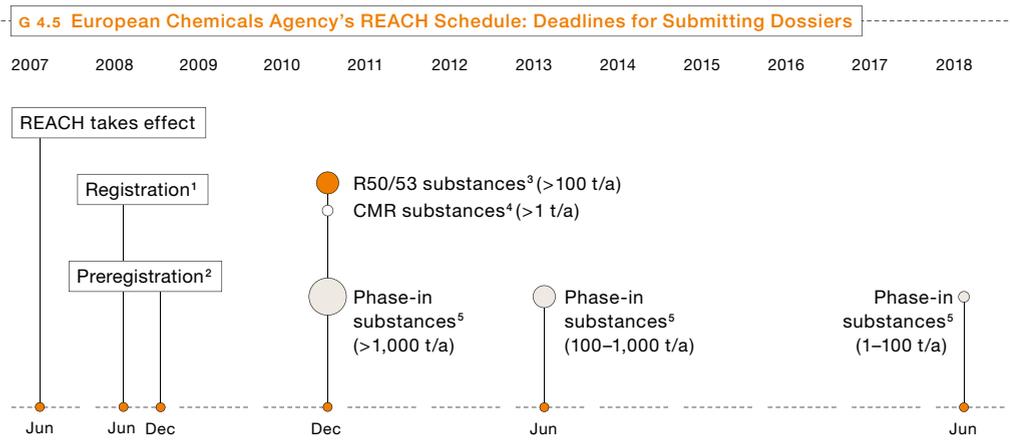
To enhance energy efficiency and reduce specific energy consumption (amount of energy per unit of net production output), the Executive Board has laid down energy targets for the Group. In doing so, we are also meeting a requirement for ISO 50001 certification. We already cut specific energy consumption by 22 percent between 2007 and 2012. A further reduction of 11 percent between 2013 and 2022 is now the target. Overall, by 2022, we will have brought our specific energy consumption down by one-third.

In 2012, we started to calculate our indirect greenhouse-gas emissions in accordance with Greenhouse Gas Protocol Scope 3. This covers all emissions generated along the entire supply chain.

During 2013, WACKER will include the Jincheon (South Korea) site in Group certification. German production sites are to be certified under OHSAS 18001 (occupational health) – and Wacker Chemie AG's ISO 14001 (environmental protection) and OHSAS 18001 certificates are to be combined with those of Siltronic AG.

By 2015, we aim to have reduced our accident rate (the number of workplace accidents per million hours worked) to below 2.0, roughly halving it compared to 2010.

Under REACH legislation, we intend, by June 2013, to have sent the European Chemicals Agency (ECHA) 67 further dossiers on substances manufactured in quantities of between 100 and 1,000 metric tons annually.



¹New substances > 1 metric ton/year

²Phase-in substances > 1 metric ton/year

³R50/53 substances: "highly toxic to aquatic organisms" and "may have long-term harmful effects in bodies of water"

⁴CMR substances: carcinogenic, mutagenic, toxic to reproduction

⁵Phase-in substances: predominantly old substances listed on the EINECS inventory (European Inventory of Existing Commercial Chemical Substances on the market before 1981)

In 2013, the sustainability management unit will finish installing a new platform for reporting key figures and use it on a regular basis for the first time. WACKER will furthermore publish its Sustainability Report for 2011/2012.

Expected Earnings Performance

The main assumptions underlying WACKER's plans relate to raw-material and energy costs, to personnel costs and to exchange rates. For 2013, we are planning on an exchange rate of US\$1.35 and ¥120 to €1.

Group Sales Supported by Volume Growth in 2013 – But Stay at Prior-Year Level due to Prices

WACKER anticipates that volumes will increase at all divisions during 2013. In our planning assumptions, we expect silicon-wafer prices to be lower and polysilicon prices to remain at their Q4 2012 level. This is why we are forecasting Group sales at the prior-year level. Achieving this target will also depend on:

- The continued absence of trade barriers (punitive tariffs) between the main trading partners
- Semiconductor demand picking up in the second half of 2013

Economic uncertainties mean the actual performance of the WACKER Group and its divisions could depart from our assumptions, either positively or negatively.

From today's perspective, the chemical divisions will see sales growth. In contrast, sales will decline at WACKER POLYSILICON and Siltronic. The greatest sales increase is expected in Asia. Compared with 2013, further sales growth is likely in 2014 – provided global economic expansion continues as predicted by the research institutes and there are no unforeseeable slumps in WACKER's key regions and industries.

T 4.6 Outlook for 2013

€ million	2013	2012
Sales	At prior-year level	4,635
EBITDA	Below prior-year level	787
Investments (asset additions)	Just under 600	1,100
Depreciation and amortization	550	528

EBITDA Trend

We anticipate that EBITDA for 2013 will fall short of the previous year's level. The drop is primarily due to lower year-on-year polysilicon and silicon-wafer prices and to the assumption that there will be negative exchange-rate fluctuations between the euro and the dollar and between the euro and the yen. As for Group net income, we forecast slightly positive net income, with a year-on-year increase in depreciation and amortization, as well as a higher negative financial result.

We anticipate that the chemical divisions' EBITDA will continue to rise compared to the prior year. WACKER POLYSILICON is expected to make a substantial contribution to EBITDA, though below the prior-year figure, based on our polysilicon-price estimates. From today's viewpoint, we do not see any major improvement in EBITDA year on year at Siltronic.

Divisional Performance

At WACKER SILICONES, we anticipate higher 2013 sales, with no significant pressure from raw-material costs, though the price squeeze on standard products will remain. The division's volume growth in percentage terms is likely to outstrip global GDP expansion. Growth will be generated mainly in Asia, where rising prosperity is prompting higher per-capita consumption of silicone products. Additionally, ever more stringent quality demands are accelerating the process of substituting simple products by value-added products that incorporate silicones. We expect personal-care products to grow at the fastest rate. Products for the electrical, electronics, medical-engineering and construction industries should also deliver increased sales. One strategic priority is to increase our business for higher-priced specialty products.

WACKER POLYMERS will stay on its growth path in 2013, amid slightly higher raw-material costs for ethylene and VAM. We have the production capacity to meet this growth – with capacities rising by 130,000 metric tons in 2013. We will be adding 30,000 metric tons of capacity at our American site in Calvert City, 40,000 metric tons at Ulsan (South Korea) and 60,000 metric tons at Nanjing. In the dispersions business, the main growth driver remains the shift away from styrene-butadiene toward VAE dispersions in the American packaging and carpet industries. In emerging economies, we expect to see further growth in construction applications, especially interior paints. The regions with the highest sales growth are likely to be China, India and the Americas. We anticipate only a slight sales improvement in Europe. We will continue to pursue market strategies tailored to individual regions in order to fully harness growth potential.

Chemical Divisions
Set to Boost Sales
and EBITDA in 2013

At WACKER BIOSOLUTIONS, we anticipate a further sales rise in 2013. With the start-up of the new production plant in Nanjing, we aim to expand our leading position for gumbase. The pharmaceutical/agricultural and food segments are likely to see improved sales, as well. Increased investment spending on innovations should improve the proportion of sales from new products in the medium term. We see the greatest growth opportunities in Asia, as before, and also in Germany.

In 2013, WACKER's polysilicon business will remain difficult. The reasons are wide ranging. The consolidation process in the industry is not yet over, there is still overcapacity, the financial state of many customers is critical, and polysilicon prices remain low. Additionally, the market faces the burden of anti-dumping investigations by the European Union and the Chinese Ministry of Commerce. If both sides impose punitive tariffs, the global photovoltaic market could suffer. WACKER has already responded to this challenging situation. We have extended the schedule for completing the polysilicon site in Tennessee by 18 months – its start-up now planned for 2015. At Burghausen, short-time work was introduced in October 2012. In February 2013, we stopped short-time work there. To defend our cost leadership, we intend to launch an ambitious cost-cutting program designed to achieve another substantial reduction in polysilicon production costs. For 2013, we expect sales at WACKER POLYSILICON to be lower than a year earlier. The decline is partly due to the fact that sales from our salt business are now reported under "Other" and that product responsibility for pyrogenic silicas (HDK®) has been transferred to WACKER SILICONES. These structural changes will reduce WACKER POLYSILICON's total sales by some €100 million. We also expect sales from photovoltaic business to fall again. This is due to average polysilicon prices being lower than a year ago. Sales to semiconductor-industry customers will remain stable. Despite the difficult market situation, we are optimistic about the outlook for photovoltaics as an important energy source of the future. Photovoltaic systems have now reached a price level that will lead to further global-market growth. Overall, as the cost and quality leader, we expect to emerge from this consolidation process with renewed strength.

In the semiconductor sector, market researchers forecast growth, especially in the second half of 2013, although the year will get off to a sluggish start. We expect Siltronic's sales to decline in 2013, amid persistent price pressures. Market growth will be driven mainly by 300 mm business. There will be moderate growth for 200 mm silicon wafers, There are no longer any financial burdens from the closure of Hikari and Portland. Overall, we anticipate slightly positive EBITDA in 2013.

Expected Liquidity and Financial Performance

WACKER started 2013 with a much higher debt level. Net financial liabilities will continue to rise throughout the year, to over €1 billion.

Net cash flow will remain negative, but a considerable year-on-year improvement is expected. Over the past years, we received advance payments from our polysilicon customers. Now, our deliveries to these customers are taking place. This, alone, will reduce our liquidity by about €200 million. By delaying the polysilicon-site start-up in Tennessee and by investing less, we are easing the burden on cash flow by a euro amount in the triple-digit-million range.

Net Cash Flow still
Negative in 2013

In 2013, IFRS 19 requires enterprises to report actuarial gains and losses as well as other changes in value immediately and fully in the other comprehensive income. This approach replaces the widely-used corridor method of not accounting for actuarial gains and losses immediately in the Income Statement. As a consequence, equity will decline appreciably upon first-time application of the new regulations.

Future Dividends

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

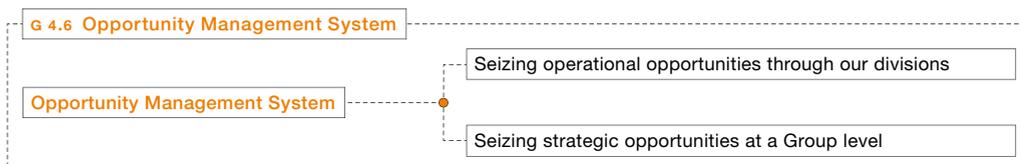
Financing

Our financial policy remains in essence valid. Even if the debt level rises further in 2013, we are confident that we have a strong financial profile with a sound capital structure and healthy maturities for our debt. As of December 31, 2012, WACKER had some €1.63 billion in used and unused credit lines.

Opportunities Report

Opportunity Management System

WACKER's opportunity management system remained unchanged from the previous year. It is a divisional and Group-level instrument. We identify operational opportunities and exploit them in our business divisions, which possess the detailed product and market expertise needed. We continuously use market observation and analysis tools to obtain a well-structured assessment of market, industry and competitor data, for instance. Plus, we hold customer interviews to evaluate future opportunities. The monitoring process – how WACKER seizes opportunities – is based on key indicators (such as rolling forecasts and current-status reporting).



Strategic opportunities of overarching importance – such as strategy adjustments, potential acquisitions, collaborations and partnerships – are handled at the Executive Board level. Such opportunities are incorporated into WACKER's annual strategy-development and planning process, with current issues being discussed at regularly scheduled Executive Board meetings. For these issues, we normally use various scenarios to develop risk-opportunity profiles before making decisions.

WACKER has identified a whole range of opportunities for advancing the Group's success over the next few years.

Overall Economic-Growth Opportunities

Although the economic environment is becoming tougher, WACKER sees good opportunities for growth in new markets and sales regions. Our focus here is on Brazil, China, India and the Middle East. As previously, we expect the highest growth rates to be in China and Southeast Asia. To seize such opportunities, we are steadily expanding our presence in these markets. Our technical competence centers and the WACKER ACADEMY are pivotal in achieving WACKER's high standard of service and customer proximity.

T 4.7 Opportunities and Risks	
Risks	Opportunities
Imposition of punitive tariffs on polysilicon deliveries to China	Recovery of semiconductor market in second half of 2013
Continuation of recession in Europe	Additional substitution business in the packaging and carpet industries
Overcapacity on the photovoltaic market	Increased rate of installing photovoltaic systems

T 4.8 Overview of Business Opportunities

Overall economic opportunities	Growth in Asia and other emerging markets
Sector-specific opportunities	Good product portfolio for megatrends, such as energy, greater prosperity, urbanization and digitization
Strategic opportunities	Expansion of our production capacities New high-quality products via innovations
Performance-related opportunities	Higher plant productivity Extension of our sales organization and establishment of technical competence centers Region-specific product development via complete supply chain for dispersions and dispersible polymer powders

Sector-Specific Opportunities

Sector-specific opportunities arise mainly due to our extensive product portfolio, which enables us to satisfy global megatrends with great success. These trends remain as important as ever to our business.

Rising prosperity in Asia's growth markets and in the emerging economies of other regions is fueling the need for high-quality products that incorporate silicones. By 2014, the market for silicone products should expand to €11.1 billion – growing at an average of 6 percent annually. In almost every sector, WACKER SILICONES offers products and solutions that support rising prosperity and promote urbanization, infrastructure expansion and environmental protection.

Growing Affluence in Emerging Economies Fuels Demand for Silicone Products

Energy remains a key megatrend, with the photovoltaic industry playing a major part here. The competitiveness of the solar industry compared to other energy sources continues to spur demand for solar installations. All around the globe, the use of renewable energy is increasing. Some countries and regions are supplanting Germany as the key market. The main examples here are the USA, China and Japan. As a polysilicon producer and cost and quality leader, WACKER POLYSILICON will benefit from this megatrend. Importantly, WACKER's portfolio includes products that conserve energy. WACKER POLYMERS supplies innovative products for the thermal insulation of buildings, for example. The Chinese government has cited energy conservation as one of its key environmental goals for the next few years. Thanks to our products, we can play a significant role here.

The digital processing and storage of information is progressing fast. As a manufacturer of silicon wafers, WACKER benefits from this megatrend. The demand for silicon wafers is climbing, fueled by semiconductor products for consumer electronics and by volume growth in Asia. The market share of 300 mm wafers is rising. In 2013, WACKER will have sufficient capacity to participate in this growth due to the expansion measures at Siltronic Samsung Wafer, our Singapore-based joint venture.

Strategic Opportunities

Production-capacity expansion presents WACKER's divisions with opportunities for further growth. All our divisions are investing specifically in technologies and production plants that underpin and promote growth. The three chemical divisions – WACKER SILICONES, WACKER POLYMERS and WACKER BIOSOLUTIONS – offer the best growth prospects. At WACKER POLYSILICON, we aim to benefit from the photovoltaic market's continuing growth.

Further opportunities arise through developing high-quality WACKER products that we can use to substitute other commercial products.

WACKER POLYMERS sees scope for growth in the substitution of styrene-butadiene with VAE dispersions. The high price of crude oil and the lack of supply security following the switch from oil to ethane by American crackers have prompted many paper and carpet manufacturers to turn to cost-effective VAE dispersions. In our opinion, this trend will continue. We also see scope for substitution in the coatings area.

At WACKER SILICONES, we aim to sell more products for specialty applications. To that end, we are developing a host of new products and applications. For example, thermoplastic silicone elastomers. Their prime advantage is that crosslinking can be reversed under heat, via established technology, and that they retain their typical silicone characteristics. They are used in photovoltaics, in medical technology and in film and sheet manufacturing. Growth opportunities will also arise from setting up a new development center for consumer electronics in South Korea, the international hub of this industry. The new "Center of Excellence Electronics" will focus on developing new products and tailored high-tech solutions for the electronics industry, and on implementing customer requirements with greater speed and ease.

New Development
Center for Consumer
Electronics to be
Established in South
Korea

Performance-Related Opportunities

If our energy costs were appreciably lower, production costs would clearly benefit, especially in energy-intensive polysilicon manufacturing.

To optimize procurement costs, we aim to systematically reduce our dependence on individual suppliers and qualify new partners.

Through our "Wacker Operating System" (wos), we strive to optimize processes and increase productivity, each year fine-tuning the main levers within our supply chain so that we become even better. The overriding objective is to defend WACKER's superior cost and quality position against competitors. Crucially, we are supported by our own engineering teams, who have a wealth of plant expertise. During 2013, a key priority will be cutting costs in our polysilicon production processes.

We will continue expanding our sales organization, technical competence centers and WACKER ACADEMY. In 2013, the technical competence center in Brazil will be enlarged. Having an even stronger market presence will open opportunities to enhance our market share.

Executive Board Statement on Overall Business Expectations

Over the next two years, WACKER expects the world economy to continue growing, despite Europe's persistent economic troubles and the risks involved in tackling the sovereign-debt crisis. According to our estimations, global growth will only be moderate in 2013, but will pick up momentum in 2014. For WACKER, 2013 will be a challenging year.

In 2013, the photovoltaic market will still be dominated by production overcapacity, by price pressures at each supply-chain stage and by ongoing consolidation. The anti-dumping proceedings currently pending in Europe against Chinese solar businesses and against international polysilicon manufacturers in China could impede our business. Given these unpredictable factors, it is impossible to forecast our polysilicon performance. Although we see the photovoltaic market continuing its moderate growth in 2013, our sales and earnings are again likely to be weaker than in the year-earlier period. As the cost and quality leader, though, we essentially expect to emerge from the consolidation process with renewed strength.

Due to the market situation in photovoltaics, we have reduced our capital expenditures for the next two years and extended the timeline for completing our new polysilicon site in Tennessee. These measures will ease our cash flow position in 2013.

Silicon-wafers for semiconductors will remain a weak market amid persistent price pressure in the first half-year, with market momentum not recovering until the second half.

In 2013, we expect to generate sales at the prior-year level. EBITDA will be below the prior-year level. The main uncertainty in the forecast stems from our polysilicon business. For 2014, we expect both sales and EBITDA to be higher than in 2013.

At our three chemical divisions, 2013's sales should increase on the previous year. During 2013, energy and raw-material costs – the main factors affecting our production costs – are expected, in total, to stay at the prior-year level. Price pressures on standard silicone products will persist. We continue to see good growth opportunities for our dispersions business – especially in the USA, where the paper and carpet industry's substitution of styrene-butadiene with VAE dispersions promises to translate into increased sales.

Nothing changed in our forecast up to the date of preparing the financial statements. Our silicon-wafer business started 2013 amid a weaker trend. Polysilicon quantities rose in the first few weeks, with prices remaining low. Our chemical divisions reported robust demand.

5

Consolidated Financial Statements

Long-Lasting Facade Protection

SILRES® BS (1) products based on quartz (2) protect facade paints and plasters and permit high water-vapor permeability. This results in facades of long-lasting beauty, as well as achieving enhanced insulating effects (3) and so high energy efficiency.



25 years

is the increase in the intervals between facade renovations due to silicone resin emulsion paints and silicone resin plasters.



