Annual Report 2011

Innovative by conviction

LANXESS
Energizing Chemistry

2011 – LANXESS Year of High-Tech Plastics
High-tech plastics are among the key materials of the 21st century. The automotive industry in particular but also the electrical and construction industries are making increasing and more extensive use of these innovative materials. Audi's flagship A8, for example, has a front end made from aluminum and a thermoplastic-based PA composite sheet supplied by LANXESS. The advantages are obvious: our plastics are lightweight and flexible and facilitate a wide range of design options. This makes them indispensable to modern life, future mobility and sustainability – and one of the key growth drivers for LANXESS.

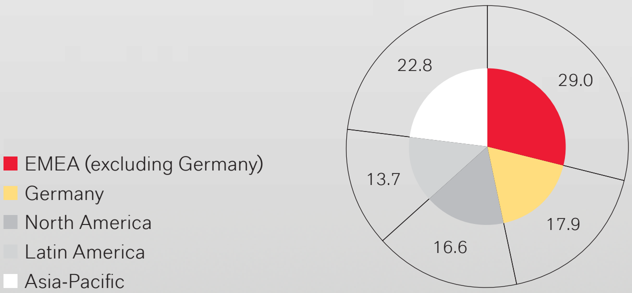
Key Data

€ million	2010	2011	Change %
Sales	7,120	8,775	23.2
EBITDA pre exceptionals	918	1,146	24.8
EBITDA margin pre exceptionals	12.9%	13.1%	
EBITDA	890	1,101	23.7
Operating result (EBIT) pre exceptionals	635	826	30.1
Operating result (EBIT)	607	776	27.8
EBIT margin	8.5%	8.8%	
Net income	379	506	33.5
Earnings per share (€)	4.56	6.08	33.5
Dividend per share (€)	0.70	0.85	21.4
ROCE	17.0%	17.2%	
Cash flow from operating activities	430 [1]	672	56.3
Depreciation and amortization	283	325	14.8
Cash outflows for capital expenditures	501	679	35.5
Total assets	5,666	6,878	21.4
Equity (including non-controlling interests)	1,761	2,074	17.8
Equity ratio	31.1%	30.2%	
Pension provisions	605	679	12.2
Net financial liabilities	913	1,515	65.9
Employees (as of December 31)	14,648	16,390	11.9
Personnel expenses (€ million)	1,141	1,244	9.0
Work-related injuries resulting in at least 1 day's absence (per million hours worked)	2.3	2.7	
Energy consumption (petajoules)	52 [1]	55	5.8
Total water consumption (in million cubic meters)	292	292	0.0
Emissions of greenhouse gases (CO_2 equivalents in thousand tons)	1,906 [1]	1,935	1.5
Emissions of volatile organic compounds (in thousand tons)	8.0 [1]	7.8	(2.5)
Total waste (in thousand tons)	259 [1]	267	3.1
Total wastewater (in million cubic meters)	31	33	6.5

1) Figure restated

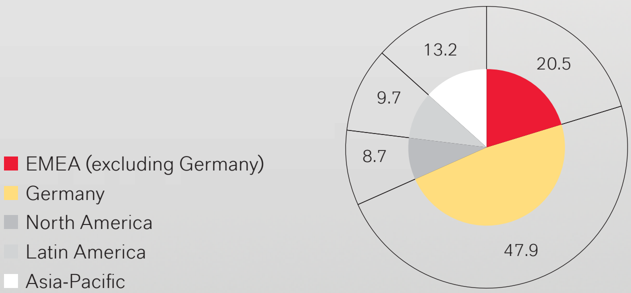
Sales by Region

%



Employees by Region (as of December 31)

%



This annual report contains forward-looking statements based on current assumptions and forecasts made by LANXESS AG management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

Performance Polymers

Market Position

The Performance Polymers segment brings together all the activities of the LANXESS Group in the production of rubber and plastics. Our technologies give us a strong position in the global market. For example, LANXESS is among the leading manufacturers of butyl and polybutadiene rubber, used mainly for the production of car and truck tires. Our high-tech Durethan® and Pocan® plastics are strong brands with significant potential for growth and innovation.

Business Units

- Butyl Rubber (BTR)
- Performance Butadiene Rubbers (PBR)
- Technical Rubber Products (TRP)
- Semi-Crystalline Products (SCP)

Performance Indicators

€ million	2010	2011	Change %
Sales	3,692	5,059	37.0
Proportion of Group sales	51.9%	57.7%	
EBITDA[1]	548	768	40.1
EBITDA margin[1]	14.8%	15.2%	
Cash outflows for capital expenditures	298	437	46.6
Employees (as of Dec. 31)	4,281	4,977	16.3

2010 figures restated
1) Pre exceptionals

Advanced Intermediates

Market Position

The operations that LANXESS combines in its Advanced Intermediates segment make it one of the world's main suppliers of basic and fine chemicals. Our core competencies lie in the production and marketing of industrial and fine chemicals, and in research and development in these fields. Many years of experience, successful brands and a highly efficient integrated aromatics production network give LANXESS leadership positions in the global market.

Business Units

- Advanced Industrial Intermediates (AII)
- Saltigo (SGO)

Performance Indicators

€ million	2010	2011	Change %
Sales	1,411	1,545	9.5
Proportion of Group sales	19.8%	17.6%	
EBITDA[1]	259	264	1.9
EBITDA margin[1]	18.4%	17.1%	
Cash outflows for capital expenditures	73	107	46.6
Employees (as of Dec. 31)	2,903	2,883	(0.7)

2010 figures restated
1) Pre exceptionals

Performance Chemicals

Market Position

LANXESS's Performance Chemicals segment combines all the Group's application-oriented activities in the field of process and functional chemicals. With strong brands, we rank among the world's leading producers. For example, we hold a leadership position in the field of organic colorants for plastics. Our major strengths include a global sales and service network, outstanding product quality, high innovative capability and patent protection for our company's technologies.

Business Units

- Material Protection Products (MPP)
- Inorganic Pigments (IPG)
- Functional Chemicals (FCC)
- Leather (LEA)
- Rhein Chemie (RCH)
- Rubber Chemicals (RUC)
- Ion Exchange Resins (ION)

Performance Indicators

€ million	2010	2011	Change %
Sales	1,978	2,130	7.7
Proportion of Group sales	27.8%	24.2%	
EBITDA[1]	281	289	2.8
EBITDA margin[1]	14.2%	13.6%	
Cash outflows for capital expenditures	114	112	(1.8)
Employees (as of Dec. 31)	4,907	5,819	18.6

1) Pre exceptionals

With innovative premium products, first-class technical expertise and German inventiveness, LANXESS contributes to its customers' success around the globe. We are a specialty chemicals company with businesses that hold leading market positions worldwide. Resource efficiency and environmentally friendly solutions are the key to our sustainable growth.

By focusing on four megatrends and the world's growth markets, we aim to increase our EBITDA pre exceptionals to €1.4 billion by 2015. With selective investments and acquisitions in 2011, we remained on course to achieve this objective.

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Ladies and Gentlemen,

In my letter to you last year, I promised that we saw our successes not as a reason to rest on our laurels but as a further incentive to become even better and exploit growth opportunities. We have kept our word.

2011 was an outstanding year for LANXESS. At €1.146 billion, EBITDA pre exceptionals, our company's key indicator, surpassed the billion euro mark for the first time in our history.

That is a record achievement.

We were also pleased to see our net income reach a new high of €506 million. Thus, we remain well on our way to achieving our ambitious business targets, which include particularly an EBITDA pre exceptionals of €1.4 billion in 2015.

The economic environment varied widely last year. Growth in the industrial nations was very modest in light of the escalating debt crisis in some eurozone countries and the persistently high level of public debt in the United States. Once again, the global economy was driven by the emerging markets, especially the BRICS countries.

This situation confirmed once again that it was both right and necessary to position LANXESS as a global enterprise – to be present especially in those markets where we can expect the strongest growth for our businesses. It is a strategy that paid off again last year. We increased sales significantly in all regions. Our success was particularly impressive in the Asian market, where we achieved sales in excess of €2 billion for the first time in our company's history.

The key contributors to this growth were our synthetic rubbers and high-tech plastics businesses, which benefited particularly from brisk demand from the global tire and automotive industries. We are the world market and technology leader in the production of rubbers for high-efficiency green tires, the fastest growing segment of the tire industry. These tires, which reduce emissions without compromising on safety, can only be manufactured using high-performance synthetic rubbers and additives. We expect further significant momentum to come from the tire labeling requirements that are set to enter into force in the E.U. this year. Other countries with large automobile markets will follow. Voluntary tire labeling already exists in Japan and South Korea. The latter has decided to introduce mandatory tire labeling based on the E.U. model at the end of this year.

Alongside significant operational improvements last year, our innovative products and technologies enabled us to further cement our position as one of the world's leading specialty chemical companies. These products and technologies make a substantial contribution to improving the quality of people's lives and are the principal drivers of our business. They are essential to the ongoing enhancement of our competitiveness. That is one of the reasons we are raising our research and development spending and further increasing the number of employees in R&D. Most of our product innovations are targeted at meeting the growing requirements arising from the global megatrends of mobility, urbanization, water and agriculture.

For LANXESS, 2011 was also characterized by numerous measures aimed at generating additional growth in the years ahead. We decided, for example, to build a new plant for high-performance neodymium polybutadiene rubber (Nd-PBR) in Singapore, alongside the world-scale butyl rubber facility that is already under construction there. Nd-PBR has higher elasticity than many other tire rubbers and its lower abrasion reduces rolling resistance and makes tires last longer. It therefore has precisely the properties that are needed for manufacturing green tires. We chose Singapore as the location for our facility because of its close proximity to the growing Asian markets as well as for its excellent infrastructure and highly skilled workforce.

A further milestone was achieved in summer 2011 when we commissioned our new plant in Bitterfeld to produce membrane filtration technology for water treatment applications. This facility is further proof of LANXESS's sustained commitment to systematically investing in Germany and creating new jobs.

