Discount Rate for International Disclosures

Summary

The discount rate for a representative pension plan **2011-12-31** is as follows

- for actives and vested	**5.25** %
- for pensioners	**4.50** %
- average	**4.95** %

The yield curve shows for a 15-year duration a discount rate of **4.76** %. Due to the fact that the valuation for every pension plan may deviate from a representative plan regarding the age structure and the type of benefit a range between **4.15** % and **5.20** % seems reasonable for the discount rate for international pension valuations. While fixing the discount rate in these days it has to be pointed out that we still have a spread of 2.11 % between the return on corporate bonds and risk free government bonds.

Details

The discount rate for valuation of pension plans according to international standards (IAS 19.78 and FASB ASC 715-30-35-43[1] respectively) has to be based on the yield for first class corporate bonds (Corporate bonds rated AA) at the valuation date. The average maturity of the corporate bonds put into account should match with the expected pension payments of the pension plan.

The resulting discount rate, which is to be applied to the valuation, is deduced in two steps. In the first step the yield curve is deduced using the relevant data (Corporates AA) of the iBoxx index issued on a monthly basis by the International Index Company Limited. All rating changes which occurred during the last month are considered in the data basis.

In a second step the pension liabilities of a representative pension plan are valuated by applying the yield curve directly. By iteration a constant discount rate is deduced which leads to the same valuation result as if the yield curve would apply.

The discount rates for actives and pensioners as at 2011-12-31 amount to

- for actives and vested	5.25 %
- for pensioners	4.50 %
- average	4.95 %

Comparing the yield curve of first class corporate bonds (iBoxx) and the yield curve of risk free zero bonds issued by the European Central Bank a spread of 2.11 % is to be seen in average.

[1] Until September 2009: FAS 87.44

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For the valuation of short term liabilities as old-age part-time and jubilee payments it is reasonable to put into account the company specific average maturity of these liabilities.

As at 2011-12-31 the yield curve leads to the following discount rates

Average Maturity (years)	**Yield (Discount Rate)**
1	2.07%
2	2.31%
3	2.58%
4	2.85%
5	3.11%
10	4.15%
15	4.76%
20	5.10%
25	5.30%
30	5.43%

Table 1: Values of the yield curve for first range corporate bonds (iBoxx).

For old-age part-time liabilities the average maturity from two to four years could be assumed with the result that a discount rate between 2.3% and 2.9% is adequate.