3



2

1

Consolidated Financial Statements

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Statement of Income of the WACKER Group

For the Period January 1 to December 31

T 5.1 Statement of Income				
€ million		Notes	2012	2011
Sales	01		4,634.9	4,909.7
Cost of goods sold			-3,821.8	-3,747.2
Gross profit from sales			813.1	1,162.5
Selling expenses			-280.2	-280.8
Research and development expenses			-174.5	-172.9
General administrative expenses			-119.2	-124.0
Other operating income	01		366.7	286.6
Other operating expenses	01		-265.4	-260.5
Operating result			340.5	610.9
Result from investments in joint ventures and associates	02		-82.6	-7.7
Other investment income	02		0.1	-
EBIT (earnings before interest and taxes)			258.0	603.2
Interest income	02		16.0	16.9
Interest expenses	02		-26.2	-13.5
Other financial result	02		-54.6	-39.2
Financial result			-64.8	-35.8
Income before taxes			193.2	567.4
Income taxes	03		-86.4	-211.3
Net income for the year			106.8	356.1
Of which				
Attributable to Wacker Chemie AG shareholders			112.8	352.6
Attributable to non-controlling interests	12		-6.0	3.5
Earnings per common share (€) (basic/diluted)	19		2.27	7.10

Statement of Comprehensive Income of the WACKER Group

For the Period January 1 to December 31

T 5.2 Statement of Comprehensive Income

€ million	2012		2011	
	Before taxes	Deferred taxes	Before taxes	Deferred taxes
Net income for the year		106.8		356.1
Difference from foreign currency translation adjustments	-14.0	-	9.3	-
Changes in market values of the securities available for sale	0.6	-0.1	0.5	-0.1
Changes in market values of derivative financial instruments (cash flow hedge)	6.1	-1.7	-30.1	8.4
Of which recognized in profit and loss	-3.3	0.9	-35.4	9.7
Share of cash flow hedge in associates accounted for using the equity method	1.8	-	-0.3	-
Non-controlling interests	-0.7	-	-0.8	-
Income and expenses recognized in equity	-6.2	-1.8	-21.4	8.3
Total income and expenses reported in the fiscal year		98.8		343.0
Of which				
Attributable to Wacker Chemie AG shareholders		105.5		340.3
Attributable to non-controlling interests		-6.7		2.7

Statement of Financial Position of the WACKER Group

As of December 31

T 5.3 Assets				
€ million		Notes	2012	2011
Intangible assets	04, 05		25.5	30.2
Property, plant and equipment	04, 06		3,922.9	3,500.5
Investment property	07		1.5	1.5
Investments in joint ventures and associates accounted for using the equity method	08		41.0	124.5
Financial assets	08		269.8	141.0
Noncurrent securities	11		61.1	162.5
Other assets	10		13.1	13.3
Tax receivables	10		24.5	10.9
Deferred tax assets	03		13.3	11.6
Noncurrent assets			4,372.7	3,996.0
Inventories	09		712.1	713.7
Trade receivables	10		600.2	566.1
Other assets	10		118.5	132.8
Tax assets	10		90.8	117.3
Current securities	11		243.0	237.2
Cash and cash equivalents	11		192.6	473.9
Current assets			1,957.2	2,241.0
Total assets			6,329.9	6,237.0

T 5.4 Equity and Liabilities				
€ million		Notes	2012	2011
Subscribed capital of Wacker Chemie AG			260.8	260.8
Capital reserves of Wacker Chemie AG			157.4	157.4
Treasury shares			-45.1	-45.1
Retained earnings			2,219.9	2,216.4
Other equity items			6.6	13.9
Equity attributable to Wacker Chemie AG shareholders			2,599.6	2,603.4
Non-controlling interests			18.2	26.3
Equity		12	2,617.8	2,629.7
Provisions for pensions		13	569.3	527.1
Other provisions		14	161.3	193.9
Tax provisions		14	32.1	61.3
Deferred tax liabilities		03	13.0	33.8
Financial liabilities		15	958.5	662.1
Other liabilities		16	816.6	1,007.8
Noncurrent liabilities			2,550.8	2,486.0
Other provisions		14	100.7	114.7
Tax provisions		14	42.3	7.2
Tax liabilities		16	17.2	22.7
Financial liabilities		15	238.7	115.8
Trade payables		16	379.8	402.6
Other liabilities		16	382.6	458.3
Current liabilities			1,161.3	1,121.3
Liabilities			3,712.1	3,607.3
Total equity and liabilities			6,329.9	6,237.0

Statement of Cash Flows of the WACKER Group

For the Period January 1 to December 31

T 5.5 Statement of Cash Flows

€ million	Notes	2012	2011
Net income for the year		106.8	356.1
Depreciation and impairments/appreciation of noncurrent assets		528.8	501.0
Changes in provisions		107.6	39.2
Changes in deferred taxes		-24.4	8.1
Other non-cash expenses and income		-81.0	-45.5
Result from disposal of noncurrent assets		-2.0	0.4
Result from equity accounting and joint venture dividends		85.2	9.8
Changes in inventories		-20.4	-192.1
Changes in trade receivables		-49.2	43.0
Changes in other assets		-4.8	-45.6
Changes in other liabilities		-129.0	22.2
Changes in advance payments received		-154.4	170.4
Cash flow from operating activities (gross cash flow)	21	363.2	867.0
Investment in intangible assets, property, plant and equipment, and investment property		-942.9	-781.1
Investment in financial assets		-0.3	-18.4
Payments for loans to joint ventures and associates accounted for using the equity method		-117.8	-34.9
Proceeds from the disposal of intangible assets, property, plant and equipment		7.2	1.3
Proceeds from the disposal of investments		-	1.6
Cash flow from noncurrent investment activities before securities		-1,053.8	-831.5
Acquisition of securities		-151.3	-187.5
Disposal of securities		234.7	40.0
Cash flow from investment activities	21	-970.4	-979.0
Dividends paid		-109.3	-159.0
Dividends paid to non-controlling interests		-1.4	-1.1
Bank loans raised		505.9	262.6
Bank loans repaid		-66.1	-54.7
Other financial liabilities incurred		3.7	-0.8
Other financial liabilities repaid		-6.2	-9.6
Cash flow from financing activities	21	326.6	37.4
Changes due to exchange-rate fluctuations		-0.7	3.3
Changes in cash and cash equivalents	11	-281.3	-71.3
At the beginning of the year		473.9	545.2
At the end of the year		192.6	473.9
Additional information on payment transactions included in the cash flow from operating activities			
Taxes paid		-85.2	-262.0
Interest paid		-37.0	-24.4
Interest received		24.2	13.2
Dividends received		2.8	2.1

Statement of Changes in Equity of the WACKER Group

For the Period January 1 to December 31

T 5.6 Statement of Changes in Equity								
€ million	Sub- scribed capital	Capital reserves	Treasury shares	Retained earnings	Other equity items	Total	Non- controlling interests	Total
Jan. 1, 2011	260.8	157.4	-45.1	2,022.8	26.2	2,422.1	24.7	2,446.8
Net income for the year	-	-	-	352.6	-	352.6	3.5	356.1
Dividends paid	-	-	-	-159.0	-	-159.0	-1.1	-160.1
Income and expenses recognized in equity	-	-	-	-	-12.3	-12.3	-0.8	-13.1
Dec. 31, 2011	260.8	157.4	-45.1	2,216.4	13.9	2,603.4	26.3	2,629.7
Jan. 1, 2012	260.8	157.4	-45.1	2,216.4	13.9	2,603.4	26.3	2,629.7
Net income for the year	-	-	-	112.8	-	112.8	-6.0	106.8
Dividends paid	-	-	-	-109.3	-	-109.3	-1.4	-110.7
Income and expenses recognized in equity	-	-	-	-	-7.3	-7.3	-0.7	-8.0
Dec. 31, 2012	260.8	157.4	-45.1	2,219.9	6.6	2,599.6	18.2	2,617.8

Reconciliation of Other Equity Items

For the Period January 1 to December 31

T 5.7 Reconciliation of Other Equity Items

€ million	Changes in market values of securities available for sale	Difference from foreign currency translation adjustments	Changes in market values of derivative financial instruments (cash flow hedge)	Total (excluding non-controlling interests)
Jan. 1, 2011	0.5	7.5	18.2	26.2
Additions	0.4	-	-7.9	-7.5
Other changes	-	-	11.6	11.6
Reclassification in the statement of income	-	-	-25.7	-25.7
Changes in exchange rates	-	9.3	-	9.3
Dec. 31, 2011	0.9	16.8	-3.8	13.9
Jan. 1, 2012	0.9	16.8	-3.8	13.9
Additions	0.5	-	3.0	3.5
Other changes	-	-	5.6	5.6
Reclassification in the statement of income	-	-	-2.4	-2.4
Changes in exchange rates	-	-14.0	-	-14.0
Dec. 31, 2012	1.4	2.8	2.4	6.6

Segment Information by Division

For the Period January 1 to December 31

T 5.8 2012								
€ million	Silicones	Polymers	Bio-solutions	Polysilicon	Siltronic	Other	Consolidation	Group
External sales	1,633.8	975.3	154.1	949.4	858.5	63.8	-	4,634.9
Internal sales	14.2	27.8	3.5	186.4	9.4	106.1	-347.4	-
Total sales	1,648.0	1,003.1	157.6	1,135.8	867.9	169.9	-347.4	4,634.9
EBIT	106.4	110.7	17.8	200.8	-92.2	-85.4	-0.1	258.0
Depreciation and impairments/ appreciation of noncurrent assets	82.9	36.7	6.7	226.7	92.9	82.9	-	528.8
EBITDA	189.3	147.4	24.5	427.5	0.7	-2.5	-0.1	786.8
EBIT includes:								
Result from investments in joint ventures and associates	-55.9	-	-	-	-26.6	-	-0.1	-82.6
Impairment losses	-	-	-	-	-2.5	-	-	-2.5
Additions to property, plant and equipment ¹	70.9	58.8	19.3	698.1	73.3	56.9	-	977.3
Additions to financial assets ²	87.9	-	-	-	29.9	0.3	-	118.1
Asset additions	158.8	58.8	19.3	698.1	103.2	57.2	-	1,095.4
Assets (Dec. 31)	1,180.4	483.2	107.6	2,417.6	1,136.6	1,270.5	-266.0	6,329.9
Liabilities (Dec. 31)	569.3	220.5	44.8	1,917.6	238.2	985.0	-263.3	3,712.1
Net assets (Dec. 31)	611.1	262.7	62.8	500.0	898.4	285.5	-2.7	2,617.8
Investments in joint ventures and associates included in net assets (Dec. 31)	19.3	-	-	-	22.2	-	-0.5	41.0
Research and development expenses	31.3	13.0	6.6	12.8	67.4	48.4	-5.0	174.5
Employees (Dec. 31)	3,960	1,365	357	2,349	3,978	4,283	-	16,292
Employees (average)	3,947	1,370	349	2,325	4,351	4,321	-	16,663

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

The segment information by division is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, see Note 22.

T 5.9 2011

€ million	Silicones	Polymers	Bio-solutions	Polysilicon	Siltronic	Other	Consolidation	Group
External sales	1,580.2	901.4	138.9	1,234.8	985.1	69.3	-	4,909.7
Internal sales	13.6	26.7	5.6	212.9	7.0	107.6	-373.4	-
Total sales	1,593.8	928.1	144.5	1,447.7	992.1	176.9	-373.4	4,909.7
EBIT	103.3	76.2	13.3	545.6	-56.7	-78.9	0.4	603.2
Depreciation and impairments/ appreciation of noncurrent assets	79.6	35.6	7.1	201.7	105.9	71.1	-	501.0
EBITDA	182.9	111.8	20.4	747.3	49.2	-7.8	0.4	1,104.2
EBIT includes:								
Result from investments in joint ventures and associates	16.7	-	-	-	-24.4	-	-	-7.7
Impairment losses	-	-	-0.7	-25.9	-14.8	-	-	-41.4
Additions to property, plant and equipment ¹	87.9	30.4	8.6	566.5	93.2	141.3	-	927.9
Additions to financial assets ²	18.4	-	-	-	34.9	-	-	53.3
Asset additions	106.3	30.4	8.6	566.5	128.1	141.3	-	981.2
Assets (Dec. 31)	1,197.7	478.9	96.1	1,928.7	1,190.4	1,672.0	-326.8	6,237.0
Liabilities (Dec. 31)	597.9	209.1	39.8	1,796.4	317.3	965.5	-318.7	3,607.3
Net assets (Dec. 31)	599.8	269.8	56.3	132.3	873.1	706.5	-8.1	2,629.7
Investments in joint ventures and associates included in net assets (Dec. 31)	80.0	-	-	-	44.9	-	-0.4	124.5
Research and development expenses	25.4	14.1	6.2	14.5	71.7	42.8	-1.8	-172.9
Employees (Dec. 31)	3,956	1,412	354	2,251	4,974	4,221	-	17,168
Employees (average)	3,957	1,404	357	2,054	5,002	4,160	-	16,934

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

The segment information by division is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, see [Note 22](#).

Segment Information by Region

For the Period January 1 to December 31

T 5.10 2012							
€ million	Germany	Rest of Europe	The Americas	Asia	Other regions	Consolidation	Group
External sales by customer headquarters	686.0	1,090.7	834.2	1,862.0	162.0	–	4,634.9
External sales by Group company headquarters	3,972.9	156.8	817.6	729.7	6.8	–1,048.9	4,634.9
Additions to property, plant and equipment ¹	301.1	4.0	604.4	67.6	0.2	–	977.3
Additions to financial assets ²	0.3	117.8	–	–	–	–	118.1
Asset additions	301.4	121.8	604.4	67.6	0.2	–	1,095.4
Assets (Dec. 31)	6,205.6	1,271.2	1,847.8	690.2	5.6	–3,690.5	6,329.9
Liabilities (Dec. 31)	3,298.4	140.5	544.5	528.0	2.9	–802.2	3,712.1
Net assets (Dec. 31)	2,907.2	1,130.7	1,303.3	162.2	2.7	–2,888.3	2,617.8
Noncurrent assets ³	2,659.4	352.2	1,019.6	360.3	3.4	–17.3	4,377.6
Research and development expenses	158.0	–	11.5	6.4	–	–1.4	174.5
Employees (Dec. 31)	12,635	361	1,531	1,725	40	–	16,292

T 5.11 2011							
€ million	Germany	Rest of Europe	The Americas	Asia	Other regions	Consolidation	Group
External sales by customer headquarters	899.4	1,186.7	846.4	1,822.0	155.2	–	4,909.7
External sales by Group company headquarters	4,250.8	138.3	783.0	750.4	7.4	–1,020.2	4,909.7
Additions to property, plant and equipment ¹	553.8	5.3	313.4	55.4	–	–	927.9
Additions to financial assets ²	18.4	34.9	–	–	–	–	53.3
Asset additions	572.2	40.2	313.4	55.4	–	–	981.2
Assets (Dec. 31)	5,959.9	878.7	1,007.8	672.7	5.8	–2,287.9	6,237.0
Liabilities (Dec. 31)	3,189.1	67.7	283.9	555.7	3.3	–492.4	3,607.3
Net assets (Dec. 31)	2,770.8	811.0	723.9	117.0	2.5	–1,795.5	2,629.7
Noncurrent assets ³	2,823.1	327.2	467.2	329.9	3.4	–136.5	3,814.3
Research and development expenses	155.6	–	11.9	11.1	–	–5.7	172.9
Employees (Dec. 31)	12,813	370	1,822	2,122	41	–	17,168

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

² Investments in joint ventures and associates, financial assets

³ Noncurrent assets as per IFRS 8 (excluding financial instruments, deferred tax assets and benefits after termination of the employment relationship)

The segment information by region is an integral part of the Notes to the Consolidated Financial Statements. For explanations of the key indicators, see [Note 22](#).

Notes of the WACKER Group

Accounting Principles and Methods

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

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

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

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

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

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

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

The Executive Board of Wacker Chemie AG authorized the consolidated financial statements on February 25, 2013. They will be submitted to the Supervisory Board for its meeting on March 7, 2013.

New Accounting Standards

Accounting Standards Applied for the First Time in 2012

Standard/ Interpretation		Mandatory from	Endorsed by EU	Substantial Changes and Anticipated Impact on WACKER
Amendments to IFRS 7	Disclosure Requirements Relating to Transfers of Financial Assets	July 1, 2011	Nov. 22, 2011	The changes to IFRS 7 apply to additional disclosure obligations relating to the transfers of financial assets. This serves to simplify the relationship between financial assets that are not to be derecognized completely and the corresponding financial liabilities. In the absence of relevant circumstances, the revised standard had no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IFRS 1 for First- Time Adopters	Severe Hyper-Inflation and Removal of Fixed Dates	July 1, 2011	Dec. 11, 2012	The amendment replaces the existing references to the date of January 1, 2004, with a reference to the timing of the transition to IFRS. This amendment also includes rules for those cases in which hyperinflation makes it impossible for an entity to comply with all IFRS stipulations. Its application has no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	Jan. 1, 2012	Dec. 11, 2012	The amendment contains a partial clarification of the treatment of temporary taxable differences from IAS 40's fair value model. Investment property often makes it difficult to assess whether existing differences are recovered as part of continuing use or in the wake of a sale. The amendment therefore generally makes it necessary to presume recovery due to a sale. Its application has no substantial impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements. WACKER measures its investment property exclusively at amortized cost.

Accounting Standards/Interpretations Not Applied Prematurely

The International Accounting Standards Board (IASB) has published the following standards, interpretations, and changes to existing standards of which the application is not yet mandatory and which WACKER is not applying earlier than required. In cases where there is no official German translation of new standards or interpretations, we shall use the English title of the relevant new official statement. WACKER continuously evaluates the new standards to determine their impact on the consolidated financial statements.

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

Standard/ Interpretation		Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	July 1, 2012	June 5, 2012	The application of the revised standard will have no impact on WACKER's earnings, net assets and financial position. The presentation in WACKER's financial statements of items of other comprehensive income will be enhanced.
Amendments to IAS 19	Employee Benefits	Jan. 1, 2013	June 5, 2012	The amendments to IAS 19 will affect the recognition and measurement of the expense for defined benefit pension plans and termination benefits. They will also result in wider disclosure requirements regarding employee benefits. The option of accounting for actuarial gains and losses using the corridor method is eliminated. In the future, these impacts will be recognized immediately in "other comprehensive income." Additionally, the return on plan assets is no longer to be recognized based on the expected interest rate but on the discount rate. Since WACKER is currently using the corridor method, the change applied as of January 1, 2013 is expected to result in an increase in provisions for pensions of around €680 million and a reduction in Group equity of around €490 million. Such recognition within other comprehensive income of variations in actuarial gains and losses will lead to more volatility in equity in the future.
IFRS 10	Consolidated Financial Statements	Jan. 1, 2014	Dec. 11, 2012	IFRS 10 changes the definition of "control" so that the same criteria are applied to all companies in determining control. The standard replaces the consolidation guidelines in the previous IAS 27 and SIC 12. The new rules may lead to major changes in the scope of consolidation compared with the previous determination of the Group pursuant to IAS 27. WACKER is currently of the opinion that application of the revised standard will have no influence on the current determination of the scope of consolidation.
IFRS 11	Joint Arrangements	Jan. 1, 2014	Dec. 11, 2012	IFRS 11 regulates the accounting of arrangements where a company exercises joint control over a joint venture or a joint operation. The standard replaces IAS 31. In the future, joint ventures will be accounted for using exclusively the equity method. The option of proportionate consolidation has been abolished. The abolition of proportionate consolidation has no impact on WACKER's earnings, net assets and financial position because WACKER already accounts for joint ventures using the equity method. At the moment, WACKER cannot conclusively assess the other effects of IFRS 11, including in respect of joint operations.
IFRS 12	Disclosure of Interests in Other Entities	Jan. 1, 2014	Dec. 11, 2012	IFRS 12 regulates the disclosures in the consolidated financial statements that enable users to assess the nature of, risks associated with and financial consequences of the entity's involvement in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Application of the revised standard will lead to a substantial broadening of the disclosures in WACKER's consolidated financial statements.

Standard/ Interpretation		Mandatory from	Endorsed by EU	Anticipated Impact on WACKER
IFRS 13	Fair Value Measurement	Jan. 1, 2013	Dec. 11, 2012	IFRS 13 describes how fair value is to be measured and extends the disclosures on fair value. Application of the new method of determining fair value will be relevant to all areas of WACKER's consolidated financial statements in which fair values are determined. WACKER does not expect the new approach to have any substantial impact on its earnings, net assets and financial position. The disclosure obligations in the consolidated financial statements will increase.
IAS 27	Separate Financial Statements	Jan. 1, 2014	Dec. 11, 2012	In the future, IAS 27 will deal only with separate financial statements. The existing guidelines for separate financial statements remain unchanged. The application of the revised standard will have no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
IAS 28	Investments in Associates	Jan. 1, 2014	Dec. 11, 2012	IAS 28 now also regulates the accounting of joint ventures using the equity method. The application of the revised standard will have no substantial impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Jan. 1, 2013	Dec. 11, 2012	IFRIC 20 regulates the accounting treatment of the cost of removing waste from a surface mine. In the absence of relevant circumstances, the interpretation has no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	Jan. 1, 2014	Dec. 13, 2012	This amendment to IAS 32 clarifies requirements for offsetting of financial instruments. Application of the revised standard will have no substantial impact on WACKER's earnings, net assets and financial position.
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities	Jan. 1, 2013	Dec. 13, 2012	These amendments to IFRS 7 extend the disclosure requirements regarding the netting of financial assets and financial liabilities. The added disclosure requirements will have an impact on the presentation of the financial statements.