We are also exploiting external growth opportunities as a means of expanding our enterprise. Of particular note in the year under review was the acquisition from DSM of the Keltan EPDM business, which has already contributed substantially to earnings by our Technical Rubber Products business unit.

One key aspect of our entrepreneurial activities is reconciling our business dealings with our commitment to society and the environment. For us, economy and ecology are inseparable. We act and work in strict accordance with the motto "Good for business, good for society."

Against this backdrop, we are particularly pleased that we became one of the signatories to the world's largest and fastest growing corporate social responsibility initiative, the United Nations Global Compact, in 2011. By signing the initiative, we have pledged to comply with its principles and to promote the sustainability of the global economy by exercising entrepreneurial responsibility.

Our innovative products and highly efficient processes help to conserve resources and energy. They enable us not only to make an important contribution to climate protection, but also to reduce costs. That is why we will make green mobility our focus for 2012. In the long term, however, sustainable business requires innovations because these help safeguard our competitiveness.

One milestone in this regard was the world premiere achieved by our Technical Rubber Products business unit at the Triunfo site in Brazil in October 2011, when it started industrial-scale production of the new bio-based EPDM rubber Keltan Eco. The ethylene used as the precursor for this product is not derived from oil, but obtained entirely from a renewable resource: sugarcane.

I am confident that we will become faster at finding ways and processes for accessing alternatives to oil as the starting product for our rubbers, plastics and chemicals.

Another aspect of our entrepreneurial responsibility is preparing LANXESS for the human resource challenges we will face in the coming years because of globalization, demographic change and international competition for the best talents. We have responded promptly and comprehensively to these challenges. Following the launch of our XCare program in 2010, the global Diversity X Inclusion initiative was started in 2011. Our social and environmental responsibility and our key sustainability indicators are discussed in further detail in the Corporate Responsibility section of this Annual Report.

Following record results in 2010 and 2011, the economic environment has worsened in fiscal 2012. Growth expectations remain very modest because of the unresolved debt crises in the European Union and the United States. Low growth rates or even a slight recession are expected in the countries most affected by the debt situation, which may slow momentum in the chemical industry. However, we remain confident that LANXESS will continue to grow profitably.

We will be focusing particularly on the growth markets in the emerging economies, most notably in the BRICS countries, where the uptrend is likely to continue at a strong pace. The LANXESS Group now makes about a quarter of its total sales in Brazil, Russia, India, China and South Africa. We expect to benefit from our strategy of focusing on these five countries and the key megatrends that are especially significant there.

We are also prepared to face any new challenges that may be thrown up by the world's crises. Our strategic focus enables us to move quickly and efficiently when it comes to dealing with difficult situations. When faced with demanding problems in the past, we successfully resolved them with a great deal of hard work and dedication.

Today, LANXESS is ideally positioned to achieve its medium-term growth target for EBITDA pre exceptionals of €1.4 billion in 2015. We have the right products; we are present in the main markets; we make investments that are compatible with our strategy; and we are strongly committed to innovation and research. We have thus set the course for continued stable growth.

We owe much of this to our employees around the world. Day after day, they show commitment in facing new challenges. They see opportunity in change. Through their enormous dedication and efforts, they were a vital factor in LANXESS's successful business performance in 2011. On behalf of the entire Board of Management, I would like to express appreciation and gratitude for their hard work.

I want to thank our business partners for working with us in a spirit of trust. We hope to continue these valuable relationships going forward. I also want to thank you, our stockholders, for the confidence you have placed in our company. Each and every one of us at LANXESS will continue to do all we can to ensure that LANXESS remains a valuable investment. We hope that you will accompany us on this successful course in the future as well.

Yours sincerely,

Management

Dr. Werner Breuers
Member of the Board of Management

Werner Breuers was born in Mönchengladbach, Germany in 1958. He studied chemistry and obtained his doctorate from Aachen Technical University before beginning his career at Hoechst AG in 1989. After holding managerial positions at various companies in Germany and abroad, he latterly worked for the Basell Group as President of Basell Polyolefins Europe. Werner Breuers was appointed to the Board of Management of LANXESS AG effective May 14, 2007. He is married and has two children.

Dr. Bernhard Düttmann
Chief Financial Officer

Bernhard Düttmann was born in Düsseldorf in 1959. He studied business administration at the University of Cologne, where he also obtained his doctorate. In 1989 he joined Beiersdorf AG in Hamburg, Germany, where he was latterly the Executive Board Member responsible for Finance/Human Resources and held regional responsibility for the Middle East, Africa and Turkey. Bernhard Düttmann was appointed by the Supervisory Board of LANXESS AG on February 3, 2011, to become Chief Financial Officer of the specialty chemicals company. He is married and has three children.

Dr. Axel C. Heitmann
Chairman of the Board of Management

Axel C. Heitmann was born in Hamburg in 1959. After graduating in chemistry from Hamburg University and Southampton University, United Kingdom, and obtaining his Ph.D., Heitmann joined Bayer AG in 1989. Following a succession of roles at Bayer, including international assignments in the United Kingdom and China, he was appointed Chairman of the LANXESS AG Board of Management on September 16, 2004. Axel C. Heitmann is married and has two children.

Dr. Rainier van Roessel
Member of the Board of Management

(Industrial Relations Director)

Rainier van Roessel was born in 1957 in Oisterwijk in the Netherlands. He studied business administration at the University of Cologne, where he also obtained his doctorate, and joined Bayer AG in 1988. When the LANXESS organization was set up in 2004, he became Head of the Rubber Chemicals business unit, and in June 2006 he was additionally appointed Managing Director of LANXESS N.V., Antwerp, Belgium. Rainier van Roessel was appointed to the LANXESS AG Board of Management on January 1, 2007. He is married and has three children.

Saves Fuel

Lower weight and fewer assembly steps thanks to a high level of functional integration in the injection molding process – these are the benefits of the Audi A8 front end produced using plastic-metal composite technology. For the first time, this hybrid component uses lightweight PA composite sheets in addition to aluminum. Compared to its aluminum equivalent, the PA composite can reduce the component's weight by around 10 to 20 percent. A customized Durethan® polyamide 6 is used in both the PA composite sheet and the injection molding process.

On course for sustainable growth

As a highly innovative supplier of premium products, LANXESS is one of the world's leading specialty chemicals companies. We will be continuing to strengthen our position in the coming years through selective investments and acquisitions. Our overriding goal is to achieve EBITDA pre exceptionals of around €1.4 billion in 2015.

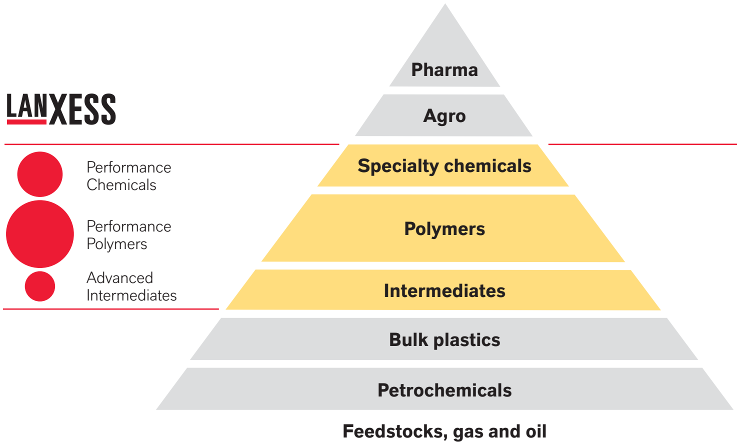
Ideally positioned at the core of the chemical industry

As one of the world's leading specialty chemicals companies, we are positioned at the core of the chemical industry. Our specialist expertise, our applications know-how and our capacity for innovation are demonstrated by our three segments: Performance Polymers, Advanced Intermediates and Performance Chemicals. Our aim is to position all our businesses at the forefront of their respective markets.

The 13 business units in our three segments have global responsibility for their business operations and manage their activities autonomously as "entrepreneurs within the enterprise." This ensures short communication lines, flat hierarchies and motivated employees – all of which are crucial in ensuring that we can respond quickly to specific customer requirements and to changes in market and regulatory conditions.

Through selective additions to our product portfolio and our distinctive innovation culture, we are increasingly becoming a high-tech supplier, reliably delivering premium-quality products, actively supporting our customers' innovation processes and thus adding measurable value. This enables us to strengthen customer loyalty, differentiate ourselves clearly from our competitors, and remain highly competitive even in economically challenging times.

LANXESS Focuses on the Core of the Chemical Industry



- Here we can perfectly leverage our expertise in chemicals and our applications know-how.
- We have excellent and long-standing customer relations.
- We see a lot of room for maneuver in these three segments.
- Our balanced portfolio in these segments reduces the volatility of our business.

The steadily growing significance of research and development at LANXESS is reflected in the change in two key R&D indicators over the past five years. Since 2007 we have raised our innovation budget each year by an average of 13 percent and increased the number of research and development employees by a total of 79 percent. Over and above this, we have in our Innovation & Technology Group Function an efficient central organizational unit that coordinates all research and development activities within the Group and handles cross-business unit projects.