Diagram 1: Yield curves iBoxx/European Central Bank

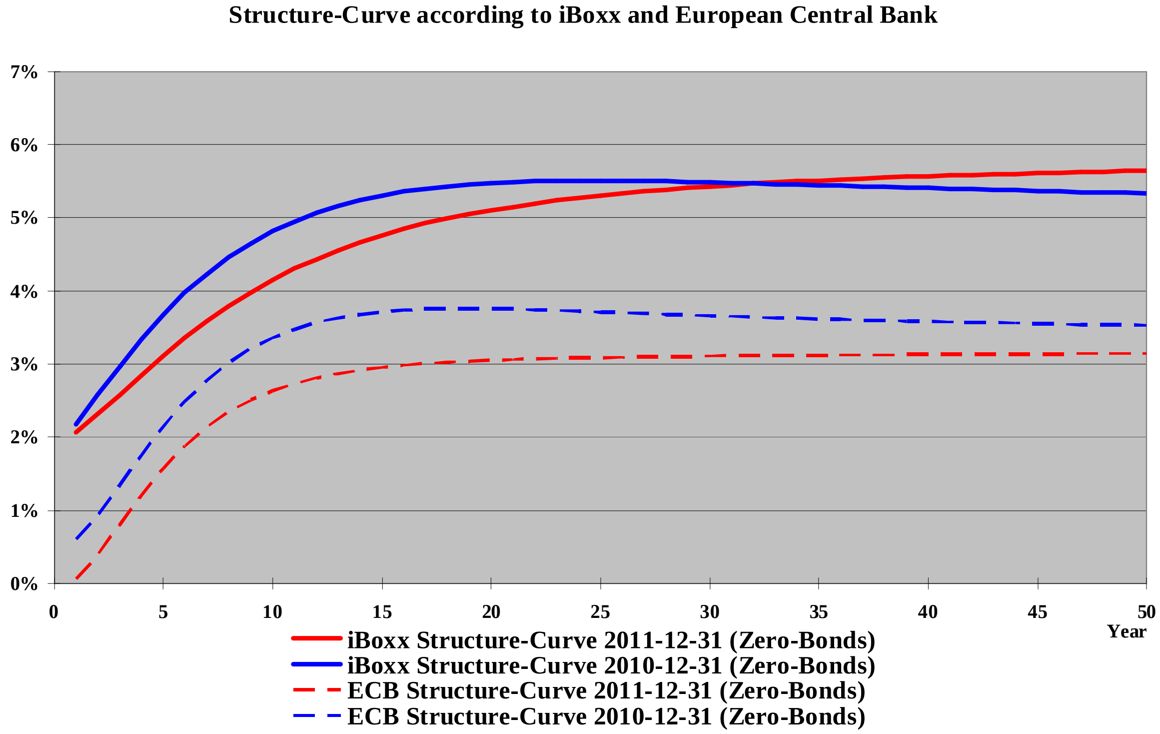

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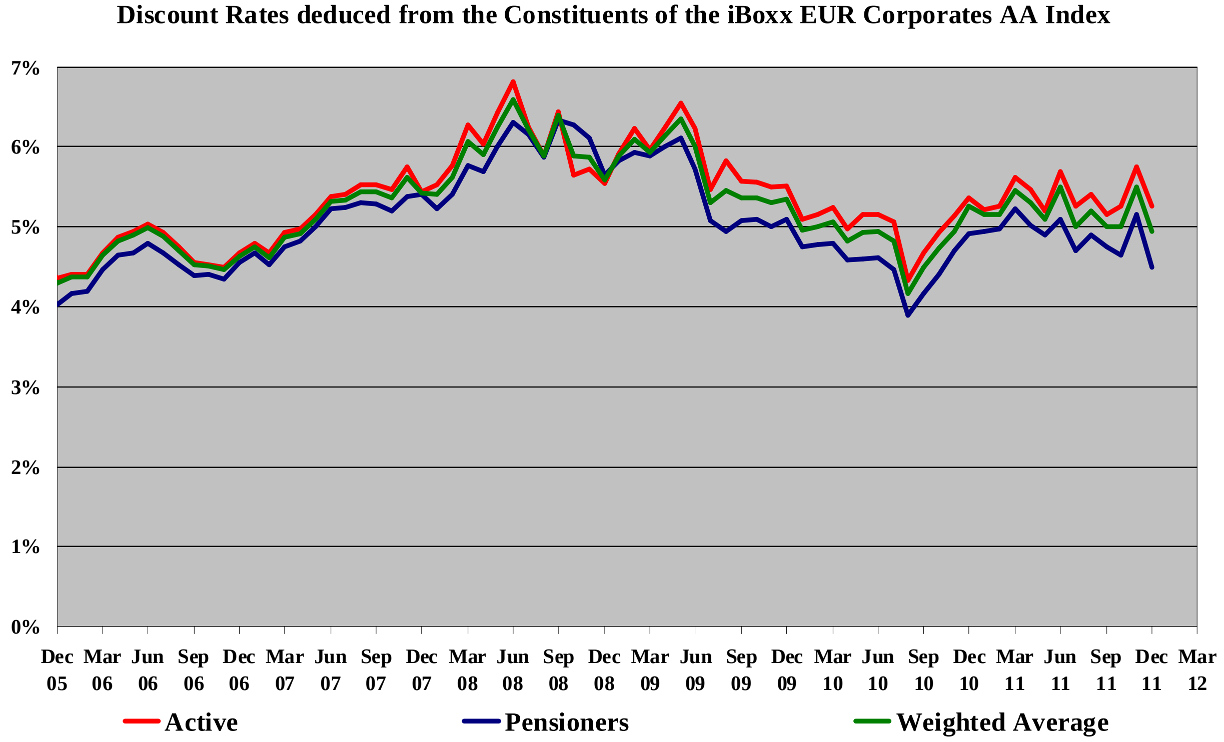
Diagram 2: Discount rate for international valuations of pension liabilities