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

Standard/ Interpretation		Publication by IASB	Application Date	Endorsed by EU	Anticipated Impact on WACKER
IFRS 9	Financial Instruments	Nov. 12, 2009	Jan. 1, 2015	Postponed	In the future, financial assets will be measured either at amortized cost or at fair value, depending on the business model of the company in question. At the moment, WACKER cannot conclusively assess what impacts the first-time application of this standard will have, should it be endorsed by the EU in its current form.
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures	Dec. 16, 2011	Jan. 1, 2015	Postponed	The amendments postpone the effective date of IFRS 9 and provide for additional disclosure requirements. Because WACKER cannot yet assess what impacts the first-time application of IFRS 9 will have, it is also not yet possible to evaluate the potential impact of these amendments to IFRS 9 and IFRS 7.

Standard/ Interpretation		Publication by IASB	Application Date	Endorsed by EU	Anticipated Impact on WACKER
Amendments to IFRS 1 for First- Time Adopters	Government Loans	March 13, 2012	Jan. 1, 2013	Expected in Q1 2013	This change provides first-time IFRS adopters with the same relief in terms of the accounting of government loans as for existing adopters. Its application will have no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Improvements to IFRS (2009–2011)		May 17, 2012:	Jan. 1, 2013	Expected in Q1 2013	Amendments affect IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34; the changes have no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IFRS 10, IFRS 11 and IFRS 12	Transition Guidelines	June 28, 2012	Jan. 1, 2013 ¹	Expected in Q1 2013	The purpose of the amendments is to clarify the transition guidelines in IFRS 10. Additionally, the changes facilitate the transition to IFRS 10, IFRS 11 and IFRS 12. Application of the changes will have no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entity	Oct. 31, 2012	Jan. 1, 2014	Expected in Q3 2013	The changes primarily focus on redefinition of the term "investment entity." Investment entities are also not required to fully consolidate majority-controlled subsidiaries in their consolidated financial statements. The amendments have no impact on WACKER's earnings, net assets and financial position, or on the presentation of its financial statements.

¹ Since the underlying standards do not take effect until Jan. 1, 2014 as per EU law, these amendments equally cannot take effect until then.

Scope of Consolidation

The consolidated financial statements include the financial statements of Wacker Chemie AG and its subsidiaries. Subsidiaries are defined as companies in which Wacker Chemie AG directly or indirectly holds a voting majority or has, in any other way, the power to govern the financial and business policies of an entity in order to benefit from its activities. In assessing control, we take potential voting rights that presently are exercisable or convertible into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Special-purpose entities (SPEs) are also consolidated if the economic substance of the relationship indicates the existence of control.

Joint ventures and associated companies are defined as companies in which Wacker Chemie AG exercises significant influence. This normally means that it holds 20 – 50 percent of the voting rights. These companies are included in the consolidated financial statements using the equity method. If joint ventures and associated companies have their own subsidiaries, these are not included in the table below.

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

Number	Germany	Rest of Europe	The Americas	Asia	Other regions	Total
Fully consolidated subsidiaries (incl. parent company)						
Jan. 1, 2012	14	13	5	16	2	50
Dec. 31, 2012	14	13	5	16	2	50
Companies consolidated using the equity method						
Jan. 1, 2012	1	-	-	4	-	5
Disposals	-1	-	-	-	-	-1
Dec. 31, 2012	-	-	-	4	-	4
Non-consolidated affiliated companies						
Jan. 1, 2012	1	-	-	-	-	1
Dec. 31, 2012	1	-	-	-	-	1
Total						
Jan. 1, 2012	16	13	5	20	2	56
Disposals	-1	-	-	-	-	-1
Dec. 31, 2012	15	13	5	20	2	55
Special-purpose entities						
Jan. 1, 2012	1	-	-	-	-	1
Dec. 31, 2012	1	-	-	-	-	1

Changes in the Scope of Consolidation

Disposals of companies consolidated using the equity method

Thin Materials AG, Eichenau, Germany (loss of significant influence in June 2012)	...32.68%
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There were no acquisitions in 2012. WACKER sold shares in Thin Materials AG, which was consolidated using the equity method. WACKER lost significant influence in the company through obligations from the sales contract.

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

A total of 14 domestic and 40 foreign companies were included in the consolidated financial statements.

As it had no substantial impact on the Group's earnings, net assets or financial position, the w.e.l.t. Reisebüro GmbH subsidiary was not consolidated. In 2011, its sales were below €1 million and its total assets were below €0.5 million. WACKER holds 51 percent of the subsidiary's shares; it will be valued at cost under noncurrent financial assets.

Apart from directly or indirectly controlled companies, WACKER consolidates one special-purpose entity where WACKER's influence amounts to control. This is a special fund (trust) into which Wacker Chemie AG has paid investment funds. This trust was established exclusively for WACKER, and all shares of the fund are held by WACKER. Because of the special stipulations of the investment fund, the contribution is subject to SIC 12.10.

Consolidation Methods

The consolidated financial statements are based on the separate financial statements of Wacker Chemie AG and its consolidated subsidiaries and special-purpose entities. All of these companies have their balance sheet date on December 31.

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

First-time consolidation is carried out in accordance with the purchase method, by setting off the acquisition cost against the Group's share in the equity of the consolidated 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 balance sheet date. If the cost is lower than the share of equity at the time of acquisition, this difference is included in the carrying amount and recorded in the statement of income as income from investments in joint ventures and associates. The cost is increased or reduced annually by the changes in equity corresponding to the proportion of the capital held by WACKER.

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

Acquisitions

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

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

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

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

Foreign Currency Translation

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

The financial statements of consolidated companies which are prepared in foreign currencies are translated on the basis of the functional currency principle using the modified reporting date rate method, in which balances are translated from the functional currency to the reporting currency using the average rates of exchange prevailing on the balance sheet date, while income statement amounts are translated using the period's average exchange rates. As the Group's subsidiaries conduct their business along autonomous lines financially, commercially and organizationally, their functional currencies are basically identical to the respective company's local currency. Any net gains or losses 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, 2012	Dec. 31, 2011	2012	2011
US dollar	USD	1.32	1.29	1.29	1.39
Japanese yen	JPY	113.51	100.30	102.50	110.99
Singapore dollar	SGD	1.61	1.68	1.61	1.75
Chinese renminbi	CNY	8.22	8.13	8.11	9.00

Estimates and Assumptions Used in Preparing the Consolidated Financial Statements

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

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

Intangible assets and property, plant and equipment/investments in associates accounted for using the equity method

The expected useful life of intangible assets and of property, plant and equipment, together with their amortization/depreciation schedules, are based on past experience, plans and estimates. This includes estimates of the period and allocation of future cash inflows derived from the investments made and from future technical advancements. The carrying amount of the intangible assets and property, plant and equipment was €3.95 billion (2011: €3.53 billion). Investments in associates accounted for using the equity method is listed at €41.0 million (2011: €124.5 million) in the statement of financial position.

Impairment tests are performed for assets if specific indicators point toward a possible impairment loss or reversal of an impairment loss. In the case of a possible impairment, an estimate must be made of the recoverable amount of the affected asset that corresponds to the higher value of the fair value less costs to sell or the value in use. To ascertain the value in use, the discounted future cash flows of the affected asset must be determined. The estimate of the discounted future cash flows contains significant assumptions such as, in particular, those regarding future selling prices and sales volumes, costs, and discount rates. Although WACKER is assuming that the estimates of the relevant expected useful lives and of discounted future cash flows, as well as the assumptions regarding the general economic conditions and the development of the economic sectors are reasonable, a change in the assumptions or circumstances might necessitate a change in the analysis. This could result in additional impairments or reversals of impairment losses in the future. [See Note 4](#)

Provisions

Significant risks inherent in the environmental protection provisions and in provisions stemming from claims for damages and onerous contracts are possible changes in future cost/benefit estimates, changes in the likelihood of their utilization, and enhanced statutory provisions concerning the elimination and prevention of environmental damage. The carrying amount of provisions for environmental protection was €52.4 million (2011: €52.4 million) and the carrying amount of sales/purchasing provisions amounted to €44.7 million (2011: €106.7 million). [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 health-care. 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. The carrying amount of the provision for pensions amounted to €569.3 million (2011: €527.1 million). [See Note 13](#)

Deferred Taxes

At the end of each reporting period, the Group assesses whether the probability of future tax benefits being realized is sufficient to recognize deferred 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. The carrying amount of deferred tax assets recognized in the statement of financial position amounted to €13.3 million (2011: €11.6 million).

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

WACKER calculates the pension-obligation amount (actuarial present value of the earned pension entitlements or “defined benefit obligations,” DBO) according to actuarial methods. The pension obligation is valued by discounting the WACKER-specific, expected future cash flows. The discount rate at the balance sheet date is derived from the yield curve of high-grade, fixed-interest, euro-denominated corporate bonds with maturities corresponding to the pension obligations. Effective December 31, 2012, WACKER changed its assumptions for the discount rate. Previously, it had taken – as high-grade corporate bonds – a portfolio of bonds in the “iBoxx EUR Corporate AA Index.” Due to rating downgrades, however, the number of bonds in this index diminished so much during 2012 that the index no longer provides an adequate basis for calculating a stable, actuarial interest rate. Now, WACKER takes Bloomberg data as the basis for selecting bonds with at least an AA– rating (as required by IFRS) from one of the three big rating agencies. The process for determining the discount rate – based on the expanded bond portfolio – is applied consistently with the previous year. Consequently, this change does not constitute an IAS 8-compliant change in accounting policy.

On December 31, 2012, the actuarial interest rate – prior to adjusting the underlying data – would have been 3.0 percent. Based on the expanded corporate-bond portfolio, the discount rate is 3.5 percent.

If the discount rate had been 3.0 percent in the eurozone, the amount for pensions and similar obligations (DBO) would have risen by €248.1 million at year-end. Since WACKER still uses the corridor method of IAS 19 (old) for December 31, 2012, there have not been any changes to net income for the year or to pension provisions in the statement of financial position. If the discount rate had been 3.0 percent, there would have been actuarial losses of €925.9 million.

At the beginning of fiscal 2012, WACKER shortened the useful lives of polysilicon-plant infrastructure and technical facilities due to the altered polysilicon-market situation. Future technological developments will necessitate a new set-up for existing structures. In accounting terms, this concerns a change in estimates that do not necessitate modification of preceding years. In 2012, shorter useful lives led to an increase in depreciation of around €28 million.

Accounting Principles

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

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

The accounting methods correspond to those used for the last consolidated financial statements as of the end of the previous fiscal year. There may be limits to comparability in the case of significant acquisitions of fully consolidated companies. If this is the case, this topic is dealt with in the explanation of the scope of consolidation. Insofar as amounts from the previous year are adjusted, these are explained in the relevant Notes.

Sales encompass the fair value of the counterperformance or claim received for the goods and services that were sold within the scope of ordinary activities. These are reported without VAT and other taxes incurred in connection with sales and without discounts and price reductions. Sales revenues are recognized when the goods and services owed have been delivered and the main opportunities and risks of ownership have passed to the purchaser. Sales from services are recognized once services are rendered. Sales are not reported if there are risks attached to the receipt of the consideration. Provisions are recognized for risks from returns of finished goods and merchandise, warranties and other complaints using the specific identification method. Information on the development of sales by division and region is provided in the section on segment reporting.

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

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

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

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

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

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

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

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

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

Property, plant and equipment is capitalized at cost and depreciated on a straight-line basis over its expected economic life. The useful life is reviewed annually and, if necessary, revised to correspond to new expectations. In addition to the purchase price, acquisition costs include incidental acquisition costs as well as any costs incurred in the demolition, dismantling, and/or removal of the asset in question from its site and in the restoration of that site. Any reductions in the price of acquisition reduce the acquisition costs. Property, plant and equipment is not revalued on the basis of the provisions in IAS 16. Day-to-day maintenance and repair costs are expensed as incurred. Costs for replacing parts or for major overhauls are capitalized if items of property, plant and equipment embody future economic benefits that are likely to flow to the Group and if the costs can be measured reliably.

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

Financing costs that were incurred in connection with particular, qualified assets and which can be attributed directly or indirectly to them are capitalized as part of acquisition or production costs until the assets are used for the first time. In 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 given up**, the acquisition or production costs, together with their corresponding accumulated depreciation, are derecognized. Any resulting gain or loss from the difference between the sale proceeds and the residual carrying amount is recognized under other operating income or expenses.

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

The **depreciation of property, plant and equipment** is generally based on the following useful lives:

	Useful life in years
Production buildings	10 to 40
Other buildings	10 to 30
Plant and machinery	6 to 12
Motor vehicles	4 to 10
Factory and office equipment	5 to 12

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

The impairment is tested when relevant events or changes in circumstances indicate that it might no longer be possible to realize the net carrying amount. At the end of every reporting period, WACKER checks whether there are triggering events for recognizing (or reversing)

impairments. An impairment loss is then recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher amount of the fair value less costs to sell, and the value in use. The value in use results from the present value of the estimated future cash flows from the use of the asset. In assessing this value, risk-adjusted pre-tax interest rates are used in a segment-specific manner. In order to determine the cash flow, assets are, if required, combined at the lowest level for which cash flows can be identified separately (cash-generating units). If the reasons for recognizing impairments no longer exist, impairment losses are reversed. The revised amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized. Impairments are reported under other operating expenses and reversals of impairment losses under other operating income.

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

Leasing transactions are classified either as finance leases or as operating leases. Assets used under an operating lease are not capitalized. 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 risks and rewards incident to the ownership of the property are transferred to the lessee. Assets used under a finance lease are recognized at the present value of the minimum lease payments. Leasing contracts can be embedded within other contracts. If there is a separation obligation for an embedded leasing arrangement, in accordance with IFRS rules, then the contractual components are separated, and recognized and measured according to the respective rules.

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

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

Additionally, an impairment test is carried out if an impairment indicator arises and if necessary, an impairment is made. The recoverable amount is determined in accordance with IAS 36 regulations. Impairment losses are reported in the income from investments in joint ventures and associates.

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

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

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

The fair value of financial instruments is generally equal to the amount the Group would receive or pay if it exchanged or settled the financial instruments on the balance sheet date. If available, quoted market prices are used for financial instruments. Otherwise, fair values are calculated based on the market conditions prevailing on said reporting date – interest rates, exchange rates, commodity prices – using average rates. In doing so, the fair value is calculated using financial-mathematical methods, e.g. via discounting future payment flows using the market interest rate or by applying recognized option-pricing models. The fair values of some derivatives are based on external valuations by our financial partners.

Financial assets at WACKER comprise, in particular, cash and cash equivalents, trade receivables, loans granted and other receivables, held-to-maturity financial investments, and primary and derivative financial assets held for trading. WACKER makes no use of the option to measure financial assets at fair value through profit or loss on initial recognition.

Financial liabilities must be regularly settled in cash or another financial asset. This includes, in particular, the Group's own bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes (German *Schuldscheine*) and derivative financial liabilities. WACKER makes no use of its option to measure financial liabilities at fair value through profit or loss on initial recognition.

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

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

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

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

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

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

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

Where derivative financial instruments are used to hedge risks stemming from future payment flows and statement-of-financial-position items, IAS 39 permits special hedge-accounting regulations to be applied under certain circumstances. In this way, volatility in the statement of income can be reduced. Depending on the type of underlying transaction designated as a hedged item, a distinction is made between a fair value hedge, a cash flow hedge and a hedge of a net investment in a foreign operation.

Derivative financial instruments are recognized as of the trade date. Derivative financial instruments are always measured at fair value, irrespective of the purpose or intention for which they were concluded. Positive market values are recognized as a receivable and negative market values as a liability.

Changes in the market values of financial instruments used to limit the risk of lower future cash inflows or higher cash outflows from assets and liabilities recognized in the statement of financial position (cash flow hedges) are recognized under other equity items while taking account of any related tax effects when their efficiency is adequate and documented as such. The profit contribution of the hedging instrument is not released to the statement of income until the hedged item is realized. If such a derivative is sold or the hedging relationship is discontinued, the change in its value continues to be reported under other equity

items until the underlying transaction occurs. Steps taken to hedge the risk of changes in the market values of recognized assets or liabilities, or to hedge unrecognized fixed contractual obligations, lead to fair value hedges. Changes in fair values are recorded for both the hedged underlying transaction and the derivative financial instruments used for hedging, and these changes are presented in the statement of income. At the moment, WACKER does not hedge any net investments in foreign operations.

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

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

Inventories are measured at cost using the average cost method. Lower net realizable values or prices as of the balance sheet date are taken into account by means of impairments to fair value less costs to sell. The cost of goods sold includes directly attributable costs, appropriate portions of indirect material and labor costs, and straight-line depreciation. Due to the relatively short-term production processes, financing costs are not included as part of acquisition or production costs. The overhead cost markups are determined on the basis of average capacity utilization. Value adjustments 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.

Emissions certificates allotted free of charge are measured at a nominal value of zero. Emissions certificates acquired against payment are carried at cost. Thereafter, they are carried at market prices, at a maximum, however, at cost. In the case of a lower fair value as per the reporting date, a devaluation is carried out to match this value. Proceeds from the sale if emission certificates are recognized in profit or loss.

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

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

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

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

Pension provisions are recognized in accordance with the projected unit credit method. This method takes account not only of pensions and entitlements to future pensions known as of the balance sheet date, but also of estimated increases in salaries and pensions. The calculation is based on actuarial valuations, taking account of biometric calculation principles. Entities can generally choose how they recognize actuarial gains and losses. To avoid volatility in equity on the reporting dates, WACKER has elected to apply the corridor method. Except for the effects from adjusted probable mortality rates, actuarial gains and losses are recognized as income or expenses only once they move outside a "corridor" of 10 percent of the present value of the defined benefit obligation and the fair value of plan assets, whichever is higher. If that happens, the amounts are distributed over the average future remaining working lives of the employees. Actuarial gains and losses arising from the changed or adjusted mortality tables are posted immediately to the statement of income as a reduction or increase in the provision for pensions. The expense incurred in funding the pension provisions (service cost) is allocated to the costs of the functional areas concerned. The interest cost is reported under other financial result. If assets to finance pension obligations are invested externally (plan assets), the fair values of these assets are set off against the present value of the obligations. The expected return on plan assets is likewise reported under other financial result.

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

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

Provisions are recognized if the available portfolio of emission certificates does not cover the anticipated obligations.

If a reduction of the scope of the obligation results from a changed estimate, then the provision is reversed proportionately and the resulting income allocated to the functional areas originally charged with the expense when the provision was recognized.

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are included in the recognized liability. Liabilities from finance lease agreements are 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, measured at amortized cost using the effective interest method.

Contingencies are potential obligations arising from past events of which the existence depends on uncertain future events which are beyond the Group's influence, and on existing obligations that cannot be carried as liabilities because either an outflow of resources is unlikely or the amount of the obligation cannot be estimated with sufficient reliability. Contingencies are shown at values corresponding to the degree of liability that exists on the balance sheet date.

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

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

Changes to the Valuation Methods

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

Summary of Significant Accounting and Valuation Methods

The significant accounting and valuation methods are summarized in the following overview:

Accounting and Valuation Method	
Accounting and Valuation Method	Description
Recognition of sales and income	Sales are recognized on delivery of goods or services and on the transfer of risk to the purchaser.
Expense recognition	Expenses are recognized as incurred and when the service is utilized.
Taxes	Deferred taxes are recognized for temporary differences, for consolidation measures recognized in income and for tax loss carryforwards whenever their realization is sufficiently probable.
Intangible assets and property, plant and equipment	These are measured at amortized cost. They are generally amortized/depreciated on a straight-line basis.
Government grants	Subsidies provided by government bodies either reduce acquisition or production costs, or are recognized in the statement of income.
Inventories	These are measured at amortized cost, using the average cost method.
Receivables and other assets	These are measured at amortized cost. Risks are accounted for through valuation allowances.
Provisions for pensions and similar obligations	These are determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expenses once they exceed the specified corridor. Actuarial gains and losses arising from the changed or adjusted mortality tables are posted immediately to the statement of income as a reduction or increase in the provision for pensions.
Financial instruments	On initial recognition, financial instruments (other financial assets and financial liabilities) are measured at fair value.