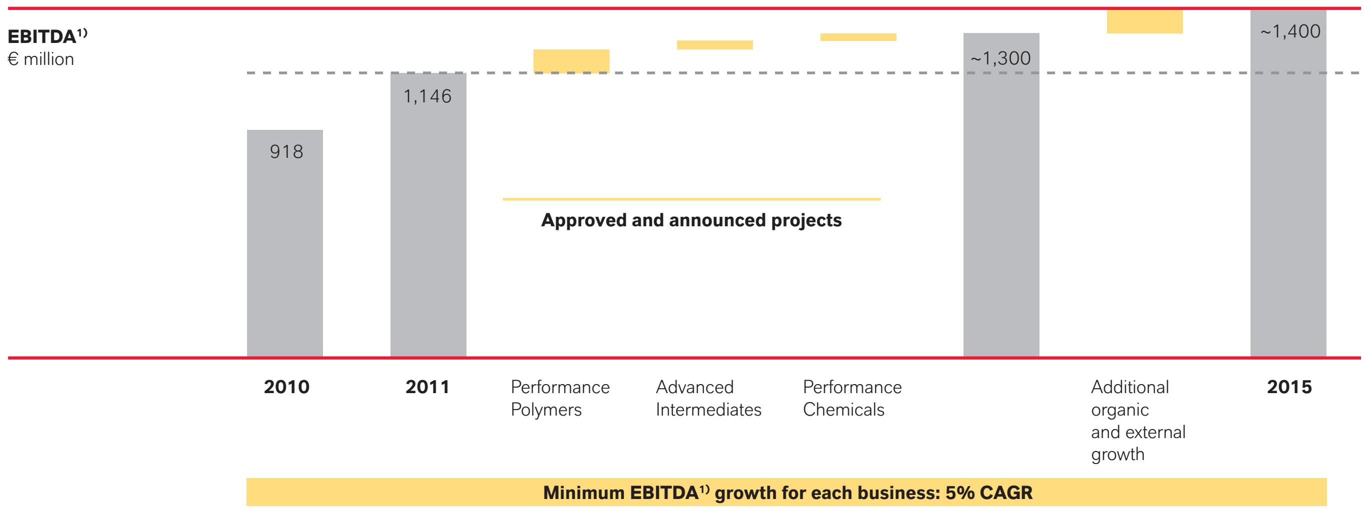
The stability of our business development is rooted in our broad diversification, in terms of both product applications and the regions in which we operate. Our main markets are the tire, automotive, consumer goods, chemical manufacturing, agrochemical and construction industries. We also supply products for electronics, water treatment, medical supplies, coatings, printing technology and packaging. This diversification means we are not dependent on individual customers. In 2011 our ten biggest customers accounted for only around 28 percent of our business.

We have steadily improved our regional profile in recent years. In the key growth regions of Asia and Latin America, we now have a significant market presence backed by an effective modern production network, which we will continue to expand in the future.

Clear growth target

In fiscal 2010, on the basis of our excellent strategic and economic position, we communicated a new mid-term growth target. We aim to raise our key financial indicator – EBITDA pre exceptionals – to €1.4 billion in 2015. En route to this target, all of our businesses are expected to report average annual EBITDA pre exceptionals growth of at least five percent.

Each Business to Contribute to EBITDA[1] Growth



1) Pre exceptionals

Two areas of strategic focus have been defined as the framework for our business activities:

1. Participation in the global megatrends

We are systematically aligning our product portfolio to four of the most important global megatrends, where we anticipate steady, above-average growth in the coming years.

Mobility The growing desire for mobility, particularly in the emerging markets and especially in China and India, together with the need to improve the environmental compatibility of mobility throughout the world, opens up excellent perspectives for LANXESS. As the world's leading supplier of high-quality synthetic rubber, we stand to benefit from rising demand for high-performance tires. In addition, our Semi-Crystalline Products business unit offers the automotive industry future-oriented concepts for replacing metals with high-tech plastics that reduce vehicle weight and improve fuel efficiency.

Agriculture Rapid growth in the world's population is significantly increasing global demand for food. Our Saltigo and Advanced Industrial Intermediates (formerly Basic Chemicals) business units already market a wide range of products to help boost agricultural productivity and protect crops.

Urbanization Throughout the world, people are relocating from rural areas to cities. Current forecasts estimate that the urban population will grow by 40 percent this decade. All these people will need homes, offices and an efficient infrastructure. These are the applications of our products for the construction sector, for example the inorganic pigments produced by our Inorganic Pigments business unit.

Water Population growth and climate change are steadily increasing the importance of water as a valuable resource. Studies indicate that demand for clean water will exceed the current supply by about 40 percent in 20 years. LANXESS aims to make a significant contribution to closing that gap. Products and processes marketed by our business units, for example Ion Exchange Resins, are playing an increasingly important role in the treatment of drinking water, wastewater and process water.

2. A stronger presence in emerging markets

We consider a local presence to be a further strategic success factor. In regional terms, we will therefore be concentrating principally on expanding our business and production capacities in the booming BRICS countries, with the focus on Brazil, India and China. Our business data clearly reflect the growing significance of the BRICS countries, which accounted for about 24 percent of Group sales in 2011.

We regard the first-time increase of our EBITDA pre exceptionals to more than €1 billion as clear evidence that our strategy has put us well on the way to achieving our ambitious mid-term goal. What is more, we have already set the course for the next stage in our sustainable growth strategy.

We have initiated major capital expenditure projects in all our regions in order to achieve further organic growth.

Focus on organic growth

We aim to generate most of our future growth organically – by expanding existing production facilities and increasing investment in new state-of-the-art sites, through product innovations and, last but not least, through further improvements in process efficiency. In 2012 alone, we plan to invest around €600 million.

Performance Polymers segment

- The Butyl Rubber business unit is constructing a state-of-the-art butyl rubber facility in Singapore that is scheduled to start production at the beginning of 2013. Costing some €400 million, this is the largest investment project in the history of LANXESS.
- Close by, the Performance Butadiene Rubbers business unit is investing some €200 million in a new production plant for its high-performance neodymium polybutadiene rubber (Nd-PBR). This additional production capacity is scheduled to come on stream from 2015.
- A joint venture of LANXESS and the Taiwanese company TSRC Corporation is currently building Asia's most advanced facility for the production of NBR rubber in Nantong, China.
- At the same time, our Performance Butadiene Rubbers and Technical Rubber Products business units are expanding capacities at a total of five sites in Europe, North America and Latin America.
- To strengthen our Semi-Crystalline Products business unit's high-tech plastics operations, we are building new compounding plants in Gastonia, United States, and Porto Feliz, Brazil; expanding the Hamm-Uentrop site in Germany operated by our joint venture with DuPont; and increasing capacities for key intermediates in Antwerp, Belgium.

Advanced Intermediates segment

- Through 2012, the Advanced Industrial Intermediates business unit will be expanding production capacities for synthetic menthol at the site in Krefeld-Uerdingen, Germany.

Performance Chemicals segment

- Starting in 2013, the Leather business unit will be supplying premium products to China, the world's largest market for leather chemicals, from a new facility in Changzhou.
- The Rhein Chemie business unit is building a new facility in Porto Feliz, Brazil, and expanding capacities in Burzaco, Argentina. Rhein Chemie is therefore preparing for further growth in Latin America as well.
- In Lipetsk, Russia, Rhein Chemie is also constructing LANXESS's first production facility in that country to supply additives and release agents to the rubber processing and tire industries there.

Further information about these projects and the activities successfully completed before the editorial deadline of this Annual Report can be found in the segment sections starting on page 18.

Continuing our successful acquisition strategy

We also intend to continue generating additional growth through selective acquisitions. Our M&A record shows that we understand how to further grow our leadership positions in this way. In the past five years, we have added a large number of activities to our portfolio. All these acquisitions have had a positive impact on earnings per share within just a short time, thanks to the new business and cost synergies generated.

Strengthening the LANXESS Group with Selective Acquisitions

Year	Company/business	Business unit	Economic driver
2006	CISA	Leather	Vertical integration
2008	Petroflex	Performance Butadiene Rubbers	Growth in the BRIC countries
	ICOS Corporation laboratories	Saltigo	Expand activities in the United States
	R&M E.M.S. GmbH metering instruments business	Material Protection Products	Improve international market penetration of Velcorin stabilizers
	Jinzhuo Chemicals	Inorganic Pigments	Expand activities in Asia
2009	Gwalior Chemicals	Advanced Industrial Intermediates	Strengthen global position
	Jiangsu Polyols	Advanced Industrial Intermediates	Expand activities in Asia
2010	Clariant product line (phenolic active ingredients for disinfectants)	Material Protection Products	Strengthen product portfolio
	Parts of the Flexsys primary accelerators business	Rubber Chemicals	Strengthen product portfolio
2011	DSM EPDM business	Technical Rubber Products	Expand portfolio of premium EPDM products; access ACE technology
	Syngenta material protection business	Material Protection Products	Strengthen product portfolio in response to urbanization megatrend
	Verichem	Material Protection Products	Strengthen product portfolio in response to urbanization megatrend; access EPA-registered active substances
	Unitex	Functional Chemicals	Expand product portfolio; access flexible production facilities
	Darmex	Rhein Chemie	Strengthen product portfolio in response to mobility megatrend; access bladder technology
	Flexsys product lines (Vocol and Santoweb)	Rhein Chemie	Expand product portfolio for the rubber industry
	Wacker Chemie AG tire release agents business	Rhein Chemie	Expand market position; access new growth opportunities in the United States

We are continuing to seek out small to mid-sized enterprises that immediately benefit our core business. In this respect, 2011 was the most active year in our history.

A milestone in our growth strategy was the acquisition of the Keltan EPDM business from Dutch company Royal DSM N.V., which took economic effect at the start of May 2011, following approval by the antitrust authorities. This acquisition strengthens the position of our Technical Rubber Products business unit in the steadily growing market for the synthetic rubber EPDM and gives us access to the innovative ACE technology. Compared to conventional technologies, ACE reduces energy costs in the production of EPDM and, at the same time, increases the range of applications for these types of rubber. We are currently investing €12 million to build new capacities using this technology at the site in Geleen, Netherlands, that was acquired with the transaction.

Through the acquisitions of Darmex in Argentina, Unitex and Verichem in the United States, and the material protection operations of Syngenta AG, plus selective purchases of individual product lines from competitors, we have improved the market positions of the Rhein Chemie, Functional Chemicals and Material Protection Products business units in our Performance Chemicals segment. Further information about these transactions can be found in the segment sections starting on page 18 of this Annual Report.

We are also monitoring the market for mid-sized businesses or technologies that might be a good fit with our portfolio. Our liquidity and undrawn credit lines put us in a very good financial situation that will enable us to implement our growth strategy through further acquisitions.