As an additional benchmark for the discount rate the interest return of government bonds with a remaining term of 10 years may be put into account even if - due to the current special situation at the financial markets - this comparison is of less importance today. As at 2011-12-31 the interest returns on government bonds are as follows

- government bonds 2.13 %
- debentures and county bonds 2.87 %

For future pension increase according to § 16 (1) BetrAVG (German Company Pensions Law) the consumer prize index (CPI) has to be applied. The increase in CPI for 11-2011 is 2.40 %. For fixing the assumption for future pension increase not only the circumstances at measurement date are of importance but also the expected future development of the CPI. The European central bank declared an inflation rate of 'less than' 2 % as a goal for prize stability. The assumptions for the expected pension increase have to be based on the long term expectation for inflation. Therefore - even considering recent developments - an assumption of 1.5% to 2.0% for the pension increase is adequate.

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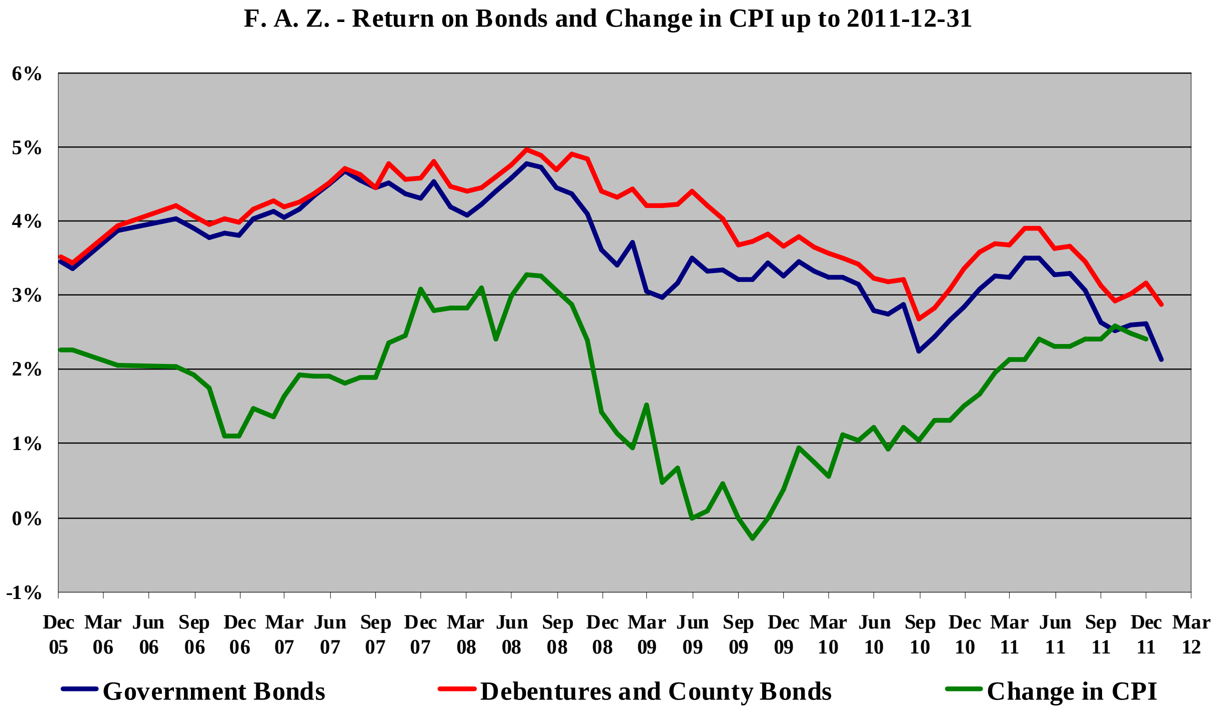
The yields of government bonds and debentures and county bonds with a term of 10 years and the increase in CPI are shown in diagram 3.

Diagram 3:



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