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

€ million	2012	2011
Sales		
Proceeds from deliveries of products and merchandise	4,541.5	4,814.0
Proceeds from other services	93.4	95.7
	4,634.9	4,909.7
Cost of goods sold		
Cost of goods sold	-3,821.8	-3,747.2
Cost of goods sold includes the following reversals (+)/ recognitions (-) of impairments of inventories	-20.2	-15.2
Other operating income		
Income from currency transactions	144.6	167.1
Income from reversal of provisions	27.7	13.2
Insurance compensation	2.0	4.5
Income from reversal of valuation allowances for receivables	1.0	3.3
Income from disposal of assets	5.9	0.9
Income from subsidies/grants	6.7	4.9
Income from receipt of advance payments and damages ¹	158.0	66.2
Other operating income	20.8	26.5
	366.7	286.6
Other operating expenses		
Losses from currency transactions	-152.5	-127.3
Losses from valuation allowances for receivables	-19.1	-1.6
Losses from disposal of assets	-3.9	-1.3
Losses from impairment of property, plant and equipment	-2.5	-41.4
Losses from restructuring measures	-10.3	-49.6
Other operating expenses	-77.1	-39.3
	-265.4	-260.5

¹ Includes income from the termination of contracts

Cost of goods sold includes net income totaling €74.9 million from a reduction in provisions for expected losses from WACKER's silicone business in China. This was due to a change in transfer pricing policy between WACKER's Chinese subsidiaries and the siloxane-production associate Dow Corning (ZJG) Co. Ltd., China. Amendments to these transfer prices resulted in an impairment of €77.0 million in the carrying amount of Dow Corning (ZJG) Co. Ltd., China, which is accounted for using the equity method.

Restructuring costs mainly comprise expenses in connection with the closure of the 150 mm wafer production plant at Portland and restructuring costs incurred in Germany. The amount of €49.6 million in restructuring costs reported in 2011 related to the closure of Siltronic Japan Corporation's silicon wafer plant at Hikari, Japan.

Other operating expenses mainly comprise costs that are related to the construction of polysilicon facilities in the us and that cannot be capitalized.

In fiscal 2012, an amount of €2.5 million was recognized for impairments of small-scale facilities.

Impairments of noncurrent assets in the previous year related to the following areas:

- An impairment of €23.6 million was recognized for the partial shutdown of a granular polysilicon production plant, which was written down to fair value.
- Due to the decision to close the silicon wafer facility at Hikari, Japan, all of its property, plant and equipment had to be written down to fair value. This led to an impairment loss of €14.8 million.
- The remaining impairment losses of €3.0 million related to the planned shutdowns of smaller plants in Germany.

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

€ million	2012	2011
Result from investments in joint ventures and associates	-82.6	-7.7
Of which pro rata result attributable to joint ventures	-22.3	-20.7
Of which pro rata result attributable to associated companies	16.7	13.0
Of which impairments	-77.0	-
Other investment income	0.1	-
Net interest income		
Interest income	16.0	16.9
Of which from available-for-sale financial instruments	2.1	0.2
Interest expenses	-26.2	-13.5
.....	-10.2	3.4
Other financial result		
Other financial income	20.5	23.4
Interest effect of interest-bearing provisions/liabilities/financial leases	-52.2	-38.8
Other financial expenses	-22.9	-23.8
.....	-54.6	-39.2
Financial result	-64.8	-35.8

The income from investments in joint ventures and associates relates mainly to companies in China and Singapore. This income includes not only the pro rata shares of net results for the year, but also effects from pro rata eliminations of intercompany profits.

Long-term supply contracts based on fixed transfer prices are in place with the associated company Dow Corning (ZJG) Co. Ltd., Zhangjiagang, China. Changes in the transfer pricing policy led to a substantial reduction in future transfer prices, bringing about a change in the associated company's expected cash inflows. For this reason, WACKER has reduced – by €77.0 million – the related carrying amount of the associate, which is accounted for using the equity method. The impairment test performed was based on the value-in-use method. The discount rate amounted to 10.7 percent (after tax). The charge was allocated to the silicones segment.

Borrowing costs of €14.2 million (2011: €11.3 million) were capitalized in the year under review, resulting in a corresponding improvement in the net interest result. The average borrowing interest rate applied by the Group in the 2012 financial year was 3.1 percent (2011: 4.1 percent).

The interest effect of interest-bearing provisions includes net interest expenses from accrued interest on pension obligations and expected proceeds from plan assets totaling €38.0 million (2011: €26.6 million) and interest expenses from accrued interest on other provisions of €13.9 million (2011: €10.1 million).

Other financial income and expenses primarily result from currency translation.

03 Income Taxes

Income taxes are calculated on the basis of the current legal position in the individual countries regarding applicable or anticipated tax rates as of the realization date. These are generally based on the legal stipulations valid or adopted as of the balance sheet date. In Germany, a solidarity surcharge is added to corporate tax. Trade income tax, which varies depending on the municipality in which a company is located, must also be paid.

Tax Rates in Germany		
%	2012	2011
Weighted average trade income tax rate	11.6	11.6
Corporate tax rate	15.0	15.0
Solidarity surcharge on corporate tax	5.5	5.5

Deferred taxes of German companies are therefore measured based on a total tax rate, including a solidarity surcharge of 27.5 percent (2011: 27.5 percent). The income from foreign Group companies is subject to taxation at the tax rates valid in the country where the respective company is located. The respective local income tax rates applicable in each country for foreign companies range from 10.0 percent to 40.5 percent (2011: from 12.5 percent to 42.0 percent).

No deferred taxes on undistributed profits of subsidiaries were recognized. It was decided not to determine the possible resulting tax effects as the time and expense involved was unreasonably high. The amount of €492.5 million (2011: €523.4 million) is available for distribution.

€ million	2012	2011
Current taxes, domestic	-84.0	-179.8
Current taxes, foreign	-26.8	-23.4
Current taxes	-110.8	-203.2
Deferred taxes, domestic	21.6	-2.8
Deferred taxes, foreign	2.8	-5.3
Deferred taxes	24.4	-8.1
Total income tax	-86.4	-211.3
Derivation of the effective tax rate		
Income before taxes	193.2	567.4
Income tax rate for Wacker Chemie AG (%)	27.5	27.5
Expected tax expenses	-53.1	-156.0
Tax rate divergences	-1.7	6.7
Tax effect of non-deductible expenses	-9.7	-13.1
Tax effect of tax-free income	5.2	7.8
Taxes relating to other periods (current earnings)	1.8	1.9
Effects of loss carryforwards and temporary differences	-5.1	-58.1
Group equity result	-22.9	-2.7
Other divergences	-0.9	2.2
Total income tax	-86.4	-211.3
Effective tax rate (%)	44.7	37.2

The tax expenses of €86.4 million reported for fiscal 2012 were €33.3 million higher than the expected tax expenses of €53.1 million that would have resulted from the application of the total tax rate for Germany of 27.5 percent.

Income taxes include current tax expenses for prior years of €2.9 million (2011: €1.6 million). These expenses are offset by deferred tax income from other periods of €4.7 million (2011: €3.5 million).

€ million	2012		2011	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	13.5	–	12.8	–
Property, plant and equipment	3.7	94.4	1.3	115.3
Financial assets	0.8	–	0.5	–
Current assets	8.4	4.1	7.7	5.4
Provisions for pensions	29.3	0.7	26.9	1.0
Other provisions	29.0	0.6	39.4	9.5
Liabilities	14.0	0.1	17.4	0.5
Loss carryforwards	1.5	–	3.5	–
Setting off for companies with profit and loss transfer agreement	–8.2	–8.2	–3.5	–3.5
Total	92.0	91.7	106.0	128.2
Setoffs	–78.7	–78.7	–94.4	–94.4
Statement of financial position item	13.3	13.0	11.6	33.8

Deferred tax assets and liabilities are offset whenever there are future tax amounts imposed on or credited to the same taxpayer by the same tax authority. Furthermore, deferred tax assets are recognized only if it is probable that these tax benefits will be realized.

The change in deferred tax assets and liabilities has been recognized in profit or loss with €24.4 million (2011: €–8.1 million) and charged or credited directly to equity with €–1.8 million (2011: €8.3 million). The existing tax loss carryforwards can be used as follows:

€ million	2012	2011
Within 1 year	–	5.8
Within 2 years	13.3	12.3
Within 3 years	20.5	21.6
Within 4 years	74.5	28.3
Within 5 years or later	152.1	194.8
Total	260.4	262.8
Of which loss carryforwards not expected to be realizable	–255.1	–250.4
Of which loss carryforwards expected to be realizable	5.3	12.4

Tax loss carryforwards generated outside Germany amount to a total of €260.4 million (2011: €262.8 million). A total of €5.3 million (2011: €12.4 million) relates to realizable loss carryforwards. Associated deferred tax assets for 2012 amounted to €1.5 million (2011: €3.5 million). Deferred taxes were not recognized on losses that were not realizable. In theory, however, an amount of €70.2 million (2011: €70.5 million) would have resulted from such recognition. Of the loss carryforwards that are not realizable for tax purposes, €8.4 million (2011: €13.9 million) are unlimited as to time and amount. As per December 31, 2012, no deferred tax assets for tax-deductible temporary differences of €299.1 million (2011: €303.5 million) were recognized.

04 Development of Fixed Assets

2012						
€ million	Intangible assets	Property, plant and equipment	Investment property	Investments in joint ventures and associates accounted for using the equity method	Financial assets	Total
Acquisition or production cost						
Balance as of Jan. 1, 2012	155.8	9,953.6	11.7	124.5	143.2	10,388.8
Additions	2.3	975.0	-	-	118.1	1,095.4
Disposals	-2.4	-366.4	-	-	-	-368.8
Transfers	2.5	-2.5	-	-	-	-
Other changes ¹	-	-	-	-83.4 ²	8.0	-75.4
Exchange-rate differences	-1.6	-69.6	-	-0.1	2.5	-68.8
Balance as of Dec. 31, 2012	156.6	10,490.1	11.7	41.0	271.8	10,971.2
Depreciation						
Balance as of Jan. 1, 2012	125.6	6,453.1	10.2	-	2.2	6,591.1
Additions	9.4	516.9	-	-	-	526.3
Impairment	-	2.5	-	-	-	2.5
Disposals	-2.0	-361.6	-	-	-	-363.6
Exchange-rate differences	-1.9	-43.7	-	-	-0.2	-45.8
Balance as of Dec. 31, 2012	131.1	6,567.2	10.2	-	2.0	6,710.5
Carrying amounts as of Dec. 31, 2012	25.5	3,922.9	1.5	41.0	269.8	4,260.7
Reduction in cost due to investment grant						483.6

2011						
€ million	Intangible assets	Property, plant and equipment	Investment property	Investments in joint ventures and associates accounted for using the equity method	Financial assets	Total
Acquisition or production cost						
Balance as of Jan. 1, 2011	146.8	9,059.1	11.7	111.7	103.5	9,432.8
Additions	5.2	922.7	-	18.4	34.9	981.2
Disposals	-1.7	-145.5	-	-	-1.6	-148.8
Transfers	2.9	-2.9	-	-	-	-
Other changes ¹	-	-	-	-10.2	3.7	-6.5
Exchange-rate differences	2.6	120.2	-	4.6	2.7	130.1
Balance as of Dec. 31, 2011	155.8	9,953.6	11.7	124.5	143.2	10,388.8
Depreciation						
Balance as of Jan. 1, 2011	113.6	6,033.4	10.2	-	2.1	6,159.3
Additions	11.1	448.5	-	-	-	459.6
Impairment	0.5	40.9	-	-	-	41.4
Disposals	-1.6	-143.9	-	-	-	-145.5
Exchange-rate differences	2.0	74.2	-	-	0.1	76.3
Balance as of Dec. 31, 2011	125.6	6,453.1	10.2	-	2.2	6,591.1
Carrying amounts as of Dec. 31, 2011	30.2	3,500.5	1.5	124.5	141.0	3,797.7
Reduction in cost due to investment grant						447.2

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

² This item includes €77.0 million in impairment losses in the carrying amount of Dow Corning (ZJG) Co. Ltd., which is accounted for using the equity method.

05 Intangible Assets

Intangible assets include industrial property rights, similar rights and other assets acquired against payment.

06 Property, Plant and Equipment

2012						
€ million	Land, buildings and similar rights	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total	
Acquisition or production cost						
Balance as of Jan. 1, 2012	1,424.1	7,371.2	609.0	549.3	9,953.6	
Additions	31.5	178.3	29.6	735.6	975.0	
Disposals	-5.2	-328.2	-30.7	-2.3	-366.4	
Transfers	68.6	132.7	15.2	-219.0	-2.5	
Exchange-rate differences	-24.5	-21.9	-0.3	-22.9	-69.6	
Balance as of Dec. 31, 2012	1,494.5	7,332.1	622.8	1,040.7	10,490.1	
Depreciation						
Balance as of Jan. 1, 2012	830.2	5,136.7	484.9	1.3	6,453.1	
Additions	52.4	425.9	38.6	-	516.9	
Impairment	-	1.6	-	0.9	2.5	
Disposals	-5.0	-326.9	-28.3	-1.4	-361.6	
Transfers	-0.5	0.2	0.1	0.2	-	
Exchange-rate differences	-22.3	-20.9	-0.4	-0.1	-43.7	
Balance as of Dec. 31, 2012	854.8	5,216.6	494.9	0.9	6,567.2	
Carrying amounts as of Dec. 31, 2012	639.7	2,115.5	127.9	1,039.8	3,922.9	
Of which assets from finance leases						
Gross values	-	82.4	-	-	82.4	
Depreciation	-	-40.6	-	-	-40.6	
Carrying amounts	-	41.8	-	-	41.8	

In the reporting year, borrowing costs amounting to €14.2 million (2011: €11.3 million) were capitalized as part of the cost of qualified assets. The average financing cost rate was 3.1 percent (2011: 4.1 percent).

Property, plant and equipment also includes €41.8 million (2011: €48.1 million) in technical machinery and other equipment on the basis of an embedded finance lease. Due to the way the underlying contracts are structured, economic ownership is attributable to WACKER.

2011

€ million	Land, buildings and similar rights	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction	Total
Acquisition or production cost					
Balance as of Jan. 1, 2011	1,428.4	6,586.4	574.8	469.5	9,059.1
Additions	35.9	287.0	43.6	556.2	922.7
Disposals	-94.5	-37.6	-13.4	-	-145.5
Transfers	29.5	463.2	2.9	-498.5	-2.9
Exchange-rate differences	24.8	72.2	1.1	22.1	120.2
Balance as of Dec. 31, 2011	1,424.1	7,371.2	609.0	549.3	9,953.6
Depreciation					
Balance as of Jan. 1, 2011	848.0	4,722.8	461.2	1.4	6,033.4
Additions	39.1	374.4	35.0	-	448.5
Impairment	19.0	21.0	0.9	-	40.9
Disposals	-94.2	-36.4	-13.3	-	-143.9
Transfers	0.2	-0.2	-	-	-
Exchange-rate differences	18.1	55.1	1.1	-0.1	74.2
Balance as of Dec. 31, 2011	830.2	5,136.7	484.9	1.3	6,453.1
Carrying amounts as of Dec. 31, 2011	593.9	2,234.5	124.1	548.0	3,500.5
Of which assets from finance leases					
Gross values	0.2	81.9	0.1	-	82.2
Depreciation	-0.2	-33.9	-	-	-34.1
Carrying amounts	-	48.0	0.1	-	48.1

07 Investment Property

Wacker Chemie AG owns real estate at its production site in Cologne, Germany. This is comprised of land and infrastructural facilities (such as for energy and waste water). The land is rented out or leased on the basis of long-term agreements. There are no finance leases. These properties and the infrastructure in Cologne are operated, maintained and looked after by third parties who charge any costs incurred directly to the tenants or leaseholders.

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

€ million	2012	2011
Fair value	13.8	13.8
Income from rent/operating leases	0.8	0.8
Costs	-0.2	-0.2

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

08 Investments in Joint Ventures and Associates, Financial Assets

€ million	Investments in joint ventures and associates accounted for using the equity method	Investments	Other financial assets	Financial assets
Acquisition cost				
Balance as of Jan. 1, 2012	124.5	13.1	130.1	143.2
Additions	–	0.3	117.8	118.1
Disposals	–	–	–	–
Other changes	–	2.1	5.9	8.0
Changes resulting from application of equity method ¹	–83.4	–	–	–
Exchange-rate differences	–0.1	–0.1	2.6	2.5
Balance as of Dec. 31, 2012	41.0	15.4	256.4	271.8
Depreciation				
Balance as of Jan. 1, 2012	–	2.2	–	2.2
Exchange-rate differences	–	–0.2	–	–0.2
Balance as of Dec. 31, 2012	–	2.0	–	2.0
Carrying amounts as of Dec. 31, 2012	41.0	13.4	256.4	269.8
Acquisition cost				
Balance as of Jan. 1, 2011	111.7	13.2	90.3	103.5
Additions	18.4	–	34.9	34.9
Disposals	–	–0.2	–1.4	–1.6
Other changes	–	–	3.7	3.7
Changes resulting from application of equity method	–10.2	–	–	–
Exchange-rate differences	4.6	0.1	2.6	2.7
Balance as of Dec. 31, 2011	124.5	13.1	130.1	143.2
Depreciation				
Balance as of Jan. 1, 2011	–	2.1	–	2.1
Exchange-rate differences	–	0.1	–	0.1
Balance as of Dec. 31, 2011	–	2.2	–	2.2
Carrying amounts as of Dec. 31, 2011	124.5	10.9	130.1	141.0

¹ This item includes €77.0 million in impairment losses in the carrying amount of Dow Corning (ZJG) Co. Ltd., which is accounted for using the equity method.

In 2012, further shareholder loans of €29.9 million (2011: €34.9 million) were issued to Siltronic Samsung Wafer Pte. Ltd., Singapore. The addition was shown under other financial assets. Over and above the interest and repayment agreements, the loan agreements grant WACKER the right – as is already the case with existing agreements – to convert the loan into equity (call option). The call options have differing exercise periods, with the longest running until March 31, 2016.

In addition, a shareholder loan in the amount of €87.9 million was disbursed in 2012 to Zhangjiagang-based Dow Corning (ZJG) Co. Ltd., China.

Shareholder loans were granted at normal market terms.

Further financial information on associated companies and joint ventures is contained in [Note 23](#).

09 Inventories

€ million	2012	2011
Raw materials and supplies	185.4	182.3
Products	475.3	473.1
Merchandise	46.3	54.7
Services not charged	0.3	–
Advance payments	4.8	3.6
Total	712.1	713.7
Of which recorded at net realizable value	122.4	101.3

10 Accounts Receivable/Other Assets/Tax Receivables

€ million	2012			2011		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Trade receivables	600.2	–	600.2	566.1	–	566.1
Other receivables from associated companies	0.5	–	0.5	0.6	–	0.6
Advance payments to associated companies	–	–	–	16.4	–	16.4
Loan and interest receivables	3.4	–	3.4	2.0	–	2.0
Derivative financial instruments	11.4	2.9	8.5	17.9	1.0	16.9
Prepaid expenses and deferred charges	7.8	1.3	6.5	7.2	–	7.2
Investment fund shares ¹	2.9	2.9	–	4.4	4.4	–
Claims arising from investment grants	10.9	–	10.9	38.1	–	38.1
Claims against suppliers	6.4	0.2	6.2	4.3	0.1	4.2
Assets from excess pension-plan coverage	5.8	5.8	–	7.6	7.6	–
Deposits	19.1	–	19.1	1.5	–	1.5
Restricted cash and cash equivalents	9.5	–	9.5	–	–	–
Sundry assets	53.9	–	53.9	46.1	0.2	45.9
Other assets	131.6	13.1	118.5	146.1	13.3	132.8
Of which noncurrent, falling due > 5 years	–	5.8	–	–	7.7	–
Tax receivables	115.3	24.5	90.8	128.2	10.9	117.3
Of which noncurrent, falling due > 5 years	–	–	–	–	2.3	–

¹ The investment fund shares serve to secure obligations for the phased-early-retirement program and are classified as available for sale. These fund shares are traded on active markets and pledged individually to employees participating in the phased-early-retirement program. Their market value amounts to €2.9 million (2011: €4.4 million).