Outlook for 2012

In recent years, we have used our product portfolio to successfully position our company in the key customer industries and the world's growth regions. We aim to further strengthen our position in the coming years as well.

Although we must expect growing economic uncertainty and greater customer restraint in 2012, we still anticipate robust business performance by our three segments. Our key customer industries are expected to continue developing positively, though with regional variations. We are extremely well-positioned worldwide in all segments to again benefit from this growth in 2012.

Our successfully concluded capital expenditure projects and other measures for future organic growth initiated during 2011 are expected to make a significant contribution. Moreover, we will generate additional growth from the acquisitions we have made, our successful price-before-volume strategy, the focus on premium products, and product and process innovations.

Against this background, we are confident overall for 2012. We are making better progress than ever toward achieving our medium-term growth target of €1.4 billion EBITDA pre exceptionals in 2015.

Hard on the outside soft on the inside

The coolant pipes in modern cars must satisfy a number of exacting requirements. Firstly, they transport a water/glycol mixture under pressure and at high temperatures. This may have a corrosive effect on many materials. Secondly, their surfaces have to be as smooth as possible: inside to minimize flow resistance and outside to ensure the tightest possible connection to other components. Customized high-tech plastics from our Durethan® product line not only display particularly high resistance properties and surface quality. They offer the engineer considerable design freedom.

Performance Polymers

The Performance Polymers segment brings together all our polymer activities and comprises the Butyl Rubber, Performance Butadiene Rubbers, Technical Rubber Products and Semi-Crystalline Products business units. They all hold leadership positions in their respective markets.

People and a vehicle are transported across the Genipabu Lagoon in northeastern Brazil. An entry in LANXESS's employee photo competition entitled "Megatrends – Megaphotos," this picture artistically illustrates the mobility megatrend which is benefiting the Performance Polymers segment in particular.

Overview of the business units

The Butyl Rubber business unit produces high-quality butyl and halobutyl rubbers for the tire and rubber industries. A key advantage of these products is their high impermeability to gas and moisture. The Performance Butadiene Rubbers business unit produces polybutadiene rubber (PBR), solution styrene-butadiene rubber (SSBR) and emulsion styrene-butadiene rubber (ESBR), synthetic rubbers that meet the most stringent requirements. Neodymium polybutadiene rubber (Nd-PBR) and SSBR are used especially for manufacturing modern, fuel-efficient tires. However, the products of the Performance Butadiene Rubbers business unit are also an indispensable component of many everyday products such as footwear, yogurt pots and golf balls. As one of the leading suppliers of technical rubber products, the Technical Rubber Products business unit delivers materials that are used in functional components in a wide range of applications – from seals, hoses, profiles and cable sheathing to special films and adhesives. The Semi-Crystalline Products business unit is successful with the high-tech plastics Durethan® and Pocan® and their key strategic feedstocks. These products are used primarily in the automotive and electronics industries.

Mobility megatrend is main growth driver

With economic growth and prosperity on the rise, particularly in emerging markets and developing countries, our world is becoming increasingly mobile. However, greater mobility goes hand in hand with increased emissions and higher consumption of resources. Making mobility environmentally friendly is therefore one of the greatest technical challenges of our time. The business units in the Performance Polymers segment can use their pioneering technologies in two areas to significantly contribute toward mastering this challenge.

The future belongs to green tires

The rolling resistance of tires accounts for around one quarter of a car's fuel consumption. Improving the energy efficiency of tires is, therefore, the first important starting point for making mobility more environmentally friendly. As the market leader in high-performance rubbers, we make it possible to achieve the key tire properties defined in the "magic triangle" of tire technology, combining low rolling resistance with good wet grip and excellent mileage. If all the vehicles in the world were fitted with these tires, annual fuel savings of some 20 billion liters could be achieved and CO_2 emissions reduced by around 50 million tons each year. The success of electric mobility, too, will depend crucially on the degree to which tires with low rolling resistance can extend the still very limited range of electric vehicles.

Legislators have now also recognized the huge potential of these tires and introduced corresponding regulations. From November 1, 2012, all new vehicle tires in the European Union will have to be labeled to show their fuel efficiency, wet grip and noise emissions. Tire manufacturers are already responding by marketing products that comply with the new standards. However, the European Union is not alone in its efforts. South Korea, too, has decided to introduce mandatory tire labeling based on the E.U. model at the end of 2012. Similar legislation is also being debated in the United States, Brazil and China. Japanese tire manufacturers voluntarily introduced a comparable labeling system at the start of 2010.

As a key supplier to leading tire manufacturers, LANXESS will benefit from these initiatives, which will result in significant and, above all, sustainable growth potential. This is because they will translate into an increase in demand for green tires, which can only be produced with high-tech synthetic rubber and additives. We expect around 2 billion tires to leave the production lines in 2015 – some 25 percent more than today. Over the same period, the proportion of green tires is likely to increase from 35 percent at present to around 50 percent. To satisfy this growing demand, we are making selective investments in the global expansion of our production capacities.

Global expansion of production capacities The construction of our new, high-tech butyl rubber plant in Singapore is on track. Costing around €400 million, it is our biggest investment project to date. From the first quarter of 2013, this facility on Jurong Island should provide us with additional annual production capacities of up to 100,000 tons to meet the growing demand for butyl rubber in Asia. The plant will also set new standards in terms of environmental protection, with between 10 and 15 percent of the investment volume going into technologies that will cut energy and water consumption and reduce emissions.

In June 2011, we also announced plans to build a new production facility for neodymium polybutadiene rubber (Nd-PBR) close by. Costing around €200 million, this facility will be the largest of its kind in the world with an annual capacity of 140,000 tons. It is scheduled to come on stream in the first half of 2015. As was the case for the butyl rubber plant, the key arguments in favor of the Singapore site were the good supply of raw materials, the excellent infrastructure, the availability of highly skilled employees, the large port and the proximity to our growth markets in Asia.

LANXESS-TSRC (Nantong) Chemical Industrial Company Ltd. – a joint venture company between LANXESS and the Taiwanese TSRC Corporation – is constructing a new facility for the manufacture of NBR products in Nantong, northwest of Shanghai, at a cost of around €36 million. Asia's most modern NBR plant will start with an annual capacity of 30,000 tons and supply the fast-growing Chinese market with high-quality NBR grades from the first half of 2012.

In addition to these major new construction projects, we are also systematically expanding our existing facilities.

For example, we have invested €20 million in increasing the annual production capacity of our butyl rubber plant in Zwijndrecht, Belgium, by ten percent – or 14,000 tons. This project was finished at the end of 2011, ahead of the scheduled completion date in mid-2012.

Capacities for Nd-PBR have been expanded by a total of 50,000 tons a year at our sites in Dormagen, Germany; Orange, United States; and Cabo de Santo Agostinho, Brazil. We have already started a second expansion phase in Orange, which will increase annual capacities for SSBR and Nd-PBR by an additional 20,000 tons. With an investment volume of €10 million, this project is scheduled for completion in the third quarter of 2012. The aforementioned measures will result indirectly in increased capacities for SSBR at our production site in Port Jérôme, France.

In response to the considerable increase in global demand for our synthetic high-performance rubber Therban®, we are expanding production capacities at our sites in Leverkusen, Germany, and Orange, United States, by 40 percent each. This investment is in the low single-digit million euro range. The work in Leverkusen is due to be completed in April 2012 and the work in Orange by the end of 2012.

At our site in Dormagen, Germany, we are investing €17 million in the expansion of our production capacities for the polychloroprene solid rubber Baypren®. This project is scheduled for completion by the end of 2012 and will increase production by 10 percent to 63,000 tons a year. The expansion work will also see the deployment of a new technology that will make production more energy-efficient and resource-friendly.

We announced last year that we would be significantly expanding EVM capacities at our site in Dormagen, Germany, to meet the steady rise in demand for special elastomers. €9 million is being invested to increase production by 30 percent to 15,000 tons each year. The new capacities will be available from the second half of 2012.

Acquisition of DSM elastomers business completed At the start of May 2011, we successfully completed the second largest acquisition in our company's history by purchasing the elastomers business of Dutch-based Royal DSM N.V.

This transaction, worth €310 million, significantly improves the position of our Technical Rubber Products business unit in the global market for the synthetic rubber ethylene-propylene-diene monomer (EPDM), which we are marketing under the brand name Keltan. EPDM is used above all in the automotive industry but also as a modifier for plastics, in the manufacture of oil additives and in the wire and cable and construction industries. Single-digit growth is forecast for the global market in the next ten years, driven primarily by increasing demand from China and Brazil.

As part of the successful integration process, we are transforming the site acquired with the transaction at Geleen, Netherlands, into the new headquarters of our global EPDM business and an innovation center within the global LANXESS network. A new administration building accommodating up to 120 employees is scheduled for completion at the start of 2013. During 2013, we also plan to invest €12 million in converting the largest of the three production lines – and therefore half the site's capacities of 160,000 tons a year – to the innovative Keltan ACE technology. Compared to conventional technologies, ACE reduces the energy and production costs for EPDM and, at the same time, increases the range of possible applications for these rubber products.

Pioneer of sustainable rubber production In 2011, we achieved a number of successes in the development of sustainable technologies and processes for the production of synthetic rubber.

We increased our holding in listed U.S. biofuel and biochemical manufacturer Gevo Inc. to 9.1 percent and signed a ten-year supply agreement. In cooperation with Gevo, we are seeking to manufacture isobutene from renewable raw materials. A key precursor for the manufacture of butyl rubber, isobutene is conventionally produced in steam crackers using petroleum derivatives as a feedstock. Gevo is developing an alternative fermentation process using corn biomass. Tests performed over several months in a small unit in Leverkusen have shown that the butyl rubber produced there using biologically based isobutene meets the high standards of the tire industry.

In a system similar to the one already used for domestic appliances, classes from A (best performance) to G (worst performance) are intended to ensure greater transparency for consumers and support their decision-making process when buying new tires. The rolling resistance of category A tires will be around 40 percent lower than that of category G tires, which translates into a fuel saving of around ten percent.

Under the name Keltan Eco, we introduced the world's first bio-based EPDM rubber in September 2011. This material is made of ethylene derived from sugarcane. In terms of quality, it is on a par with conventionally produced ethylene. In future, we aim to supply the global market with around 10,000 tons of Keltan Eco each year from the plant at Triunfo, Brazil, which we acquired with the DSM elastomers business.

In 2011, we continued our successful series of "Rubber Days" conferences designed to foster and expand our international network of manufacturers, customers and research institutes. Four events in Germany, South Korea, Japan and China brought together leading industry experts for discussion and an exchange of views.

Our Performance Butadiene Rubbers business unit received the inaugural "Michelin Supplier Award 2010" in June 2011 in recognition of its outstanding quality and innovative strength. This award is presented to suppliers that have made a special contribution toward helping Michelin achieve its quality targets. Performance Butadiene Rubbers is the only supplier to produce top-quality high-performance rubber in three regions of the world – and is therefore the ideal partner for exacting tire manufacturers.

Partnerships strengthened in growth regions We have strengthened several successful long-term partnerships with customers in Asia by concluding new agreements.

For example, we will now be supplying South Korean tire manufacturer Hankook with SSBR and Nd-PBR until 2015. The world number seven in the tire industry is currently expanding its production capacities in South Korea, China, Indonesia and Hungary. We have concluded an agreement that will run until 2014 to supply premium halobutyl rubber to the Triangle Group, one of China's biggest tire manufacturers. This company has been a customer for regular butyl and halobutyl rubber for more than a decade. We have also signed a long-term agreement to supply high-grade EPDM rubber to South Korean automotive supplier Hwaseung Corporation. Additionally, there are plans to expand our joint research and development activities in the field of special rubber applications.

Polyamides like Durethan® and polybutylene terephthalates like Pocan® have a whole host of applications in the cars on our roads today, including on-board electronics, media hoses and weight-saving bodywork parts.

Lightweight construction – a market with a promising future

The second important starting point for environmentally friendly mobility is the substitution of traditional materials, such as steel or aluminum, with innovative high-tech plastics and intelligent composites. Currently in Europe, plastic parts account for around 15 percent of a vehicle's weight. Due to the trend toward lightweight construction and the increasing importance of electromobility, we expect this to increase to more than 20 percent in the near future.

Using hybrid technology – a plastic/metal composite technology that combines the strengths of sheet steel and polyamide – the Semi-Crystalline Products business unit has for some time had available an innovative solution that can be used to reduce the weight of vehicles and thus their fuel consumption. This solution is subject to ongoing optimization and makes no compromises in terms of design and safety. Hybrid components are up to 30 percent lighter than their all-steel counterparts but deliver the same performance.

Thanks to this know-how, we are the preferred partner to many major automotive manufacturers. As a result, we too are benefiting from the rising demand for cars, particularly in the BRICS countries. Overall, we expect global demand for high-tech plastics to grow annually by around 7 percent through 2020. In Asia, and especially in China, growth rates are likely to be considerably higher. We are responding to this market growth by significantly increasing capacities.

New capacities for precursors and end products At our site in Wuxi, China, we have already completed the second capacity expansion at our state-of-the-art compounding facility for high-tech plastics since production started in 2005. This expansion phase came on stream in July 2011 and has boosted our capacities by almost 50 percent to around 60,000 tons a year.

At the end of January 2012, production also started at our first compounding facility in India, located at our site in Jhagadia. Built at a cost of more than €10 million, this plant has an initial annual capacity of

20,000 tons and, together with our facility at Wuxi, China, will supply the entire Asia-Pacific region with our high-tech plastics Durethan® and Pocan®.

Through mid-2013, we intend to invest a similar amount in constructing a facility of comparable size in Porto Feliz, Brazil. This will reinforce development of the site as our production center for cutting-edge technologies in Latin America.

Construction of our Semi-Crystalline Products business unit's first production facility in the United States got under way in the second quarter of 2011. On the world's largest market for high-tech plastics, demand is currently being driven by, in particular, stricter fuel consumption standards for cars and light commercial vehicles. The new compounding facility in Gastonia, North Carolina, will also have an initial annual capacity of 20,000 tons and will come on stream at the end of 2012. This investment will create up to 55 new jobs.

In response to growing global demand for polybutylene terephthalate (PBT), we will also be doubling capacity at the compounding facility in Hamm-Uentrop, Germany, owned jointly with U.S. chemicals group DuPont. This project represents an investment of around €10 million and is scheduled for completion in 2012.

At our site in Antwerp, Belgium, the expansion by 10 percent of our caprolactam capacities was concluded as planned at a cost of around €35 million and we have already initiated the next project there – expansion of our glass fibers production plant. We will be investing €15 million to raise capacities by 10 percent from the current level of 60,000 tons a year. Like caprolactam, glass fibers are an important intermediate in the manufacture of our high-tech plastics.

Our global production network and our ability to deliver at all times, no matter how complex the requirements, are key factors for success in the high-tech plastics business. This is evidenced by the "Global Supplier Award 2011" we received at the end of 2011 from our longstanding customer MANN+HUMMEL. This award from the world's leading provider of filter systems recognizes not only our product quality and innovative capability but also our delivery reliability and flexibility.

Record thanks to HiAnt

The Durethan® oil pans fitted in the engines for the Mercedes Actros trucks from Daimler are up to 120 centimeters long, 40 centimeters wide and 35 centimeters deep. These three dimensions represent a real pioneering achievement because never before have polyamide 6 and 66 been used to make such large engine oil pans. This record size confirms the enormous performance potential in high-tech plastics that can be unlocked by applying the services marketed under the HiAnt brand. We used a series of calculations and simulations to confirm the feasibility of the project, thus helping to ensure that the pans could be designed on the computer properly and cost-effectively over a relatively short development period.

Advanced Intermediates

The Advanced Intermediates segment comprises our businesses with basic and fine chemicals. The Advanced Industrial Intermediates business unit (formerly Basic Chemicals) produces a wide range of high-quality industrial chemicals, while Saltigo operates on the custom synthesis market, specializing in tailored solutions for customers in the agrochemical and pharmaceutical sectors. Both business units are leading suppliers in Europe and are consistently expanding their positions in other regions, too.

This photo of the impressive Longji Rice Terrace was taken close to the city of Longsheng, China, and depicts the agriculture megatrend. The Chinese word “longji” means dragon’s backbone, an apt description of the terrace’s appearance.

Advanced Intermediates benefits from agriculture megatrend

The world's population is growing steadily, particularly in the emerging economies. According to the United Nations, the global population exceeded 7 billion in October 2011 – and it will continue to rise to around 9.2 billion by 2050. This development is a key driver of the agriculture megatrend because, as the number of people on our planet increases, so too will the demand for food. For example, the demand for cereals is expected to grow by 1.5 percent each year through 2025. At the same time, however, climate change and increasing industrialization are likely to actually decrease the amount of land available for agriculture, thus necessitating a considerable improvement in the efficiency of cultivation.

The product portfolios of our Advanced Industrial Intermediates and Saltigo business units include many key intermediates for synthesizing agrochemicals that can help farmers protect their plants and increase their yields.

Major investments improve competitiveness

2011 saw the completion of two major capital expenditure projects with a total volume of around €40 million, a clear signal from the Advanced Industrial Intermediates business unit of its commitment to Germany as a production location.

In Krefeld-Uerdingen, LANXESS's second largest production site worldwide, a new formalin plant came on stream in December 2011. As a result, we are no longer dependent on buying in this feedstock, which is needed for the production of trimethylolpropane (TMP). This is used, among other things, to make products for the furniture, construction and automotive industries. Synergy effects in energy utilization and lower transport costs will contribute to improving the competitiveness of our TMP. We optimized the process for manufacturing this product alongside constructing the formalin plant. The same production process is also used to manufacture our popular and successful brands Rovelan®, an animal feed additive, and Folanx®, a leaf fertilizer.

As we had announced, we began work to expand our menthol production operations in Krefeld-Uerdingen in July 2011. Demand for synthetic menthol, a key component of many aromas and pharmaceutical products, continues to grow steadily. Working together with a producer of fragrances and flavorings, LANXESS is one of the world's leading manufacturers of synthetic menthol and thymol. Our entire output is coordinated with this contractual partner and its processes. The capital expenditure project will not only double our plant's capacity, but also yield significant improvements in process efficiency. For example, we intend to use a highly efficient new catalyst developed by LANXESS in the expanded plant. We will also implement an energy recovery technology developed by our own engineers that will greatly improve the energy balance of our menthol production. The expansion project is scheduled for completion in the first half of 2012.

Efficiency also characterizes Mebofix®, the new drying accelerator from Advanced Industrial Intermediates for conventional calcium sulfate screeds. It reduces drying times by more than half and ensures that freshly laid screeds can be walked on after just two days. This greatly improves environmental compatibility because far less water is needed than when using conventional drying accelerators.

Further development of Saltigo strategy

At Saltigo, fiscal 2011 was characterized by further development of the business unit's strategy. In the future, while still focusing on its core business of custom and exclusive synthesis, greater emphasis will be placed on harnessing business opportunities in the field of non-exclusive fine chemicals.

Saltigo already has an attractive portfolio of fine chemicals produced on an industrial scale. These include precursors for polymer additives, fragrances and flavorings, and intermediates for electronics and cosmetics. The attractive target markets include, for example, the active ingredients segment of the agrochemical industry. In the coming years, Saltigo aims to further strengthen its market position with multi-customer products by attracting new customers for its existing product portfolio and systematically expanding its range of services.