The other assets mainly comprise advance payments to the pension fund.

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

Valuation allowances and overdue debts have developed as follows:

2012						
€ million	Carrying amount	Of which: neither impaired nor overdue as per the reporting date	Of which: not impaired, yet overdue as per the reporting date			Of which: impaired as per the reporting date
			overdue up to 30 days	overdue 31 to 45 days	overdue over 45 days	
Trade receivables	600.2	465.4	103.9	22.9	1.2	6.8
Other assets	131.6	130.2	0.6	0.2	0.6	–
Total	731.8	595.6	104.5	23.1	1.8	6.8

2011						
€ million	Carrying amount	Of which: neither impaired nor overdue as per the reporting date	Of which: not impaired, yet overdue as per the reporting date			Of which: impaired as per the reporting date
			overdue up to 30 days	overdue 31 to 45 days	overdue over 45 days	
Trade receivables	566.1	431.1	107.9	14.3	11.5	1.3
Other assets	146.1	145.4	0.4	–	0.3	–
Total	712.2	576.5	108.3	14.3	11.8	1.3

Development of Valuation Allowances						
€ million	2012			2011		
	Trade receivables	Other assets	Total	Trade receivables	Other assets	Total
Valuation allowances						
Balance as of Jan. 1	5.6	0.9	6.5	12.3	0.9	13.2
Utilization	–0.7	–	–0.7	–2.0	–	–2.0
Additions/reversals	12.5	–0.1	12.4	–4.5	–	–4.5
Exchange-rate differences	–0.7	–	–0.7	–0.2	–	–0.2
Balance as of Dec. 31	16.7	0.8	17.5	5.6	0.9	6.5

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

11 Cash and Cash Equivalents/Securities

€ million	2012	2011
Securities¹	304.1	399.7
Of which current	243.0	237.2
Of which noncurrent	61.1	162.5
Cash and cash equivalents (liquid assets)		
Cash equivalents	-	65.8
Demand deposits, cash on hand (cash)	192.6	408.1
	192.6	473.9

¹The securities consist of bonds from various issuers which are classified as "held to maturity" or "available for sale."

Demand deposits and cash on hand are shown at their nominal amounts. The cash and cash equivalents reported in the previous year mainly consisted of commercial paper (from issuers with first-class credit standing) classified as "held to maturity." Such paper fell 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	2012	2011
Shares outstanding at the start of the fiscal year	49,677,983	49,677,983
Shares outstanding at the end of the fiscal year	49,677,983	49,677,983
Treasury shares in portfolio	2,474,617	2,474,617
Total shares	52,152,600	52,152,600

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

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

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

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

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

€ million	2012	2011
Profits	3.0	3.5
Losses	-9.0	-
Net result attributable to non-controlling interests	-6.0	3.5

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 corporate bodies responsible agree.

13 Provisions for Pensions

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

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

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

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

2011 marked the implementation at WACKER of the "Working Life and Demography" collective-bargaining agreement. This will be in the form of additional contributions into a "PK+" supplementary voluntary insurance fund within Pensionskasse der Wacker Chemie VVaG. With this additional pension component, employees can enhance their company pension plan benefits.

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

The obligations from direct benefit plans are calculated using the projected unit credit method, taking account of anticipated future payout and pension adjustments. The current service cost of pension benefit claimants results from the planned development of provisions for anticipated future pension payments. Any differences between those pension obligations calculated as planned and the defined benefit obligation at the end of the year are treated as actuarial gains or losses and, with the exception of effects of changed assumptions regarding probable mortality rates, are spread in subsequent periods over the average remaining service years of the plan participants, insofar as these differences exceed 10 percent of the present value of the defined benefit obligation and the fair value of the plan assets, whichever is higher. WACKER takes the view that, as far as probable mortality rates are concerned, it will be necessary to assume continuous increases in life expectancy. For this reason, it does not make sense to smooth out the expenses for the period on the basis of changed or adjusted mortality tables. Deviations in the other valuation parameters will be included as actuarial losses or gains using the corridor method. As from January 1, 2013, WACKER will report actuarial losses and gains in other comprehensive income, which will result in an increase in provisions for pensions of around €680 million and a reduction in Group equity of around €490 million on the same date. Such recognition within other comprehensive income of variations in actuarial gains and losses will lead to more volatility in equity in the future.

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

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

If the fund's assets exceed the obligation from the pension commitment, an asset is generally recognized. Such recognition, however, is permitted only on the condition that the reporting entity can draw an economic benefit from these assets, e.g. in the form of refunds from the plan or reductions in future contributions to the plan ("asset ceiling" pursuant to IAS 19.58 et seq.).

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

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

Parameters	%			
	Germany		USA	
	2012	2011	2012	2011
Actuarial interest rate	3.5	4.5	4.0	4.5
Payment trend	3.0	3.0	3.0/3.5	3.0/3.5
Expected return on assets	4.2	4.2	6.0	7.5

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

Assumptions regarding the expected return on plan assets are made based on detailed analyses performed by financial experts and actuaries. Both historic actual returns and future expected long-term returns were taken into account. Interest income may vary in the funds' individual asset classes. The percentage chosen corresponds to the average rate across all types of investment.

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

€ million	Germany 2012	Foreign 2012	Total 2012	Total 2011
Change in defined benefit obligation (DBO)				
DBO as of Jan. 1	2,064.7	184.2	2,248.9	2,127.5
Current service cost	47.6	4.5	52.1	52.9
Past service cost	–	–	–	–0.5
Interest cost	91.5	8.0	99.5	95.3
Contributions by beneficiaries	9.3	0.2	9.5	9.5
Actuarial profits (–) and losses (+)	404.0	13.3	417.3	47.3
Pension payments	–64.1	–6.1	–70.2	–67.2
Exchange-rate differences	–	–3.6	–3.6	6.3
Other changes	–	–15.4	–15.4	–22.2
DBO as of Dec. 31	2,553.0	185.1	2,738.1	2,248.9
Change in fund assets				
Fund assets at present value as of Jan. 1	1,300.3	121.9	1,422.2	1,377.3
Return on fund assets	86.1	11.9	98.0	53.6
Employer contributions	32.6	2.2	34.8	25.3
Contributions by beneficiaries	9.3	0.2	9.5	9.5
Pension payments	–45.0	–5.3	–50.3	–48.6
Exchange-rate differences	–	–2.2	–2.2	3.8
Other changes	–	–9.4	–9.4	1.3
Fund assets at present value as of Dec. 31	1,383.3	119.3	1,502.6	1,422.2
Financial status	1,169.7	65.8	1,235.5	826.7
Actuarial profits/losses not yet included	–621.8	–55.6	–677.4	–311.8
Other	2.8	2.6	5.4	4.6
Provisions for pensions	550.7	12.8	563.5	519.5
Of which assets from pension plans with surplus coverage	–	5.8	5.8	7.6
Of which pension provisions	550.7	18.6	569.3	527.1
Extent to which provisions financed the DBO	1,169.7	65.8	1,235.5	826.7
Of which German-based companies in 2011				764.4
Of which foreign subsidiaries in 2011				62.3

The increase in actuarial losses or gains is attributable to the lower assumed interest rate of 3.5 percent.

The company's pension fund contribution was raised from 250 percent to 350 percent in fiscal 2012.

Reported under other changes is the elimination in connection with the closure of part of Siltronic Corporation's Portland production facility.

In fiscal 2012, pension payments were made under plans in Germany totaling €64.1 million (2011: €62.3 million) and under plans in the remaining countries totaling €6.1 million (2011: €4.9 million). WACKER anticipates that payments under pension plans will reach approximately €70.0 million in the coming fiscal year. Employer contributions to fund assets are expected to amount to about €35.0 million in 2013.

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

€ million	2012	2011
Service cost	-52.1	-52.9
Interest cost	-99.5	-95.3
Expected return on fund assets	61.5	68.6
Amortization of actuarial profits and losses	-9.9	-36.8
Plan curtailments and settlements	2.1	-
Repayment amount for retroactive pension-plan changes	-	-3.0
Other	-0.2	0.7
Pension expenses from defined benefit plans	-98.1	-118.7
Pension expenses from defined contribution plans	-3.7	-2.6
Other pension expenses	-9.0	-5.8
Pension expenses	-110.8	-127.1
Contributions to state pensions	-63.8	-64.0
Expenses for post-employment benefits	-174.6	-191.1
Of which included in payroll expenses (functional costs)	-136.6	-164.5
Of which included in other financial result	-38.0	-26.6

An adjustment of mortality assumptions in 2011 resulted in actuarial losses of €29.9 million. They are included in the expense from amortization of actuarial gains and losses.

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

€ million	2012	2011	2010	2009	2008
Defined benefit obligation	2,738.1	2,248.9	2,127.5	1,863.6	1,568.9
Of which experience-based adjustments	7.1	9.9	6.2	-1.9	-206.7
Fund assets	1,502.6	1,422.2	1,377.3	1,292.1	1,201.5
Of which experience-based adjustments	-26.0	-10.8	-1.8	-22.4	186.8
Financial status	1,235.5	826.7	750.2	571.5	367.4

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

%	2012			2011		
	Total	Of which third parties	Of which Group ¹	Total	Of which third parties	Of which Group
Real estate	15.2	10.1	5.1	16.1	10.7	5.4
Loans/fixed-interest securities	60.8	60.8	–	59.1	59.1	–
Shares/funds ²	20.5	20.5	–	21.9	21.9	–
Cash and cash equivalents	3.5	3.5	–	2.9	2.9	–
Total	100.0	94.9	5.1	100.0	94.6	5.4

¹ Those items used by Group companies are posted here.

² Pensionskasse der Wacker Chemie VVaG has agreed with an investment company on an arrangement approved by the German Federal Financial Supervisory Authority (BaFin) which hedges any share price fluctuations affecting the pension fund's share portfolio.

14 Other Provisions/Tax Provisions

€ million	2012			2011		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Personnel	96.2	93.1	3.1	99.3	96.8	2.5
Sales/purchasing	44.7	7.8	36.9	106.7	38.3	68.4
Environmental protection	52.4	49.9	2.5	52.4	49.4	3.0
Restructuring	7.8	0.9	6.9	2.8	–	2.8
Sundry	60.9	9.6	51.3	47.4	9.4	38.0
Other provisions	262.0	161.3	100.7	308.6	193.9	114.7
Tax provisions	74.4	32.1	42.3	68.5	61.3	7.2

Provisions for Personnel

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

Sales/Purchasing Provisions

These provisions cover warranty and product-liability obligations, as well as discounts, cash bonuses and other price reductions still to be granted, commissions payable to sales agents, and contingent losses from contractual agreements. Of the provisions for contingent losses from contractual agreements, the amount of €79.6 million was reversed in fiscal 2012. The majority of the remaining provisions will lead to cash outflows over the next two years.

Provisions for Environmental Protection

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

As in 2011, the interest rates ranged between around 3.0 percent and around 11.0 percent. They primarily related to provisions associated with purchasing and to environmental provisions.

Other Provisions								
€ million	Jan. 1, 2012	Utilization	Reversal	Addition	Interest effect	Exchange-rate differences	Other ¹	Dec. 31, 2012
Personnel	99.3	-10.3	-	10.5	-	-0.2	-3.1	96.2
Sales/purchasing	106.7	-17.1	-80.4	23.7	12.1	-0.3	-	44.7
Environmental protection	52.4	-2.5	-0.5	1.7	1.3	-	-	52.4
Restructuring	2.8	-2.0	-	6.7	-	0.3	-	7.8
Sundry	47.4	-2.0	-24.3	39.3	0.5	-	-	60.9
Total	308.6	-33.9	-105.2	81.9	13.9	-0.2	-3.1	262.0

¹ In 2012, provisions for phased early retirement were offset against the corresponding capitalized hedging amounts.

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 two to four years.

Tax Provisions					
€ million	Jan. 1, 2012	Utilization	Reversal	Addition	Dec. 31, 2012
Taxes	68.5	-8.4	-0.3	14.6	74.4

15 Financial Liabilities

€ million	2012			2011		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Liabilities to banks	1,142.5	920.3	222.2	720.7	617.3	103.4
Of which > 5 years	-	30.2	-	-	281.0	-
Liabilities from lease obligations ¹	45.3	38.2	7.1	51.5	44.8	6.7
Of which > 5 years	-	13.6	-	-	17.2	-
Other financial liabilities	9.4	-	9.4	5.7	-	5.7
Financial liabilities	1,197.2	958.5	238.7	777.9	662.1	115.8
Of which > 5 years	-	43.8	-	-	298.2	-

¹Liabilities from leasing arrangements mainly include liabilities relating to leasing the Burghausen plant's CCGT power station, as well as for technical facilities.

As part of its multiyear financing strategy, WACKER issued four promissory notes (German Schuldscheine) in the first quarter of 2012. These notes are for a total amount of €300 million and have maturities of three and five years. In addition, a long-term loan of 10 billion Japanese yen was raised in the second half of 2012. Both these loans were concluded on customary market terms and conditions.

No collateral exists for financial liabilities. Financial liabilities are not secured through liens or similar rights. Some of the liabilities to banks are fixed-interest and others have variable interest rates. Moreover, some of the liabilities to banks were granted on condition that particular covenants be complied with.

The liabilities to banks comprise the following:

€ million	2012			2011		
	Currency	Carrying amount in € million	Term until	Currency	Carrying amount in € million	Term until
Development loan	EUR	200.0	2017	EUR	200.0	2017
Development loan	EUR	200.0	2016	EUR	200.0	2016
Loans	YEN	88.1	2017	-	-	-
Loans	EUR	50.0	2013	EUR	50.0	2013
Club deals	CNY	80.1	2019	CNY	81.0	2019
Club deals	CNY	41.4	2016	-	-	-
Club deals	CNY	6.2	2013	-	-	-
Club deals	-	-	-	CNY	66.9	2012
Promissory notes (German Schuldscheine)	EUR	150.0	2015	-	-	-
Promissory notes (German Schuldscheine)	EUR	150.0	2017	-	-	-
Promissory notes (German Schuldscheine)	EUR	19.0	2013	EUR	19.0	2013
Other	-	10.6	2016	-	-	-
Other	-	13.4	2014	-	-	-
Other	-	133.7	2013	-	103.8	2013
Total	-	1,142.5	-	-	720.7	-
Fair value	-	1,182.1	-	-	736.3	-

As in the prior year, the development loans include variable-interest-rate loan amounts. The variable portion totals €200 million and has a residual term until 2016. In 2012, the loans include variable-interest-rate loan amounts of €88.1 million with a residual term until the end of 2017. The promissory notes (German Schuldscheine) include variable loan amounts of €101.0 million with a residual term until 2015 and of €39.0 million with a residual term until 2017. As in the prior year, the club deals and other loans have variable interest rates.

The carrying amounts of the current financial liabilities correspond to the repayment amounts. With the exception of the club deals, all the loans fall due on maturity. Other liabilities to banks mainly contain working capital lines of credit.

The following table shows the future principal and interest payments.

Principal and Interest Payments					
€ million	2013	2014	2015	2016	2017 to 2019
Principal and interest payments	222.2	27.2	178.3	231.7	483.1
Interest	27.5	21.2	17.5	15.2	10.9

There are also short- and long-term unused credit lines amounting to €837.6 million (2011: €774.3 million), all conditions for the utilization of which have been met.

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

€ million	2012			2011		
	Nominal value	Interest	Present value	Nominal value	Interest	Present value
Minimum lease payment within a year	9.0	1.9	7.1	8.9	2.2	6.7
Minimum lease payment within one and five years	29.3	4.7	24.6	33.1	5.5	27.6
Minimum lease payment over five years	14.3	0.7	13.6	18.8	1.6	17.2
Total	52.6	7.3	45.3	60.8	9.3	51.5
Total expected minimum lease payments from subtenancies	-	-	-	2.0	-	-

There are no conditional lease payments from finance leases.

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

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

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

16 Liabilities

€ million	2012			2011		
	Total	Of which noncurrent	Of which current	Total	Of which noncurrent	Of which current
Tax liabilities	17.2	–	17.2	22.7	–	22.7
Trade receivables	379.8	–	379.8	402.6	–	402.6
Payables relating to social security	2.8	–	2.8	2.7	–	2.7
Payroll liabilities	2.6	–	2.6	3.0	–	3.0
Profit-sharing and other bonuses	51.8	–	51.8	111.3	–	111.3
Other personnel liabilities	28.9	–	28.9	90.2	–	90.2
Derivative financial instruments	18.1	12.5	5.6	23.5	6.2	17.3
Deferred income	1.3	0.4	0.9	4.8	0.6	4.2
Advance payments received (third parties)	1,048.1	803.4	244.7	1,202.6	1,000.9	201.7
Sundry liabilities	45.6	0.3	45.3	28.0	0.1	27.9
Other liabilities	1,199.2	816.6	382.6	1,466.1	1,007.8	458.3
Of which > 5 years	–	58.0	–	–	123.4	–

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

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

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

The advance payments received relate primarily to future polysilicon deliveries.

No collateral exists for other liabilities. Other liabilities are not secured through liens or similar rights.

17 Contingencies, Other Financial Obligations and Other Risks Contingencies

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

The contingencies and other obligations shown below are nominal values.

€ million	2012	2011
Guarantees	194.6	257.3

The guarantees essentially concern the external financing of associated companies. The joint venture with Dow Corning accounts for €115 million here. These guarantees do not apply in connection with the issuance of shareholder loans from joint venture partners in 2012 and 2013, or with the planned elimination of external financing in 2013. In addition, there are guarantees for customers' advance payments to former subsidiaries or joint ventures from which WACKER was released by the purchaser but for which no transfer to the purchaser has occurred.

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

Other Financial Obligations and Other Risks

€ million	2012	2011
Obligations from rent and operating leases		
Due within one year	17.8	18.6
Due between one and five years	50.7	48.8
Due after five years or more	24.8	38.4
Total	93.3	105.8
Lease payments occasioned by operating leases	19.9	19.4
Total expected minimum lease payments from subtenancies	2.5	–

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

€ million	2012	2011
Obligations from orders for planned investment projects (commitments)	431.9	580.2

Obligations from orders for planned investments (commitments) amount to €431.9 million (2011: €580.2 million) and mainly concern investments in the polysilicon segment.

Long-term purchasing commitments of some €118 million annually (2011: €150 million) enable the Group to ensure capacity utilization at its joint ventures with Dow Corning and Samsung.

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 €2.41 billion (2011: €1.85 billion). The increase over the previous year's figure is due to new long-term supply contracts to secure raw materials and energy (mainly electricity and ethylene) and to the renewal of existing contracts. The agreements have terms of between one and nine years.

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

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

18 Other Disclosures

€ million	2012	2011
Cost of materials	-2,033.6	-2,205.0
Personnel expenses		
Wages and salaries	-973.6	-1,025.2
Social benefits and financial aid funds	-158.9	-156.8
State pension contributions	63.8	64.0
Social security contributions	-95.1	-92.8
Pension expenses	-72.8	-100.5
Contributions to state pensions	-63.8	-64.0
Expenses for post-employment benefits	-136.6	-164.5
Total	-1,205.3	-1,282.5

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

Expenses for Auditors' Fees		
€ million	2012	2011
Audit	0.7	0.7
Other certification services	0.3	0.3
Total	1.0	1.0

The other certification services consist primarily of the cost of interim reviews. The expenses for auditors' fees in the amount of €0.9 million concern KPMG AG Wirtschaftsprüfungsgesellschaft. Of that total, €0.7 million is for financial statement audit services and €0.2 million for certification services.