One example of the successful introduction of a multi-customer product is the insect repellent Saltidin®. Highly rated by consumer organizations and recommended by the World Health Organization (WHO) as the substance of choice for malaria prophylaxis, this product has enjoyed an excellent reputation on the market for many years. With Saltidin® CombiSun, Saltigo has now developed its first product for the consumer market. This water-resistant preparation contains 15 percent Saltidin® combined with UVA and UVB filters. It is therefore perfectly suited for use in tropical climates. Customers in the cosmetics and pharmaceuticals industries, for example, can apply for a license to use the frame formulation and then produce and market the preparation under their own brand name.

Performance Chemicals

The Performance Chemicals segment groups together our seven application-oriented business units in the field of process and functional chemicals: Material Protection Products, Inorganic Pigments, Functional Chemicals, Leather, Rhein Chemie, Rubber Chemicals and Ion Exchange Resins. They are all among the top suppliers worldwide in their respective markets.

Rapid urbanization: Pudong, Shanghai's pulsating financial and high-tech hub, has developed in just two decades and is representative of the urbanization megatrend. From the start, this district has posted high levels of economic growth.

Overview of the business units

The Material Protection Products business unit is one of the leading global manufacturers of preservatives and biocidal active ingredients. Inorganic Pigments is one of the world's biggest producers of iron oxide and chrome oxide pigments for a wide range of applications. Functional Chemicals provides the plastics industry and many other industries with plastics additives, phosphorus-based and specialty chemicals, and organic and inorganic colorants. As one of the few suppliers to the leather industry, the Leather business unit offers all the products needed to process leather. Rhein Chemie produces chemical specialties for the rubber, plastics and lubricant industries. Rubber Chemicals is among the world's main suppliers of high-quality rubber chemicals. The Ion Exchange Resins business unit is one of the leading international producers of ion exchange resins, adsorbers and functional polymers. With the introduction of reverse osmosis membrane technology, the business unit now offers end-to-end solutions for water treatment.

This broad portfolio of innovative and increasingly sustainable premium products enables the business units of the Performance Chemicals segment to participate in several of the megatrends that are the focus of our activities.

Various solutions address mobility megatrend

The Rubber Chemicals and Rhein Chemie business units of the Performance Chemicals segment are benefiting most from the mobility megatrend.

Following the acquisition of the Argentina-based Darmex group in January 2011, Rhein Chemie is now one of the world's leading suppliers of release agents for rubber products. It also has access to the market for vulcanization bladders, which is worth an estimated €300 million. Bladders are used in the production or vulcanization of tires to give them their final shape. We are now the first manufacturer in the world to offer perfectly coordinated release agents and high-performance vulcanization bladders as a single-source solution.

An increasing number of tire manufacturers are outsourcing the production of vulcanization bladders to specialists and we aim to benefit from this trend in the coming years. In Burzaco, Argentina, we are currently expanding our production capacities by 40 percent. We are also investing some €10 million to construct a new plant at our Porto Feliz site in Brazil which, from the fourth quarter of 2012, will produce rubber additives and high-performance vulcanization bladders.

Our market position was strengthened by two further transactions in fiscal 2011. With the purchase in April of the Vocol and Santoweb product lines from U.S. company Flexsys, we systematically expanded our portfolio for rubber processors. By acquiring the tire release agent activities of Wacker Chemie AG in July, we improved our leading position on this market and gained access to new growth opportunities, especially in the United States.

We plan to strengthen our market position in Russia by constructing LANXESS's first production facility at the Lipetsk site, starting in spring 2012. Manufacturing rubber additives and release agents for our Rhein Chemie business unit, this facility is scheduled to come on stream in the first half of 2013 and will serve especially the automotive and tire industries in Russia and the CIS. The total investment for the project amounts to approximately €5 million. Our current planning for the site envisages adding a facility to produce vulcanization bladders in 2016.

Portfolio expansion in response to urbanization megatrend

With urbanization continuing unabated, the United Nations estimates that around 70 percent of the world's population will live in cities by 2050 compared to just under 50 percent today. This trend is most evident in the emerging markets and developing countries. In China and India alone, around 100,000 people are migrating from the country to cities every day. It is believed that eleven new megacities – cities with more than 10 million inhabitants – will develop in these two countries by 2020. Our products are used in a large number of customer industries that are benefiting from increasing urbanization.

Strengthening the Material Protection Products business unit

In fiscal 2011, we focused particularly on strengthening the activities of our Material Protection Products business unit in response to the urbanization megatrend.

Since acquiring the material protection business of Swiss-based Syngenta AG, we are now one of the leading suppliers of biocides for protecting construction materials such as wood, plasterboard and coatings. The purchase in April 2011 largely covered patents, customer lists, supply agreements and registrations for Syngenta products. This transaction has given us access to a broad range of active ingredients for fungicides and insecticides and to application technologies. It also marks the beginning of a long-term strategic partnership in which Syngenta will grant us access to substances and technologies developed in the future for use in material protection.

The purchase of Pittsburgh-based biocide specialist Verichem in November 2011 strengthens our position on the North American material protection products market. It expands our existing portfolio and gives us access to other active ingredients registered with the U.S. Environmental Protection Agency (EPA). These agents protect coatings, adhesives, construction materials, fibers and paper from destruction or discoloration by microorganisms.

Concrete at its most spectacular

In 2011, the Colored Concrete Works® campaign by the Inorganic Pigments business unit continued to demonstrate the technical, esthetic and design potential of Bayferrox® pigments when it comes to coloring architectural concrete. For example, the campaign focused on two museums: the Polish Aviation Museum in Krakow, Poland, and the Casa das Histórias Paula Rego in Cascais, Portugal. Designed by star architects, the museum in Poland echoes the fascination of aviation and aviation technology. The Portuguese museum brings together architecture and nature to create an esthetic of contrasts. It was designed by one of Portugal's most famous architects and is considered by "art," a leading German art and design magazine, to be among the world's most spectacular exhibition venues.

Expanding business in response to the water megatrend

Usable water is a rare commodity. Today, around one billion people have no access to clean water. Even in areas where water is available in sufficient quantities, it often cannot be used due to high levels of contamination. State-of-the-art industrial processes like those used to generate electricity cannot be operated safely and economically without ultra pure water. Population growth, environmental pollution and climate change will greatly exacerbate this situation in the decades ahead. Against this backdrop, water treatment products are gaining in significance – and with them the activities of our Ion Exchange Resins business unit.

End-to-end supplier for water treatment

Following the successful start of the pilot and development phase in May 2011, we commissioned our production plant for reverse osmosis membrane technology at the Bitterfeld site in September. We are now the only manufacturer of these membrane elements in Europe. The new production units, laboratories, logistics facilities and offices at the site represent an investment of around €30 million that will result in some 200 new jobs in the long term.

Complementing our ion exchange resins, reverse osmosis membrane elements make it possible to remove minute particles from water, along with other undesirable substances such as nitrates, pesticides, viruses and bacteria. They are mainly used to treat water for power plants and to produce ultra pure water for the microelectronics industry. In future, the membrane elements manufactured in Bitterfeld will also be used to produce drinking water from brackish water or seawater. The global membrane market is currently estimated to have a volume of around €1 billion, and this figure is set to rise further still. Membrane elements marketed under the brand name Lewabrane® were introduced at the beginning of 2012. This has made LANXESS an end-to-end supplier in the field of water treatment.

Alongside the new facility, an extensive research and development program has been initiated at the site and at other locations in the region. Already home to a plant for the production of ion exchange resins, Bitterfeld is now the center for our water activities in Germany.

In March 2011, following a successful test phase, we started regular production at Asia's most modern ion exchange resins plant at our site in Jhagadia, India. The facility boasts an annual capacity of 35,000 tons. Around 200 employees at the site manufacture products for industrial water treatment in the semi-conductor, pharmaceutical, food and energy industries. The Asia-Pacific region is already the largest market for ion exchange resins. Ongoing industrialization and continued population growth will result in an above-average increase in demand for clean water in the coming years.

Successful expansion of international production network

We announced our first acquisition of a U.S. production facility in October 2011. The purchase of Unitex Chemical Corporation in Greensboro, North Carolina, broadens our Functional Chemicals business unit's portfolio of environmentally friendly phthalate-free plasticizers, which are posting growth of around seven percent each year. The facility at Greensboro has an annual capacity of more than 50,000 tons and is characterized by its flexible production units.

In July 2011, we started work on the construction of our new leather chemicals production facility in Changzhou in Jiangsu province, China. Equipped with cutting-edge technologies and environmentally friendly processes, this facility will have an annual capacity of up to 50,000 tons. From the first half of 2013, it will produce premium leather chemicals such as Tanigan®, Isoderm®, Euderm® and Levotan® for the steadily growing local market. The investment of €30 million will create around 150 new jobs.

The photo competition entry that illustrates the water megatrend shows a small boy playing on the Marina Barrage in Singapore. This structure protects the heart of the city state from flooding, has created a freshwater reservoir covering 240 hectares, and is a popular place for Singaporeans to spend their leisure time.

As well as expanding our production network, we are also broadening our service offering in China. For example, we opened a new technology center at our research and development facility in Qingdao in July 2011. Ten specialists from the Material Protection Products business unit are working at this center to expand our service offering for the Chinese beverage industry. Alongside analytical, technical and consulting services, our portfolio includes customized solutions based on our Velcorin® cold sterilization technology. China will become the world's largest beverage market in the next ten years.

In India, we have now relocated the production of leather chemicals, material protection products and products of the Rhein Chemie business unit from Madurai to Jhagadia, thus concentrating more of our Indian manufacturing activities at this state-of-the-art site.

The 2011 Colored Concrete Works® campaign by the Inorganic Pigments business unit showed impressive examples of the uses of Bayferrox® pigments: the Polish Aviation Museum in Krakow, Poland (below), and the Casa das Histórias Paula Rego in Cascais, Portugal (left). German art and design magazine “art” considers the latter to be one of the world’s most spectacular exhibition venues.

New premium products underline commitment to sustainability

A range of innovations in 2011 underlines our commitment to combining cutting-edge technology and sustainability to generate pioneering solutions.