19 Earnings per Share/Dividend

	2012	2011
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 (€)	0.60	2.20
Net result for the year after non-controlling interests (€ million)	112.8	352.6
Earnings due to common shares (€ million)	112.8	352.6
Earnings per common share (average, €)	2.27	7.10
Earnings per common share (as of reporting day, €)	2.27	7.10

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

In the absence of relevant circumstances, earnings per share relating to results from continuing or discontinued operations, and the effect on earnings per share of changes in accounting and valuation methods, are not reported.

The dividend payout for 2011 amounted to €109.3 million, or €2.20 per dividend-bearing share. The amount of €230.0 million from Wacker Chemie AG's retained profit was allocated to retained earnings.

For 2012, the Executive Board of Wacker Chemie AG has proposed the above-mentioned dividend. The proposed dividend relates solely to dividend-bearing shares, i.e. excluding treasury shares. The acceptance or rejection of this proposal is incumbent on the Annual Shareholders' Meeting of Wacker Chemie AG. Subject to acceptance of the proposal, an amount of €29,806,789.80 will be distributed for the 49,677,983 no-par-value shares that are not held by the company.

20 Financial Instruments

The following table shows a presentation of financial assets and liabilities by measurement categories and classes. Also presented are liabilities from finance leases and derivatives for which hedge accounting is used, even though they do not belong to any of the IAS 39 measurement categories.

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

Financial Assets and Liabilities by Measurement Category and Class in 2012

€ million			Measurement pursuant to IAS 39		Measurement pursuant to IAS 17	
	Balance sheet carrying amount Dec. 31, 2012	(Amortized) cost	Fair value, recognized in profit or loss	Fair value, recognized in other comprehensive income	(Amortized) cost	Fair value Dec. 31, 2012
Trade receivables	600.2	600.2	-	-	-	600.2
Loans and receivables	-	600.2	-	-	-	600.2
Other financial assets ¹	697.7	494.4	5.6	197.7	-	681.7
Held-to-maturity securities	-	115.1	-	-	-	112.5
Available-for-sale securities	-	-	-	191.9	-	191.9
Loans and receivables	-	365.9	-	-	-	365.9
Available-for-sale financial assets ²	-	13.4	-	-	-	-
Derivatives for which hedge accounting is not used (assets held for trading)	-	-	5.6	-	-	5.6
Derivatives for which hedge accounting is used	-	-	-	5.8	-	5.8
Cash and cash equivalents (liquid assets)	192.6	192.6	-	-	-	192.6
Loans and receivables	-	192.6	-	-	-	192.6
Total financial assets	1,490.5	-	-	-	-	1,474.5
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	1,158.7	1,158.7	-	-	-	1,158.7
Held-to-maturity securities	115.1	115.1	-	-	-	112.5
Available-for-sale financial assets	205.3	13.4	-	191.9	-	191.9
Derivatives for which hedge accounting is not used (assets held for trading)	5.6	-	5.6	-	-	5.6
Derivatives for which hedge accounting is used	5.8	-	-	5.8	-	5.8
Financial liabilities	1,151.9	1,151.9	-	-	-	1,191.5
Financial liabilities recognized at amortized cost	-	1,151.9	-	-	-	1,191.5
Liabilities from finance leases	45.3	-	-	-	45.3	45.3
Trade payables	379.8	379.8	-	-	-	379.8
Financial liabilities recognized at amortized cost	-	379.8	-	-	-	379.8
Other financial liabilities ³	149.7	129.5	16.9	3.3	-	149.7
Financial liabilities recognized at amortized cost	-	129.5	-	-	-	129.5
Derivatives for which hedge accounting is not used (financial liabilities held for trading)	-	-	5.3	-	-	5.3
Derivatives for which hedge accounting is used	-	-	11.6	3.3	-	14.9
Total financial liabilities	1,726.7	-	-	-	-	1,766.3
Of which pursuant to IAS 39 measurement categories:						
Financial liabilities recognized at amortized cost	1,661.2	1,661.2	-	-	-	1,700.8
Derivatives for which hedge accounting is not used (financial liabilities held for trading)	5.3	-	5.3	-	-	5.3
Derivatives for which hedge accounting is used	14.9	-	11.6	3.3	-	14.9

¹ Does not include: tax receivables or prepaid expenses and deferred charges

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

³ Includes: other liabilities shown in the statement of financial position, with the exception of advance payments received and deferred income.

Financial Assets and Liabilities by Measurement Category and Class in 2011

€ million			Measurement pursuant to IAS 39		Measurement pursuant to IAS 17	
	Balance sheet carrying amount Dec. 31, 2011	(Amortized) cost	Fair value, recognized in profit or loss	Fair value, recognized in other comprehensive income	(Amortized) cost	Fair value Dec. 31, 2011
Trade receivables	566.1	566.1	-	-	-	566.1
Loans and receivables	-	566.1	-	-	-	566.1
Other financial assets ¹	679.6	573.9	6.4	99.3	-	658.4
Held-to-maturity securities	-	316.3	-	-	-	306.0
Available-for-sale securities	-	-	-	87.8	-	87.8
Loans and receivables	-	246.7	-	-	-	246.7
Available-for-sale financial assets ²	-	10.9	-	-	-	-
Derivatives for which hedge accounting is not used (assets held for trading)	-	-	6.4	-	-	6.4
Derivatives for which hedge accounting is used	-	-	-	11.5	-	11.5
Cash and cash equivalents (liquid assets)	473.9	473.9	-	-	-	473.9
Held-to-maturity securities	-	65.8	-	-	-	65.8
Loans and receivables	-	408.1	-	-	-	408.1
Total financial assets	1,719.6	-	-	-	-	1,698.4
Of which pursuant to IAS 39 measurement categories:						
Loans and receivables	1,220.9	1,220.9	-	-	-	1,220.9
Held-to-maturity securities	382.1	382.1	-	-	-	371.8
Available-for-sale financial assets	98.7	10.9	-	87.8	-	87.8
Derivatives for which hedge accounting is not used (assets held for trading)	6.4	-	6.4	-	-	6.4
Derivatives for which hedge accounting is used	11.5	-	-	11.5	-	11.5
Financial liabilities	726.4	726.4	-	-	-	742.0
Financial liabilities recognized at amortized cost	-	726.4	-	-	-	742.0
Liabilities from finance leases	51.5	-	-	-	51.5	51.5
Trade payables	402.6	402.6	-	-	-	402.6
Financial liabilities recognized at amortized cost	-	402.6	-	-	-	402.6
Other financial liabilities ³	258.8	235.2	8.4	15.2	-	258.8
Financial liabilities recognized at amortized cost	-	235.2	-	-	-	235.2
Derivatives for which hedge accounting is not used (financial liabilities held for trading)	-	-	8.4	-	-	8.4
Derivatives for which hedge accounting is used	-	-	-	15.2	-	15.2
Total financial liabilities	1,439.3	-	-	-	-	1,454.9
Of which pursuant to IAS 39 measurement categories:						
Financial liabilities recognized at amortized cost	1,364.2	1,364.2	-	-	-	1,379.8
Derivatives for which hedge accounting is not used (financial liabilities held for trading)	8.4	-	8.4	-	-	8.4
Derivatives for which hedge accounting is used	15.2	-	-	15.2	-	15.2

¹ Does not include: tax receivables or prepaid expenses and deferred charges

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

³ Includes: other liabilities shown in the statement of financial position, with the exception of advance payments received and deferred income.

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

The held-to-maturity securities category includes current fixed-interest securities which are measured at amortized cost in accordance with the effective interest method.

Available-for-sale financial assets include securities, fund shares aimed at securing phased-early-retirement commitments, and investments in joint ventures and associates. The fair values of the fund shares correspond to their stock market prices on the reporting date. Investments in joint ventures and associates are measured at cost, as no observable prices on active markets are available.

The carrying amounts of 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 following table shows the net profits and losses from financial instruments, broken down by measurement category. The impacts on earnings due to finance leases and derivatives for which hedge accounting is used are not shown in the table because they do not belong to any of the IAS 39 measurement categories.

Net Result by Measurement Category		
€ million	2012	2011
Loans and receivables	-9.2	21.3
Available-for-sale financial assets	5.0	-
Assets/liabilities measured at fair value in profit or loss	7.1	-4.2
Held-to-maturity assets	3.7	6.9
Financial liabilities recognized at amortized cost	-39.9	-24.3
Total	-33.3	-0.3

The net result of the category "Loans and receivables" was primarily due to net losses/profits from exchange-rate effects, interest income from demand deposits, and valuation allowances.

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

The profits and losses from changes in the fair value of foreign-currency exchange rates, interest rates and commodity derivatives that do not fulfill the requirements of IAS 39 for hedge accounting are posted in the category "Derivatives for which hedge accounting is not used."

The interest income from financial assets which are not recognized at fair value through profit and loss amounts to €13.5 million (2011: €16.3 million). This interest income mainly stems from demand deposits and loans as well as from held-to-maturity securities.

The interest expenses from financial liabilities which are not recognized at fair value through profit and loss total €37.4 million (2011: €23.6 million). These interest expenses are mainly due to financial liabilities.

The category “Held-to-maturity assets” mainly comprises interest income from noncurrent and current corporate bonds that are posted under securities.

The net losses in the category “Financial liabilities recognized at amortized cost” primarily consist of interest expenses from bank liabilities.

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

Financial assets and liabilities that are measured at fair value must be allocated to one of the three levels of the fair value hierarchy. The hierarchical levels distinguish between the input data being used to determine fair value, and the extent to which they are observable in a market.

The following are the levels of the hierarchy:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: directly or indirectly observable input data that are not quoted prices according to Level 1

Level 3: unobservable market data

The financial assets and liabilities are allocated to the three levels of the measurement hierarchy as follows:

	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (assets held for trading)	-	5.6	-	5.6
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	-	5.8	-	5.8
Available-for-sale financial assets	191.9	-	-	191.9
Total	191.9	11.4	-	203.3
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (liabilities held for trading)	-	5.3	-	5.3
Fair value through other comprehensive income/in profit or loss				
Derivatives for which hedge accounting is used	-	14.9	-	14.9
Total	-	20.2	-	20.2

Fair Value Hierarchy as of Dec. 31, 2011

	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
Financial assets measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (assets held for trading)	-	6.4	-	6.4
Fair value through other comprehensive income				
Derivatives for which hedge accounting is used	-	11.5	-	11.5
Available-for-sale financial assets	87.8	-	-	87.8
Total	87.8	17.9	-	105.7
Financial liabilities measured at fair value				
Fair value through profit or loss				
Derivatives for which hedge accounting is not used (liabilities held for trading)	-	8.4	-	8.4
Fair value through other comprehensive income/in profit or loss				
Derivatives for which hedge accounting is used	-	15.2	-	15.2
Total	-	23.6	-	23.6

Financial Risks

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

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

Credit Risk (Default Risk)

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

Liquidity Risk

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

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

For information on the maturity analysis for non-derivative financial liabilities, please refer to [Note 15](#).

Market Risk

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

Foreign Exchange Risk

The potential currency exposure to be hedged with derivative financial instruments is determined based on the major foreign-currency income and expenditure. The greatest risk is posed by the us dollar, whose income is taken to mean all sales invoiced in us dollars, while all us-dollar purchasing as well as site costs incurred in us dollars are reported under us-dollar expenditure. The evaluation of potential risks includes not only the direct us-dollar income and expenditure, but also the indirect us-dollar impact of WACKER's main raw materials (methanol and natural gas). At the same time, indirect euro-denominated sales are deducted from currency exposure. The us dollar is the exclusive relevant risk variable for the sensitivity analysis in accordance with IFRS 7, since the largest share of foreign-currency cash flows is in us dollars. Increases in the euro exchange rate against the Singapore dollar, Chinese renminbi and Japanese yen, in contrast, have a minor impact. In determining sensitivity, we simulate a 10-percent us-dollar devaluation against the euro, which would have had an EBITDA effect of €-56 million as per December 31, 2012 and €-50 million as per December 31, 2011. The effect from cash-flow-hedge designated items would have increased equity before income taxes by €36.4 million (2011: €62.3 million). The Group's currency exposure amounted to €564.0 million as per December 31, 2012 (2011: €549.7 million).

Interest Rate Risk

The interest rate risk results mainly from financial debt and interest-bearing investments. Each year, the Executive Board determines the mixture of fixed and variable-interest net financial liabilities. Depending on the structure involved, interest rate derivatives are concluded as required. Depending on whether the instrument in question (financial liabilities, investments or interest rate derivatives) has a fixed or variable interest rate, the interest rate risks are measured on the basis of either market-value sensitivity or cash-flow sensitivity. Financial liabilities and fixed-interest investments are measured at amortized cost and are therefore, in accordance with IFRS 7, not subject to any interest-rate risk. Available-for-sale securities are recognized at fair value. Due to their short terms, they are not subject to a significant risk of changes in interest rates. Hedge accounting is not used for any of the interest rate derivatives. Changes in market interest rates have an impact on the net interest income generated by variable-interest financial instruments, and are, 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 the reporting date, net interest income would have been €2.9 million (2011: €0.4 million) lower (higher). The net financial liabilities at the end of the fiscal year do not correspond to the average net debt in the year under review.

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. In general, potential increases in raw-material prices pose a risk to results.

Derivative Financial Instruments

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

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

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

Operational hedging in the foreign exchange area relates to the receivables and liabilities already recognized, and generally encompasses time horizons of between three and four months. The time horizon of strategic hedging is between four and a maximum of 24 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 balance sheet date and are calculated using recognized actuarial methods.

The derivatives are recognized at their market values, irrespective of their stated purpose. They are reported in the statement of financial position under other assets or other liabilities. Where permissible, cash flow hedge accounting is applied for the strategic hedging of currency exchange risks from future foreign exchange positions. In such cases, the changes in the market values of foreign exchange contracts and the changes in the intrinsic values of currency options are recognized under equity with no effect on net income until the underlying transaction takes place, insofar as the hedge is effective. When future transactions are realized, the effects accumulated under equity are reversed through profit or loss. The changes in the fair values of the currency-option contracts not subject to cash flow hedge accounting are recognized in profit or loss. Depending on the nature of the underlying transaction, they are posted in the statement of income either under the operating result or, if financial liabilities are being hedged, under net interest income or other financial result.

For strategic hedging purposes, graduated hedging ratios of between 25 and 50 percent are used in relation to the expected net exposure in us\$. The expected net exposure for 2013 is about 50 percent hedged, with the expected semiconductor-business net exposure for 2014 being around 30 percent hedged. The hedging ratio for operational hedging is some 85 percent.

In the 2012 fiscal year, the accumulated income and expenses recorded directly under equity included an unrealized (pre-tax) result of €7.9 million (2011: €–30.4 million). In the result for the period, no gains or losses from hedge accounting ineffectiveness were recorded, as the hedging relationships were almost entirely effective.

The purpose of fair value hedges is to hedge against changes in the fair value of financial assets and liabilities that come about because of fluctuations in the value of currencies (foreign currency swap). If the hedge is effective, the carrying amount of the corresponding underlying transaction is amended to reflect the changes in the fair values of the hedged risks. At the end of 2012, WACKER recognized an expense of €–11.6 million (2011: €0.0 million), from the valuation of the hedging instrument, under fair value hedges. At the same time, income of €11.2 million (2011: €0.0 million) was realized on the underlying transaction. According to the underlying transaction, the change in the fair value is recognized in the financial result.

In a small number of cases, there are embedded derivatives. These are generally measured at market values, or at amortized cost if market values cannot be derived. They, too, are reported under other assets or other liabilities, respectively.

In the course of selling share of a minor investment, WACKER granted the buyer a call option for the company's remaining stake. That option must be exercised in 2013.

€ million	Dec. 31, 2012		Dec. 31, 2011	
	Nominal values	Market values	Nominal values	Market values
Foreign exchange derivatives	1,325.8	–5.1	1,422.4	–3.7
Other derivatives	52.1	–3.7	43.7	–1.8
Total	1,377.9	–8.8	1,466.1	–5.5
Market values for derivative financial instruments within the framework of hedge accounting	–	2.5	–	–5.0

The foreign exchange derivatives mainly contain forward exchange contracts amounting to US\$1,206.2 million, ¥17.2 billion and SG\$295.1 million (2011: US\$1,447.3 million, ¥8.2 billion and SG\$305.2 million).

Other derivatives involve interest-rate swaps with a notional sum of €25.0 million (2011: €25.0 million) and electricity futures traded on the Norwegian market with a notional amount of €20.2 million (2011: €17.4 million). The electricity futures are used to limit the risk of rising spot-market prices for energy via structured price setting on the electricity market. The hedged amount represents 90 percent of the Holla, Norway site's future silicon-production power needs. The futures fall due after a maximum of one year. Derivatives with terms until 2015 were concluded.

21 Notes to the Statement of Cash Flows

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

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

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

For more details on the composition of funds made up of cash and cash equivalents,

see Note 11

Other Non-Cash Expenses and Income		
€ million	2012	2011
SILICONES	-75.2	-13.3
POLYMERS	-0.7	-0.3
BIOSOLUTIONS	-0.2	-0.3
POLYSILICON	18.2	0.9
SILTRONIC	7.5	3.3
Other	-30.6	-35.9
Total	-81.0	-45.6

22 Explanatory Notes on Segment Reporting

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

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

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

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

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

The liabilities shown for the segments represent all of their liabilities – except deferred tax liabilities, shown under "Other." The Group's financial liabilities are allocated to individual segments in proportion to the segment assets.

Of the valuation changes recognized with no effect on income, €6.6 million (2011: €11.9 million) is attributable to the Siltronic segment and €0.1 million (2011: €9.8 million) to "Other." The valuation changes essentially relate to the changes in the market values of derivative financial instruments from cash flow hedging.

In addition to Germany, the USA and China are the only countries in which WACKER generates significant sales from a Group viewpoint. Measured in relation to the headquarters of the selling unit in the USA, sales amounted to €672.5 million (2011: €739.6 million). Measured by the respective customer headquarters in the USA and China, the sales generated were €681.2 million (2011: €707.0 million) and €717.3 million (2011: €706.2 million), respectively. There are no major customers with whom significant sales are generated.

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

Reconciliation of Segment Results (EBIT)		
€ million	2012	2011
Operating result of reporting segments (EBIT)	258.1	602.8
Consolidation	-0.1	0.4
Group EBIT	258.0	603.2
Financial result	-64.8	-35.8
Income before taxes	193.2	567.4
Income taxes	-86.4	-211.3
Net income for the year	106.8	356.1

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

Unless otherwise stated, the following figures for international subsidiaries are IFRS results.