With “Natural Choice,” the Material Protection Products business unit launched its first product consisting entirely of natural ingredients. This innovative flavoring with stabilizing properties is a sustainable alternative to conventional preservatives for beverages containing fruit juice such as still lemonade or isotonic sports drinks. Initially available only in the United States, the world’s largest beverage market, “Natural Choice” is to be introduced successively in other countries.

In 2011, our Inorganic Pigments business unit was honored once again as the best supplier of iron oxide color pigments by the respected Brazilian trade journal “Paint & Pintura.” The judges praised the outstanding product quality and, in particular, the business unit’s innovative strength and high environmental standards in production. For more than 85 years, our high-performance iron oxide pigments have combined optimum shade and color strength with easy processing and very good dispersibility.

The products manufactured by Inorganic Pigments do more than just add color, as evidenced by the successful launch of two new Bayoxide® products in 2011. With high-purity technical iron oxides for the production of lithium iron phosphate (LFP), we have strengthened our focus on the mobility megatrend. LFP is a cathode material used in rechargeable lithium-ion batteries for electric vehicles. In response to the agriculture megatrend, we have also introduced a new technical iron oxide that can be used to remove sulfur from biogas. This was tested together with the Chamber of Agriculture of North Rhine-Westphalia and complies with the provisions of Germany’s fertilizer legislation.

Starting 2012, the Functional Chemicals business unit – in a strategic partnership with U.S. company BioAmber Inc. – plans to manufacture phthalate-free plasticizers from succinic acid derived from the waste from agriculture and sugarcane production. The fermentation process used to produce the acid requires much less energy, is significantly more cost-effective and emits less CO_2 than the conventional process using fossil fuels. This partnership is further evidence of our high level of commitment to green chemistry.

The Leather business unit, too, has committed to sustainable and ecologically compatible products and processes with its pioneering “Sustainable Leather Management” initiative. A unique technology platform will be used to develop innovative solutions for improving efficiency in the production, processing and recycling of this favorite age-old natural material. The Leather business unit already develops and markets the X series portfolio of premium products and system solutions tailored specifically to the sustainable production of leather.

This portfolio includes the X-Tan® organic tanning system launched in September 2011. One key feature of this entirely new tanning process is the high degree of whiteness, which makes it possible to produce brilliant colors during subsequent dyeing. Moreover, no environmentally hazardous or harmful substances occur at any stage of the process. X-Tan® combines first-rate performance with ecological benefits and therefore perfectly fits the objectives of “Sustainable Leather Management.”

A plastics additive launched by the Rhein Chemie business unit in 2011 significantly improves market opportunities for bioplastics. BioAmide™ extends the service life of bio-based polyesters, enabling their use for the first time in long-life high-end applications. It also makes it possible to increase the proportion of renewable raw materials in ready-to-use plastics. In recognition of this innovative product development, Rhein Chemie received the prestigious Global New Product Innovation Award from respected consulting firm Frost & Sullivan.

The Rubber Chemicals business unit has been producing zinc oxide for 80 years. Originally an important additive in rubber production, it has in recent years become a popular specialty chemical with a broad range of uses. With applications ranging from ceramics, electronics and household products to specialty pharmaceuticals and UV protection, zinc oxide products are becoming increasingly important. They owe the beneficial properties that make them so popular to a very special and complex production process mastered by only a few manufacturers worldwide apart from LANXESS.

To support the market launch of Lewabrane® membrane elements for water treatment (see page 30), the Ion Exchange Resins business unit also introduced a completely revised version of its calculation software for customer-specific engineering. This enables users to switch seamlessly from designing reverse osmosis systems to ion exchange resins – all in the same package. Customers can therefore utilize the benefits of our end-to-end water treatment solutions to generate real added value.

Corporate Responsibility

A substitute for steel

Thanks to its outstanding stability, highly reinforced polyamide 6 can be used in many automotive engineering applications. As an alternative to sheet steel, aluminum and glass-mat-reinforced thermoplastics (GMT), the material boasts a large number of advantages in terms of design and production. One example is the spare wheel recess with integrated reinforcing channels for the Audi A8. Using our high-tech plastic Durethan®, it is possible to accurately produce the complex component geometry in just one injection molding step – which could not be done using sheet metal.

Corporate Responsibility

As an international specialty chemicals group, we bear a major responsibility toward people and the environment. Our entrepreneurial activities reflect this sense of responsibility. Safety, environmental protection, social responsibility, quality and commercial efficiency are all key corporate goals at LANXESS.

Good for business, good for society

In its business activities, LANXESS is committed to taking account of the demands of economics, ecology and society in equal measure. “Good for business, good for society.” This short sentence perfectly sums up our approach to business. It reflects our conviction that our products and our expertise in the area of sustainable development can make a significant contribution to supporting our customers, protecting the environment and improving the quality of life of people everywhere.

The greatest benefits of our corporate responsibility (CR) activities are achieved if they are balanced with entrepreneurial and, especially, economic objectives. They must therefore be linked to our core business or to our available expertise. Alongside climate protection, our commitment to education is a key area of activity.

Management system drives success

We have established a globally integrated management system to breathe life into the concept of sustainable development in our everyday business. In addition to internal directives and operating procedures, strict quality and environmental standards in line with ISO 9001 and ISO 14001 apply worldwide. Our central management system provides the necessary global structures to ensure sustainable work practices throughout the company. With this toolbox, we have created a transparent framework of values and rules that unites management and employees across national borders.

In 2007, we started integrating all our sites worldwide into a single management system covered by one global matrix certificate. We regularly commission external, independent experts to audit and verify the implementation status of this process. In 2011, the sales office in Moscow, Russia, was included in the management system for the first time. By the end of the year, a total of 81 sites (mainly production facilities, technical laboratories and sales offices) had been integrated into our matrix certificate, thus making it one of the most comprehensive industrial certificates in the world. For our sites in the United States, we have also received certification to RC 14001 (RC = Responsible Care®). In 2012, we plan to integrate our facilities in Liyang, China, and Jhagadia, India, and the sites we acquired from DSM in Geleen, Netherlands, and Triunfo, Brazil, into the matrix certificate.

Good for Business
- Strengthening reputation
- Improving image
- Transparency, trust and good partnership with stakeholder groups
- Satisfied employees and stakeholders
- Increasing awareness among customers and public

Good for Society
- Protection of climate/environment
- Social responsibility
- Training and education
- Culture
- Safety and security
- Neighborhood

The Ten Principles of the Global Compact

Area	Principle
Human rights	1) Businesses should support and respect the protection of internationally proclaimed human rights.
	2) Businesses should make sure they are not complicit in human rights abuses.
Labor	3) Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
	4) Businesses should uphold the elimination of all forms of forced and compulsory labor.
	5) Businesses should uphold the effective abolition of child labor.
	6) Businesses should uphold the elimination of discrimination in respect of employment and occupation.
Environment	7) Businesses should support a precautionary approach to environmental challenges.
	8) Businesses should undertake initiatives to promote greater environmental responsibility.
	9) Businesses should encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	10) Businesses should work against corruption in all its forms, including extortion and bribery.

Resource and energy efficiency is a critical factor in climate and environmental protection. We have in the past taken measures to ensure the efficient utilization of both resources and energy. However, in light of the greatly increased significance of resource and energy efficiency in both ecological and economic terms, we decided in 2010 to introduce a global energy management system at LANXESS. With a uniform approach, process transparency and energy efficiency as part of a well-structured operative energy management system, we aim to preserve resources, reduce energy costs and thus considerably improve our competitiveness. In February 2011, we published our correspondingly revised corporate policy in which climate protection and resource efficiency are given a more prominent position.

We established a project group to drive forward the introduction of an energy management system based on ISO 50001. This has been developed with practical application in two pilot facilities in Leverkusen and Krefeld-Uerdingen, Germany. In the reporting period, we drafted a global energy management guideline and compiled an accompanying handbook to ensure the optimal implementation of energy management at operational level. All business units have appointed energy management officers with responsibility for global energy management. The focus of our activities is on transparently mapping energy flows and identifying potential for improving efficiency as the basis for systematic analysis and a prioritization of our measures. We are using the experience gained in our two pilot facilities to develop standards for analysis and process development. We aim to complete implementation of our energy management system in Germany by the end of 2012. Roll-out to other countries should then take place.

All management systems are based on values and guidelines that provide a clear framework for a company's management and employees. Our system is based on established global standards and on our company's own basic rules, which are subject to ongoing amendment.

By signing up to the world's largest and fastest growing corporate social responsibility initiative, the U.N. Global Compact, we once again raised our sustainability profile during the reporting period. With its established principles in the areas of human rights, labor standards, environmental protection and anti-corruption, the pact now numbers more than 8,000 participants from over 135 nations.

Transparency and improved public dialogue are among the stated objectives of the Responsible Care® Global Charter launched by the International Council of Chemical Associations (ICCA). This is the only way to build confidence and trust in an industry that plays a crucial role in improving people's living standards and quality of life. LANXESS has supported this initiative since 2006, when it also became one of the signatories to the ICCA charter. For us, applying the Responsible Care® Global Charter to our business means working consistently to improve our processes and services in terms of environmental and climate protection, health, safety and quality. Amended in February 2011, our corporate directives ensure that the principles of the charter are integrated into our management principles and corporate strategy. We firmly believe that our company's future can only be safeguarded by acting responsibly.

Our Corporate Compliance Guideline is a code of legal compliance and responsible conduct that is binding on all LANXESS employees and commits them to act in accordance with the law, apply the principles of Responsible Care® and demonstrate ethical conduct. In our view, such conduct also includes respect for human rights and the avoidance of child labor. The guideline also covers issues such as competition, occupational, product and plant safety, environmental protection, and interactions with other people. To oversee implementation of the Corporate Compliance Guideline, the Board of Management has established the Compliance Committee, comprising representatives from a range of specialist backgrounds. This Committee handles all referrals concerning compliance violations, with the goal of countering illegal or unethical conduct by LANXESS employees at an early stage and introducing suitable measures to prevent improprieties altogether.