Affiliated Companies					
Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number ¹
Germany					
1	Alzwerke GmbH, Munich	7,160	–	100.00	0
2	DRAWIN Vertriebs-GmbH, Hohenbrunn	5,016	2	100.00	0
3	W.E.L.T. Reisebüro GmbH, Munich ²	156	68	51.00	0
4	Wacker-Chemie Versicherungsvermittlung GmbH, Munich	26	–	100.00	0
5	Wacker-Chemie Beteiligungsfinanzierungs GmbH, Munich	30	–	100.00	22
6	Wacker Polysilicon Geschäftsführungs GmbH, Nünchritz	27	–	100.00	0
7	Wacker-Chemie Erste Venture GmbH, Munich	80	–	100.00	22
8	Wacker-Chemie Zweite Venture GmbH, Munich	36	–	100.00	0
9	Wacker-Chemie Dritte Venture GmbH, Munich	387,727	–	100.00	0
10	Wacker-Chemie Sechste Venture GmbH, Munich	28	–	100.00	0
11	Wacker Biotech GmbH, Jena	290	–	100.00	0
12	Wacker-Chemie Siebte Venture GmbH, Munich	25	–	100.00	0
13	Wacker-Chemie Achte Venture GmbH, Munich	550,117	–	100.00	30
14	Siltronic AG, Munich	718,048	–	90.00	9
				10.00	0
Rest of Europe					
15	Wacker Chemicals Finance B.V., Krommenie/Amsterdam, Netherlands	724,267	–1,427	100.00	0
16	Wacker-Chemicals Ltd., Egham, Surrey, Great Britain	705	584	100.00	0
17	Wacker-Chemie Italia S.r.L., Peschiera Borromeo/Milan, Italy	2,310	707	100.00	0
18	Wacker-Chemie Benelux B.V., Krommenie/Amsterdam, Netherlands	315	296	100.00	15
19	Wacker Chimie S.A.S., Lyon, France	432	242	100.00	0
20	Wacker-Kemi AB, Solna, Sweden	596	517	100.00	0
21	Wacker Química Ibérica, S.A., Barcelona, Spain	314	176	100.00	0
22	Siltronic Holding International B.V., Krommenie/Amsterdam, Netherlands	367,591	–48,483	100.00	14
23	Wacker-Chemie S.r.o., Prague, Czech Republic	3,477	184	100.00	0
24	Wacker-Chemie Polska Sp. z o. o., Warsaw, Poland	427	277	100.00	0
25	Wacker-Chemie Hungária Kft., Budapest, Hungary	261	61	100.00	0
26	OOO Wacker Chemie RUS, Moscow, Russia	1,132	729	100.00	0
27	Wacker Chemicals Norway AS, Holla, Norway	41,689	2,376	100.00	15
The Americas					
28	Wacker Química do Brasil Ltda., São Paulo, Brazil	9,025	–1,459	100.00	0
29	Wacker Mexicana S.A. de C.V., Mexico, D.F., Mexico	1,759	451	100.00	0
30	Wacker Chemical Corp., Adrian, Michigan, USA	770,906	17,183	100.00	15
31	Wacker Polysilicon North America L.L.C., Cleveland, Tennessee, USA	494,166	–23,397	100.00	13
32	Siltronic Corp., Portland, Oregon, USA	37,805	200	100.00	22

Affiliated Companies

Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number ¹
Asia					
33	Wacker Chemicals (South Asia) Pte. Ltd., Singapore	1,703	274	100.00	0
34	Wacker Chemicals Hong Kong Ltd., Hong Kong, China	2,577	220	100.00	0
35	Wacker Metroark Chemicals Pvt. Ltd., Parganas, India	27,441	6,142	51.00	0
36	Wacker Chemicals Korea Inc., Seoul, South Korea	25,369	2,814	100.00	15
37	Wacker Chemicals East Asia Ltd., Tokyo, Japan	368	232	100.00	0
38	Wacker Chemicals Trading (Shanghai) Co. Ltd., Shanghai, China	8,645	32	100.00	34
39	Wacker Chemicals Fumed Silica (ZJG) Holding Co. Private Ltd., Singapore	47,944	-15	51.00	0
40	Wacker Chemicals Fumed Silica (ZJG) Co. Ltd., Zhangjiagang, China	9,502	-18,411	51.00	39
41	Wacker Chemicals (Zhangjiagang) Co. Ltd., Zhangjiagang, China	34,060	-1,032	100.00	43
42	Wacker Polymer Systems (WUXI) Co. Ltd., Wuxi, China	3,813	746	100.00	43
43	Wacker Chemicals (China) Company Ltd. (Holding), Shanghai, China	35,880	-1,802	100.00	0
44	Wacker Polymer Systems (Nanjing) Co. Ltd., Nanjing, China	47,135	137	100.00	43
45	Wacker Chemicals India Ltd., Mumbai, India	3,119	165	100.00	15
46	Siltronic Singapore Pte. Ltd., Singapore	103,126	22,564	100.00	22
47	Siltronic Asia Trading Pte. Ltd., Singapore	800	766	100.00	22
48	Siltronic Japan Corp., Hikari, Japan	-16,300	19,898	100.00	22
Other regions					
49	Wacker Chemicals Australia Pty. Ltd., Melbourne, Australia	284	247	100.00	0
50	Wacker Chemicals Middle East Ltd., Dubai, UAE	2,410	567	100.00	0

Joint Ventures/Associated Companies³

Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number ¹
51	Wacker Asahi Kasei Silicone Co. Ltd., Tokyo (Japan)	15,117	3,939	50.00	0
52	Dow Corning (ZJG) Holding Co. Private Ltd., Singapore	321,666	67,133	25.00	0
53	Wacker Dymatic (Shunde) Co. Ltd., Guangdong (China)	18,100	5,085	50.00	43
54	Siltronic Samsung Wafer Pte. Ltd., Singapore	43,643	-53,915	50.00	22

Other

Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number ¹
55	Thin Materials AG, Eichenau, Germany ²	345	-461	26.55	0

Special-Purpose Entity

Serial number	Identifier*	Equity in € '000	Net income for the year in € '000	Capital share in %	Held by serial number ¹
56	WMM-Universal-Fonds, Germany ⁴	142,278	1,610	100.00	0

* Identifier:

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

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

¹ Serial number 0: Wacker Chemie AG

² Prior-year figures

³ Only direct holdings in the relevant parent company are listed

⁴ Share of special assets, as per IFRS

Key Figures for Joint Ventures

€ million	2012		2011	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Sales	318.5	159.3	271.1	135.6
Operating result	-24.0	-12.0	-24.2	-12.1
Result after taxes	-44.9	-22.4	-42.6	-21.3
Noncurrent assets	461.5	230.8	479.1	239.7
Current assets	124.4	62.3	169.0	84.5
	585.9	293.1	648.1	324.2
Equity	76.8	38.5	121.6	60.9
Noncurrent liabilities	400.6	200.4	406.9	203.4
Current liabilities	108.5	54.4	119.6	59.9
	585.9	293.3	648.1	324.2

Key Figures for Associated Companies

€ million	2012		2011	
	Total	Attributable to WACKER	Total	Attributable to WACKER
Sales	445.0	111.2	375.7	94.0
Operating result	108.7	27.2	95.0	23.8
Result after taxes	66.9	16.8	51.0	12.8
Noncurrent assets	905.0	226.2	965.8	241.4
Current assets	94.5	23.6	171.6	42.9
	999.5	249.8	1,137.4	284.3
Equity	321.9	80.4	184.8	46.2
Noncurrent liabilities	361.9	90.5	544.5	136.1
Current liabilities	315.7	78.9	408.1	102.0
	999.5	249.8	1,137.4	284.3

24 Related Party Disclosures

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

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

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

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

Wacker Chemie AG's pension fund is also considered a related party pursuant to IAS 24. Provision of services takes place between the two entities in the area of company pension plan benefits. WACKER makes payments to plan assets to cover pension obligations. Wacker Chemie AG also rents the headquarters building, and the property on which it stands, from a subsidiary of Pensionskasse der Wacker Chemie VVaG. The total expenditures in 2012 amounted to €40.0 million (2011: €27.6 million), while the receivables from the pension fund totaled €35.3 million (2011: €35.2 million).

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

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

On March 21, 2012, BlackRock Hodco 2, Inc. (Wilmington, USA) and BlackRock Financial Management, Inc. (New York, USA) announced that their holdings of Wacker Chemie AG shares with voting rights slightly exceeded the 3-percent threshold on March 15, 2012.

On April 3, 2012, BlackRock Inc. (New York, USA), BlackRock Financial Management, Inc. (New York, USA) and BlackRock Hodco 2, Inc. (Wilmington, DE, USA) announced that their holdings of Wacker Chemie AG shares with voting rights dropped to just under the 3-percent threshold on March 27, 2012. Further detailed information has been published in the German register of companies. www.unternehmensregister.de

Business with joint ventures and associates, the pension fund, and non-consolidated subsidiaries is, as a rule, conducted under conditions that are customary between outside third parties. For joint-venture and associated-company product shipments, contractually agreed transfer-price formulas have been defined that include start-up costs and financing elements, among others.

Related Party Disclosures

€ million	2012				2011			
	Income	Expenses	Trade re- ceivables	Liabilities	Income	Expenses	Trade re- ceivables	Liabilities
Associated companies	4.7	128.3	-	6.2	2.9	108.1	16.5	6.0
Joint ventures	88.1	54.6	16.8	4.3	72.2	43.6	14.9	5.2
Other	-	-	-	0.3	0.1	-	-	0.3

Transactions with joint ventures and associates relate to supplies and services during the normal course of business in connection with sales revenue, license revenue and administrative expense allocations. Joint ventures and associates submitted invoices for material purchases and commissions. Any guarantees or other security pledges are reported under other financial obligations. See [Note 17](#)

In addition, there are loans to joint ventures totaling €256.2 million (2011: €130.0 million). These loans contain capitalized interest income for the period under review of €5.9 million (2011: €3.7 million).

Information Regarding Compensation of the Supervisory and Executive Boards:

Compensation for the Executive and Supervisory Boards				
€	Fixed com- pensation	Variable com- pensation	Pensions ¹	Total
Executive Board compensation 2012	2,593,532	2,976,000	1,856,216	7,425,748
Executive Board compensation 2011	2,583,852	3,722,400	1,781,282	8,087,534
Pension commitments for active members of the Executive Board 2012				23,875,776
Pension commitments for active members of the Executive Board 2011				19,098,475
Compensation for former members of the Executive Board and their surviving dependents 2012				818,656
Compensation for former members of the Executive Board and their surviving dependents 2011				809,481
Pension commitments for former members of the Executive Board and their surviving dependents 2012				21,932,911
Pension commitments for former members of the Executive Board and their surviving dependents 2011				19,987,205
Supervisory Board compensation 2012	1,758,000	-		1,758,000
Supervisory Board compensation 2011	1,755,323	-		1,755,323

¹ Pensions include the interest cost, as well as the service cost.

An Executive Board member who left the company on December 31, 2012 was granted benefits under his employment contract for the period until April 30, 2013 as well as competitive-restriction compensation totaling €800,092.

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

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

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

Munich, Germany, February 25, 2013
Wacker Chemie AG

Rudolf Staudigl Tobias Ohler

Joachim Rauhut Auguste Willems

Supervisory Board

Dr. Peter-Alexander Wacker^{1,2,3}

Chairman
Starnberg
Former President & CEO
of Wacker Chemie AG, business man

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

**Chairman of the Administrative Council and
Board of Trustees**
ifo Institute – Leibniz Institute for Economic Research
at the University of Munich

Anton Eisenacker* 1, 2, 3

Deputy Chairman
Perach
Certified Chemical Technologist

Peter Áldozó*

Burghausen
HR Specialist

Matthias Biebl

Munich
Attorney and bank in-house lawyer
UniCredit Bank AG

Dr. Werner Biebl

Munich
Chief Public Prosecutor (retired), Managing Director
of Dr. Alexander Wacker Familiengesellschaft mbH

Marko Fartelj*

Kirchdorf
Machine Operator

Konrad Kammergruber*

Burghausen
Business studies graduate (Diplom-Kaufmann),
Director of Infrastructure Services

Eduard-Harald Klein*

Neuötting
Operator

Manfred Köppl*¹

Kirchdorf
Industrial Mechanic

Franz-Josef Kortüm^{1,2}

Munich
Chairman of the Executive Board of Webasto SE
(until December 31, 2012)

Chairman of the Supervisory Board

Webasto Roof & Components SE (since July 1, 2012)
Webasto Thermo & Comfort SE (since July 1, 2012)

Member of the Supervisory Board

Schaeffler AG

Member of the Advisory Council

Brose Fahrzeugteile GmbH + Co. KG
ERGO Versicherungsgruppe AG

Seppel Kraus*

Olching
Regional head of the IG BCE labor union, Bavaria

Member of the Supervisory Board

Novartis Deutschland GmbH
Hexal AG
Gerresheimer AG (since April 26, 2012)

Harald Sikorski*

Munich
Altötting District Chairman of the IG BCE labor union

Member of the Supervisory Board

Siltronic AG**
Gerresheimer AG (until April 26, 2012)

* Employee representative

** Subsidiary

¹ Mediation Committee (Chairman: Dr. Peter-Alexander Wacker)

² Executive Committee (Chairman: Dr. Peter-Alexander Wacker)

³ Audit Committee (Chairman: Dr. Bernd W. Voss)

Dr. Thomas Strüngmann

Tegernsee
Co-Managing Director of ATHOS Service GmbH

Dr. Bernd W. Voss³

Kronberg i.T.
Former member of the Board of Managing Directors,
Dresdner Bank AG

Member of the Supervisory Board

Continental AG

Member of the Central Advisory Board

Commerzbank AG

Dr. Susanne Weiss

Munich
Attorney, and a Partner in the law firm Weiss Walter
Fischer-Zernin

Chairwoman of the Supervisory Board

ROFA AG

**Member of the Supervisory Board and Advisory
Council**

Giesecke & Devrient GmbH

Member of the Supervisory Board

UniCredit Bank AG
Allgemeine Baugesellschaft – A. Porr
Aktiengesellschaft (since December 6, 2012)

Prof. Dr. Ernst-Ludwig Winnacker

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

Chairman of the Supervisory Board

MediGene AG

Member of the Supervisory Board

Bayer AG

* Employee representative

** Subsidiary

¹ Mediation Committee (Chairman: Dr. Peter-Alexander Wacker)

² Executive Committee (Chairman: Dr. Peter-Alexander Wacker)

³ Audit Committee (Chairman: Dr. Bernd W. Voss)

Executive Board

Dr. Rudolf Staudigl

President & CEO

WACKER POLYSILICON (since January 1, 2013)
 SILTRONIC (until December 31, 2012)
 Executive Personnel
 Corporate Development
 Corporate Communications
 Investor Relations
 Corporate Auditing
 Legal (since January 1, 2013)
 Legal & Insurance (until December 31, 2012)
 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, Bavaria

Deutsche Bank AG

Dr. Tobias Ohler (since January 1, 2013)

WACKER POLYMERS
 Human Resources (Personnel Director)
 Technical Procurement & Logistics
 Raw Materials Procurement
 Region: Asia

Dr. Joachim Rauhut

SILTRONIC (since January 1, 2013)
 WACKER POLYSILICON (until December 31, 2012)
 Corporate Accounting and Tax
 Corporate Controlling
 Corporate Finance and Insurance
 (since January 1, 2013)
 Corporate Finance (until December 31, 2012)
 Corporate Engineering (since January 1, 2013)
 Information Technology
 Raw Materials Procurement (until December 31, 2012)
 Technical Procurement & Logistics
 (until December 31, 2012)
 Region: The Americas

Member of the Supervisory Board

Siltronic AG**
 Pensionskasse der Wacker Chemie VVaG
 MTU Aero Engines Holding AG
 MTU Aero Engines GmbH
 B. Braun Melsungen AG

Member of the Advisory Council

J. Heinrich Kramer Holding GmbH

Member of the Regional Advisory Committee, South

Commerzbank AG

Dr. Wilhelm Sittenthaler

(until December 31, 2012)

WACKER SILICONES
 Human Resources (Personnel Director)
 Corporate Research & Development
 Intellectual Property
 Region: Asia

Member of the Supervisory Board

Siltronic AG**

Member of the Board of Trustees

Max Planck Institute for Solid State Research
 Chemical Industry Foundation

Auguste Willems

WACKER BIOSOLUTIONS
 WACKER SILICONES (since January 1, 2013)
 WACKER POLYMERS (until December 31, 2012)
 Sales & Distribution
 Corporate Research & Development
 (since January 1, 2013)
 Intellectual Property (since January 1, 2013)
 Site Management
 Corporate Security
 Environment, Health, Safety
 Product Stewardship
 Corporate Engineering (until December 31, 2012)
 Regions: Europe, Middle East

Member of the Supervisory Board

Siltronic AG**

Member of the Bavarian State Branch Advisory Committee

TÜV Süd AG

** Subsidiary

Corporate Governance Report and Declaration on Corporate Management

Corporate governance is an important part of a company's success, responsible corporate management and supervision. Wacker Chemie AG attaches great importance to the rules of proper corporate governance. In this report, the Executive Board provides details – also for the Supervisory Board – on corporate governance 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

In the 2012 fiscal year, the Executive and Supervisory Boards dealt intensively with the company's corporate governance and the alterations to the Code published on May 15, 2012. The Executive Board and the Supervisory Board resolved on December 6 and December 12, respectively, to issue the following 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 2012 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 2011, 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 May 26, 2010, with the following exceptions, and will continue to comply with the recommendations of the Code in the version dated May 15, 2012, except as follows:

Exceptions

a) D&O Insurance Deductible for Supervisory Board Members

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

b) Severance Pay Cap

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

c) Appropriate Representation of Women on the Executive Board

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

d) Formation of a Nomination Committee within the Supervisory Board

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

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

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

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

f) Performance-Oriented Compensation for Supervisory Board Members

In the version dated May 26, 2010, the German Corporate Governance Code recommended the payment of performance-related compensation to supervisory board members in addition to their fixed compensation. We did not follow this recommendation. In the version of May 15, 2012, the German Corporate Governance Code no longer contains any recommendation to pay supervisory board members performance-related compensation. As a result, Wacker Chemie AG has complied with the recommendation of the Code since that date.

g) Naming of a Specific Target Number of Independent Members of the Supervisory Board

In its current composition, Wacker Chemie AG's Supervisory Board complies with the requirements concerning an adequate number of independent supervisory board members. What is more, in its future recommendations to the shareholders in respect of appointments, the Supervisory Board will make sure it proposes what it considers to be an adequate number of independent candidates. Setting a specific target for the number of independent Supervisory Board members would not only restrict the selection of suitable candidates for that body, but also curb the rights of the shareholders to select those candidates that they consider the most appropriate for the task. 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, media, or the interested general public – promptly and with equality of access. We regularly publicize important dates for the company in a financial calendar published in our Annual Report, in the interim reports and on our website. The capital

market participants are in close contact with our Investor Relations team. We inform investors and analysts about the current and future development of business in telephone conferences held whenever a quarterly report is published. We regularly attend roadshows and investors' conferences. We organize a "Capital Markets Day" once a year. Important presentations can be viewed freely on the internet. All of the press releases and ad-hoc disclosures in both German and English, the online version of the Annual Report, all interim reports and the Sustainability Report can also be found there. Further information is provided by our online customer magazine, media library and Podcast Center. www.wacker.com

Annual Shareholders' Meeting

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

Working Methods of the Executive and Supervisory Boards

Wacker Chemie AG has a dual management system as prescribed 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. 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 strategy, planning, business development, risk exposure, risk management and compliance that are relevant to the company. Between meetings, the Supervisory Board chairman maintains contact with the Executive Board, in particular with

the president & CEO, consulting with that body on the above-mentioned issues. The Executive Board explains 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 the Rules of Procedure of Wacker Chemie AG's Executive Board 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.

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.

The Supervisory Board comprises 16 members. In compliance with the German Co-Determination Act (MitbestG), it has an equal number of shareholder and employee representatives. The Supervisory Board appoints the members of the Executive Board and oversees and advises it on the management of the company.

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

Where necessary, in particular when forming resolutions in respect of personnel, the Supervisory Board convenes without 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 deliberates on contracts with Executive Board members and develops the system for Executive Board compensation, on the basis of which the meeting of the full Supervisory Board determines the compensation payable to Executive Board members. The Executive Committee consists of the Chairman of the Supervisory Board, Dr. Peter-Alexander Wacker, and Supervisory Board members Anton Eisenacker and Franz-Josef Kortüm.

The Audit Committee does the groundwork for the Supervisory Board's decisions on the adoption of the annual financial statements and the approval of the consolidated financial statements. Its work also includes an audit of the consolidated interim financial statements for the first half-year, discussion of the quarterly reports, and issues involving risk management. In connection with this, the committee is obliged to pre-audit the annual financial statements, the consolidated financial statements, the combined management report and the proposal for the appropriation of profits. In particular, this committee monitors the accounting processes, the company's compliance with laws and regulations, 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 auditor's independence and the services it delivers. 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 chairman of the Audit Committee is Dr. Bernd W. Voss, who is an independent Supervisory Board member and not a former member of the com-

pany's Executive Board. On the basis of his previous position as CFO of Dresdner Bank AG, and thanks to his many years of service in the audit committees of other companies' supervisory boards, he has specialized knowledge of, and experience in, legal accounting and the auditing of financial statements.

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 Manfred Köppl.

Key Corporate Management Practices

Compliance as a Key Managerial Duty of the Executive Board

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

WACKER's compliance organization is responsible in this regard. The company has appointed and trained compliance officers in Germany, Norway, the USA, China, Japan, India, South Korea, Brazil and Singapore. These hold regular training courses to inform employees of key legal provisions and internal regulations. Moreover, they serve as contacts whenever employees have questions or need advice about compliance. One focus of compliance management in 2012 continued to be in improving communication with the company's international sites within the compliance organization and in training the local employees at those sites.

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

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

In 2011, we established an internal Corporate Sustainability department. It guides the implementation of WACKER's voluntary commitments under Responsible Care® and the Global Compact and coordinates our sustainability activities worldwide.

Social Commitments

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

Further Information on Corporate Governance at WACKER

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

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

Share Dealings by the Executive and Supervisory Boards

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

In 2012, members of the Executive and Supervisory Boards and their dependents subject to reporting requirements gave notification of 18 sales and acquisitions of between 25 to 1,000 WACKER shares. The volumes of the individual transactions ranged from €1,347 to €61,918.

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.

Corporate Governance Report and Declaration on Corporate Management

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

Accounting and Auditing

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

D&O Insurance

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

Targets for Supervisory Board Composition

WACKER has always placed importance on having highly qualified individuals sit on its Supervisory Board. Pursuant to Item 5.4.1 of the German Corporate Governance Code in the version of May 26, 2010, WACKER's Supervisory Board resolved at its meeting of December 9, 2010 to set itself the following targets in respect of its composition, which also include the qualifications, international experience and gender of Supervisory Board members:

1. An appropriate number of Supervisory Board members – at least one – should have international experience.
2. The Supervisory Board's Rules of Procedure already deal extensively with members' conflicts of interest. In general, the Supervisory Board strives to prevent such conflicts of interest and will also take this goal into account when making recommendations to the Annual Shareholders' Meeting.

3. To achieve ever-greater diversity, the Supervisory Board wishes to increase the number of female Supervisory Board members to at least two over the next two terms. In its bid to meet this goal, the Supervisory Board strives for at least one female employee representative and at least one female shareholder representative.

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

As the Supervisory Board believes that an adequate number of its members are independent, it does not comply with the additional recommendation made in Section 5.4.1 of the German Corporate Governance Code in the version dated May 15, 2012 to name a specific target number of independent members. The reasons for this decision are given in the Declaration of Conformity of December 12, 2012. In 2012, the composition of the Supervisory Board did not change with regard to the above targets. The next Supervisory Board elections are scheduled for 2013. In its recommendations to shareholders, the Supervisory Board will take into account both the targets it has agreed and what it deems to be an adequate number of independent candidates.

Report on Executive Board Compensation

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

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

The compensation system in effect since January 1, 2010 is in accordance with the legal requirements of the German Act on the Appropriateness of Management Board Compensation (VorstAG) as per August 2009.

The Executive Board's compensation was comprised of the following key components:

(I) A fixed annual salary:

The fixed annual salary is paid monthly in identical installments.

(II) A variable, performance-related bonus:

The amount of the variable bonus, which is paid annually and retrospectively, depends on the attainment of agreed annual Group targets set by the Supervisory Board for all Executive Board members with regard to key indicators including business value contribution, cash flow and target return for fiscal 2010 and 2011, with additional regard to the return on capital employed (ROCE) as of fiscal 2012. The bonus is calculated based on goal achievement in 2012, as well as on average overall target attainment for 2011 and 2010. 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.

(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.

After all, if they leave the company, the Executive Board members are subject to a 12-month obligatory waiting period, which is tied to competitive-restriction compensation. The competitive-restriction compensation is calculated on the basis of 50 percent of the most recently received overall annual compensation (average of the last three years). Any pension will be set off against the competitive-restriction compensation.

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

Executive Board Compensation				
€	Fixed compensation ¹	Variable compensation	Pensions ²	Total
Dr. Rudolf Staudigl				
2012	803,203	930,000	705,004	2,438,207
2011	801,549	1,163,250	683,208	2,648,007
Dr. Joachim Rauhut				
2012	604,144	682,000	291,132	1,577,276
2011	604,053	853,050	279,644	1,736,747
Dr. Wilhelm Sittenthaler				
2012	584,682	682,000	461,532 ³	1,728,214
2011	579,702	853,050	439,755	1,872,507
Auguste Willems				
2012	601,503	682,000	398,548	1,682,051
2011	598,548	853,050	378,675	1,830,273
Total				
2012	2,593,532	2,976,000	1,856,216	7,425,748
2011	2,583,852	3,722,400	1,781,282	8,087,534

¹ The fixed compensation additionally includes the use of a company car.

² The pension includes the interest cost, as well as the service cost. The interest cost amounts to €859,431 (2011: €784,497).

³ Pension levels and years of service have been synchronized.

Dr. Sittenthaler stepped down as Executive Board member prematurely for personal reasons effective December 31, 2012. Up until his employment contract expires as scheduled on April 30, 2013, Dr. Sittenthaler will continue to receive all compensation stemming from said contract. Following his departure, he will receive the agreed competitive-restriction compensation, which corresponds to an overall amount of €800,092.

Compensation for Former Executive Board Members and Their Surviving Dependents	
€	Total
2012	818,656
2011	809,481

Pension Provisions for Executive Board Members	
€	Total
Pension provisions for active members of the Executive Board	
2012	23,875,776
2011	19,098,475
Pension provisions for former Executive Board members and their surviving dependents	
2012	21,932,911
2011	19,987,205

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 €70,000 payable when the fiscal year expires and are additionally refunded any VAT payable on their compensation. Supervisory Board members who join, or depart from, the Supervisory Board during the ongoing fiscal year receive the appropriate pro rata compensation.

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

The members of the Supervisory Board are compensated for any outlays incurred in connection with the execution of their duties with an annual lump sum of €18,000. They are additionally refunded any VAT payable on their compensation.

Performance-based compensation of Supervisory Board members was replaced with the above-mentioned compensation system by a resolution of the Annual Shareholders' Meeting of May 18, 2011, with retroactive effect from January 1, 2011. In addition, the Articles of Association were adjusted accordingly.

The aim was to ensure that Supervisory Board members maintain a high level of independence and take account of the work load – irrespective of business success – and the risk of liability for Supervisory Board members. For further details, refer to page 241: "Declaration of Conformity" – section f)

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

Supervisory Board Compensation			
€	Fixed compensation ¹	Variable compensation	Total
2012	1,758,000	-	1,758,000
2011	1,755,323	-	1,755,323

¹ Fixed compensation includes the aforementioned annual lump sum.

Declaration by the Executive Board on the Accounting Methods and Auditing

The Executive Board is responsible for preparing Wacker Chemie AG's consolidated financial statements and combined management report. WACKER's consolidated financial statements were prepared in compliance with the rules published in London by the International Accounting Standards Board (IASB) and endorsed by the European Union. WACKER has set up effective internal monitoring and steering systems to guarantee that the combined management report and the consolidated financial statements comply with the applicable rules and procedures of proper corporate reporting. The reliability and workability of the monitoring and steering systems are examined continuously by the internal auditing division on a worldwide basis. KPMG AG Wirtschaftsprüfungsgesellschaft has audited Wacker Chemie AG's consolidated financial statements and Group management report and granted them an unqualified certificate. WACKER's consolidated financial statements, its combined management report and the auditors' report were discussed in detail by the Supervisory Board's Audit Committee at its meeting on March 7, 2013. For information about the Supervisory Board's audit, please refer to its report.

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

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

Munich, Germany, February 25, 2013
Wacker Chemie AG

Rudolf Staudigl Tobias Ohler

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, 2012. 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 315 a (1) HGB (Handelsgesetzbuch “German Commercial Code”) are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the report on the position of the Company and the Group based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315 a (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 25, 2013
KPMG AG Wirtschaftsprüfungsgesellschaft

Pastor
Auditor

Prof. Grottel
Auditor

Multiyear Overview

Multiyear Overview

€ million	2012	Change in %	2011	2010	2009	2008	2007	2006
Sales	4,634.9	-5.6	4,909.7	4,748.4	3,719.3	4,298.1	3,781.3	3,336.9
Income before taxes	193.2	-65.9	567.4	732.3	3.3	641.8	632.1	415.6
Net income for the year	106.8	-70.0	356.1	497.0	-74.5	438.3	422.2	311.8
EBITDA	786.8	-28.7	1,104.2	1,194.5	606.7	1,055.2	1,001.5	786.3
EBIT	258.0	-57.2	603.2	764.6	26.8	647.9	649.6	456.3
Fixed assets	4,260.7	12.2	3,797.7	3,273.5	3,017.5	2,951.7	2,401.9	2,098.9
Intangible assets	25.5	-15.6	30.2	33.2	22.0	24.7	10.1	16.3
Property, plant and equipment	3,924.4	12.1	3,502.0	3,027.2	2,778.5	2,659.6	2,123.4	1,917.6
Financial assets	310.8	17.1	265.5	213.1	217.0	267.4	268.4	165.0
Current assets incl. deferred taxes + prepaid expenses and deferred charges	2,069.2	-15.2	2,439.3	2,227.7	1,524.4	1,673.4	1,516.2	1,159.3
Liquid funds	192.6	-59.4	473.9	545.2	363.6	204.2	366.5	42.9
Equity	2,617.8	-0.5	2,629.7	2,446.8	1,942.4	2,082.8	1,865.6	1,585.8
Subscribed capital	260.8	-	260.8	260.8	260.8	260.8	260.8	260.8
Capital reserves	157.4	-	157.4	157.4	157.4	157.4	157.4	157.4
Treasury shares	-45.1	-	-45.1	-45.1	-45.1	-45.1	-45.1	-45.1
Retained earnings/ consolidated net income/ other equity items	2,226.5	-0.2	2,230.3	2,049.0	1,552.4	1,695.3	1,477.2	1,196.8
Non-controlling interests	18.2	-30.8	26.3	24.7	16.9	14.4	15.3	15.9
Borrowed capital	3,712.1	2.9	3,607.3	3,054.4	2,599.5	2,542.3	2,052.5	1,672.4
Provisions	905.7	0.2	904.2	893.2	867.8	719.5	651.6	587.2
Liabilities, incl. deferred taxes + prepaid expenses and deferred charges	2,806.4	3.8	2,703.1	2,161.2	1,731.7	1,822.8	1,400.9	1,085.2
Net financial liabilities (-)/ net financial receivables (+)	-700.5	n.a.	95.7	264.0	-76.1	32.9	148.7	367.0
Total assets	6,329.9	1.5	6,237.0	5,501.2	4,541.9	4,625.1	3,918.1	3,258.2
Employees (average for the year)	16,663.0	-1.6	16,934	16,033	15,719	15,798	14,926	14,599
Employees (Dec. 31)	16,292.0	-5.1	17,168	16,314	15,618	15,922	15,044	14,668
Employees (total)	16,292.0	-5.1	17,168	16,314	15,618	15,922	15,044	14,668

€ million	2012	Change in %	2011	2010	2009	2008	2007	2006
Key profitability figures								
Return on sales (EBIT) = EBIT/sales (%)	5.6	-54.7	12.3	16.1	0.7	15.1	17.2	13.7
Return on sales (EBITDA) = EBITDA/sales (%)	17.0	-24.5	22.5	25.2	16.3	24.6	26.5	23.6
Return on equity = net income for the year/equity average (%)	4.1	-71.0	14.0	22.6	-3.7	22.2	30.2	17.7
ROCE Return on capital employed = EBIT/capital employed (%)	5.2	-62.7	13.9	19.1	0.7	19.2	21.9	17.3
Key statement of financial position figures								
Investment intensity of the fixed assets = fixed assets/total assets (%)	67.3	10.5	60.9	59.5	66.4	63.8	61.3	64.4
Equity ratio = equity/total assets (%)	41.4	-1.9	42.2	44.5	42.8	45.0	47.6	48.7
Capital structure = equity/borrowed capital (%)	70.5	-3.3	72.9	80.1	74.7	81.9	90.9	94.8
Cash flow and investments								
Cash flow from operating activities	363.2	58.1	867.0	1,103.1	767.5	1,005.4	1,322.5	761.1
Cash flow from long-term investment activities	-1,053.8	26.7	-831.5	-681.5	-800.4	-983.7	-678.8	-576.4
Cash flow from financing activities	326.6	> 100	37.4	3.7	92.5	-87.7	-318.9	-174.9
Net cash flow	-536.2	-	6.2	421.6	-32.9	21.7	643.6	184.7
Investments (incl. financial assets)	1,095.4	11.6	981.2	695.1	740.1	916.3	699.3	525.3
Share and valuation								
Consolidated net income	112.8	-68.0	352.6	490.7	-70.8	439.4	422.0	311.3
Earnings per share (€) = consolidated net income/ number of shares	2.27	-68.0	7.1	9.9	-1.4	8.8	8.5	6.5
Market capitalization (total number of shares without treasury shares)	2,466.5	-20.1	3,087.5	6,487.9	6,066.7	3,710.9	9,821.3	4,752.3
Number of shares	49,677,983	-	49,677,983	49,677,983	49,677,983	49,677,983	49,677,983	48,207,178
Price as of reporting date Dec. 31	49.65	-20.1	62.2	130.6	122.1	74.7	197.7	98.6
Dividend per share (€)	0.60	-	2.20	3.20	1.20	1.80	3.00	2.50
Dividend yield (%)	1.0	-	3.5	2.8	1.4	1.5	2.0	2.1
Capital employed	4,979.0	14.6	4,343.8	4,004.4	3,846.3	3,371.8	2,973.0	2,644.2

Chemical Glossary

B

Biotechnology

Biotech processes use living cells or enzymes to transform and produce substances. Depending on the application, a distinction is made between red, green and white biotechnology. Red biotechnology: medical and pharmaceutical applications. Green biotechnology: agricultural applications. White biotechnology: biotech-based products and industrial processes, e.g. in the chemical, textile and food industries.

C

Chlorosilanes

Compounds of silicon, chlorine and hydrogen. The semiconductor industry mainly uses trichlorosilane to make polysilicon and for the epitaxial deposition of silicon.

Cyclodextrins

Cyclodextrins belong to the family of cyclic oligosaccharides (i.e. ring-shaped sugar molecules). They are able to encapsulate foreign substances, such as fragrances, and to release active ingredients at a controlled rate. WACKER BIOSOLUTIONS produces and markets cyclodextrins.

Cysteine

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

D

Dispersible Polymer Powders

Created by drying dispersions in spray or disc dryers. VINNAPAS® polymer powders from WACKER are recommended as binders in the construction industry, e.g. for tile adhesives, self-leveling compounds and repair mortars. The powders improve adhesion, cohesion, flexibility and flexural strength, as well as water retention and processing properties.

Dispersion

Binary system in which one component is finely dispersed in another. VINNAPAS® dispersions from WACKER are vinyl-acetate-based binary copolymers and terpolymers in liquid form. They are mainly used as binders in the construction industry, e.g. for grouts, plasters and primers.

E

Elastomers

Polymers that exhibit almost perfectly elastic behavior, i.e. they deform when acted upon by an external force and return to their exact original shape when the force is removed. While the duration of the force has no effect on perfectly elastic behavior, the temperature does.

Ethylene

Ethylene is a colorless, highly reactive gas and a key raw material in the chemical industry.

H

Hybrid Compounds

Materials created by chemically linking silicones and organic polymers. They combine the typical properties of both substance classes.

I

Ingredients

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

P

Polymer

A polymer is a large molecule made up of smaller molecular units (monomers). It contains between 10,000 and 100,000 monomers. Polymers can be long or ball-shaped.

Polymer Blends

Mixtures of synthetic and natural products in which the renewable raw material forms the main component comprising at least 65 percent. The VINNEX® binder system allows polymer blends to be produced from renewable raw materials such as starch, polylactic acid (PLA) or polyhydroxyalkanoates (PHA).

Polysilicon

Hyperpure polycrystalline silicon from WACKER POLYSILICON is used for manufacturing wafers for the electronics and solar industries. To produce it, metallurgical-grade silicon is converted into liquid trichlorosilane, highly distilled and deposited in hyperpure form at 1,000 °C.

Pyrogenic Silica

White, synthetic, amorphous silicon dioxide (SiO₂) in powder form, made by flame hydrolysis of silicon compounds. It is versatile in applications as an additive for silicone rubber grades, sealants, surface coatings, pharmaceuticals and cosmetics.

S

Semiconductor

A substance of which the electrical conductivity is much lower than that of metals, but increases dramatically as the temperature rises. Semiconductors can be modified for a particular purpose by doping with foreign atoms.

Silanes

Silanes are used as monomers for the synthesis of siloxanes or sold directly as reagents or raw materials. Typical applications include surface treatment, reagents in pharmaceutical synthesis or coupling agents for coatings.

Silicon

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

Silicon Wafer

A silicon wafer is a disc with a thickness of between approximately 200 and 800 µm and is used by the semiconductor industry for the manufacture of semiconductor devices, i.e. integrated circuits and discrete components.

Silicones

General term used to describe compounds of organic molecules and silicon. According to their areas of application, silicones can be classified as fluids, resins or rubber grades. Silicones are characterized by a myriad of outstanding properties. Typical areas of application include construction, the electrical and electronics industries, shipping and transportation, textiles and paper coatings.

Siloxanes

Systematic name given to compounds comprising silicon atoms linked together via oxygen atoms and with the remaining valences occupied by hydrogen or organic groups. Siloxanes are the building blocks for the polymers (polysiloxane and polyorganosiloxane) that form silicones.

V

VINNAPAS®

VINNAPAS® is the name of WACKER's product line of dispersions, polymer powders, solid resins and their associated product solutions. VINNAPAS® dispersions and polymer powders are primarily used in the construction industry as polymeric binders, e.g. in tile adhesives, exterior insulation and finish systems (EIFS)/external thermal insulation composite systems (ETICS), self-leveling compounds, and plasters.

Financial Glossary

B

Business Value Contribution (BVC)

BVC is a financial performance measurement that determines the value created by the WACKER Group and its units once all capital costs have been deducted. BVC is the difference between profit (EBIT) and the cost of capital ($WACC \times CE$). BVC is a profit variable that is adjusted to allow for extraordinary effects (e.g. sale of parts of the company). This makes it an ideal tool for measuring business performance.

C

Capital Employed (CE)

Capital employed is made up of average noncurrent fixed assets (less noncurrent securities), inventories, and trade receivables less trade payables. It is a variable used in calculating the cost of capital.

Cash Flow

Cash flow represents the movement of cash and cash equivalents into or out of a business activity during a finite period. Net cash flow is the sum of cash flow from operating activities (without changes in advance payments received) and from noncurrent investment activities, before securities, including additions from finance leases.

E

EBIT

Earnings before interest and taxes: EBIT is a good indicator for comparing companies' profitability, since it is widely used across the corporate world.

EBITDA

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

Equity Ratio

The equity ratio is calculated from the ratio of equity to a company's total assets. It indicates the level of economic and financial stability at a company.

I

IFRS

The International Financial Reporting Standards (until 2001 International Accounting Standards, IAS) are compiled and published by the London-based International Accounting Standards Board (IASB). Since 2005, publicly-listed EU-based companies have been required to use IFRS in accordance with IAS regulations.

R

ROCE

Return on capital employed is the profitability ratio relating to the capital employed.

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Our Annual Report was published on March 14, 2013. It is available in German and English and you can access both versions online.
www.wacker.com/annual-report

This Annual Report contains forward-looking statements based on assumptions and estimates of WACKER's Executive Board. Although we assume the expectations in these forward-looking statements are realistic, we cannot guarantee they will prove to be correct. The assumptions may harbor risks and uncertainties that may cause the actual figures to differ considerably from the forward-looking statements. Factors that may cause such discrepancies include, among other things, changes in the economic and business environment, variations in exchange and interest rates, the introduction of competing products, lack of acceptance for new products or services and changes in corporate strategy. WACKER does not plan to update the forward-looking statements, nor does it assume the obligation to do so.

The English-language Annual Report is a translation of the German version. Only the original German version is binding.

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