All globally applicable LANXESS directives and guidelines are contained in a system that is accessible to every employee.

First stakeholder roundtable meetings

Current ecological and social issues and related opinions are very important to LANXESS. We therefore actively seek dialogue with key stakeholders on issues that are or may become relevant to our company and our economic success. We see this dialogue as an opportunity to actively engage in public debate and, at the same time, receive direct feedback on our business activities, especially with respect to corporate responsibility.

The stakeholders of relevance to LANXESS are the groups, institutions and people with whom we are linked directly or indirectly through our business units and who therefore have an interest in our activities. The primary purpose of our dialogue with customers, employees, suppliers, and representatives of the capital market, politics, public authorities and NGOs is therefore to identify topics that we consider to be significant in terms of our corporate responsibility. At the same time, we seek to encourage mutual understanding and build trust through open and constructive dialogue.

Following our first telephone survey in 2010, we engaged in a more personal dialogue with our stakeholders at two roundtable meetings held as planned during the reporting period.

In September 2011, representatives from the tire industry, the certification organization TÜV, various NGOs and LANXESS came together in Leverkusen to discuss the potential of modern green tires in reducing fuel consumption and thus also CO_2 emissions in vehicles. The key topics on the agenda included:

- The importance of the proposed tire labeling regulations in the E.U.;
- Ways of raising the still relatively low level of consumer awareness for the advantages of high-performance tires and tire labeling;
- Potential instruments for preventing tire labeling abuse;
- The considerable differences between regional tire markets;
- The outlook for the tire industry through 2020.

The consequences of E.U. tire regulations and the associated challenges in communication with consumers were also a main focus of our second roundtable meeting in Brussels in December 2011. For the first time, representatives from the tire industry were joined by politicians and representatives from the automotive industry.

Given the positive feedback from both events, roundtable meetings will continue to be an important instrument for stakeholder dialogue in 2012. We generally aim to expand dialogue to include other areas where our expertise can make a key contribution to a more sustainable future.

Praise from all sides for our CR activities

We consider the large number of external ratings and awards we received in 2011 as confirmation that we are on the right track with our CR strategy.

- In recognition of our ambitious sustainability initiatives, oekom research – a leading independent rating agency for sustainable investment – increased our corporate responsibility rating to “C+.” This upgrade applies to both social and environmental activities.
- The capital market recognized our improved sustainability profile by including LANXESS in the renowned FTSE4Good index and the Dow Jones Sustainability Index (DJSI) World.
- Our business units, country companies and individual sites also received a host of awards for their sustainable product innovations, environmental initiatives and social commitment.

Employees

Our successful growth strategy and the associated increase in employee numbers in all key target markets have made human resources activities an increasingly important strategic factor. Compared to the prior year, our workforce grew by 1,742, including 301 women and 1,517 non-German employees. At our companies in Germany, we hired 382 new employees across all age groups. Our main focus was on specialists in the areas of production and technology, especially engineers and chemists.

Recruiting young talent

As part of its sustainable corporate policy, LANXESS is continuing to position itself as an attractive employer on all key markets. We are giving particular attention to the BRICS countries and our home market in Germany.

By means of various activities, we aim to attract, integrate and retain the best talents for our company. In recent years, we have worked closely with our employees to develop the basis for an employer brand with the goal of conveying an authentic image of LANXESS. Our corporate culture is based on flat hierarchies and encourages employees to assume responsibility in an international context at an early stage. This gives our employees unique development opportunities.

In fiscal 2011, we continued to seek direct contact with talented university and school students through our presence at a large number of career fairs and university events and by organizing our own events. We also cooperate with university career centers and fund a range of scholarships as part of the German government's "Germany Scholarship" program. In the United States, we support high school and college students interested in pursuing a career in chemistry through the American Chemical Society. In Brazil, we identify future talents through a structured intern program encompassing both training and practical phases. With the "Inside LANXESS" program, we give high school graduates an insight into working life.

In China, alongside our existing alliances, we have now entered into a partnership with the Changzhou Institute of Engineering Technology. This aims to share practical and scientific expertise with the university, give students an insight into the working world through internships and thus arouse their interest in working for LANXESS. In Pittsburgh, United States, we support the Carnegie Science Center in a variety of ways – for example, as a founding sponsor of the "Center for STEM (Science, Technology, Engineering and Mathematics) Education and Career Development." Activities include projects for high school students and events for young women interested in science.

At a large number of recruiting events, university graduates gained interesting insights into the LANXESS Trainee Program and also had the opportunity to experience our products up close.

We also intensified our cooperation with selected schools and universities worldwide with a view to giving teachers, children, faculty and students the opportunity to discover more about the many interesting functions in process engineering, chemical research and central administration that we can offer on account of our chemical and process diversity.

Establishing early contact with schools close to our sites in Germany and around the world, for example, as part of specialist project weeks, and promoting science education at local high schools are two of the focal points of LANXESS's extensive education initiative, which we continued to extend in fiscal 2011. As a company, we consider this initiative to be part of our social and corporate responsibility.

International partnership with Teach First Our special commitment to education is also reflected in our partnership with Teach First in Germany and India. We have been one of the main sponsors of this not-for-profit organization since 2010. Teach First, which is already established in a number of countries, has set itself the goal of helping school students who have had a difficult start in life, fostering their individual talents and supporting them in developing career prospects. Specially qualified university graduates from all disciplines, who also have the requisite soft skills, act as fellows for a period of two years, helping schools in socially disadvantaged areas with education and schooling tasks. In Germany, we focus particularly on supporting fellows specializing in mathematics and science. Activities at schools in North Rhine-Westphalia will continue from February 2012. In addition to providing financial support, we are also making a practical contribution through activities such as vocational training preparation for school students, personal coaching for fellows and a mentoring program supported by our experienced managers. A parallel aim is to recruit fellows to LANXESS after their assignments in schools. A number of the fellows from the first year of the program are now working for the company. We also offer the school students we support the opportunity to visit our facilities and help them apply for a vocational training place at LANXESS.

We started working with Teach First in India in December 2010. The first fellows assigned to the Indian partner schools in Mumbai and Delhi were given the opportunity to complete internships at our sites in India as part of the program. The school students they support are also given career guidance and an insight into working life through visits to our facilities. In addition, LANXESS employees support projects in the schools in their free time.

Developing young managers Each year, under the motto "Prepare for the Future," our LANXESS corporate trainee programs attract highly skilled university graduates. Our aim is to prepare the participants for an international career within the LANXESS Group and establish a global pool of young managers with international experience. In fiscal 2011, our marketing, controlling, finance and human resources programs were complemented by a new engineering program. Since the initiative started, we have offered a wide range of entry-level positions to 51 university graduates with an interest in embarking on an international career.

In 2010, we created the China Management Trainee Program specifically for the Chinese market. This two-year program aims to prepare highly qualified business and technology graduates for management roles and create a pool of local talent. In China, we were again honored as "China's Top Employer" by the CRF Institute. In the United States, we received two prestigious "Best Places to Work" awards: in Pennsylvania and in Ohio. At our Pittsburgh site, we were also named "Manufacturer of the Year" by the Pittsburgh Business Times.

Encouraging and supporting individual development

LANXESS has put in place a multi-tiered process of global HR development conferences enabling us to review the potential of talented employees and assess the performance and leadership skills of managerial staff on a regular basis. Moreover, the Development Center has become an established tool worldwide for assessing the potential of future managers and supporting their development. Management workshops are a special way of fostering and recording the potential of top managers. The results of this multi-dimensional approach are an integral part of our HR development policy, which is augmented by systematic succession planning for key positions.

We do not impose a uniform leadership style on our managers. Instead, we expect them to find a personal balance between strategic vision (Head), empathy (Heart) and the courage to make decisions (Guts). We also provide our managerial staff with a wide range of consulting services, including personal coaching and 360-degree feedback. In addition, the range of special modular and multi-dimensional programs available at the LANXESS Academy was extended. Designed specifically to prepare trainee managers for their future tasks, these programs prove to be a very successful component of our structured management training.

The International LANXESS Sales Academy (ILSA) teaches new approaches to ensure that our sales employees have the best-possible training. Our aim is always to be that crucial one step ahead in international competition.

2011 also saw the creation of the International LANXESS Sales Academy (ILSA) as part of the LANXESS Academy. This one-year modular program is the first ever functional training offering for sales teams around the world and aims to develop both the specialist knowledge and soft skills of our sales employees. It perfectly complements the programs already in place in the business units and countries by facilitating communication and the sharing of best practices across business units and national borders. We consider this training to be a targeted investment in our employees and an important lever in our efforts to further improve our customer relationships. It also gives LANXESS a crucial competitive edge in today's global markets.

The LANXESS Forum, featuring high-caliber lectures and a subsequent plenary discussion, explores societal trends and company issues, providing a platform for dialogue between employees and management. In 2011, it focused on topics such as Japan and China and the unusual scientific field of economics and happiness.

With a view to optimizing our corporate culture, we conducted our first ever employee survey in 2011. Using the "Great Place to Work" approach, 800 employees were asked to evaluate the strengths and weaknesses of their current work environment at LANXESS in Germany. The aim of the survey is to further enhance our appeal as an employer and optimize our attractive, motivating and performance-oriented workplace culture.

Development opportunities and diversity for international markets

Our global alignment is a key strategic advantage. Today, LANXESS employs people from 67 countries across the world. Our successful focus on the BRICS countries is a deliberate strategy to increase proximity to local customers and markets. However, training, the transfer of know-how and practical experience are not one-way streets, which is why LANXESS is increasingly sending employees from the BRICS countries to its sites in Western Europe and North America.

In this way, LANXESS is providing both new and experienced managers as well as skilled non-managerial employees with the opportunity for short stays abroad and longer international assignments.

With the five pillars of our XCare demographic concept, we are developing answers to the challenges of demographic change.

In 2011, 241 employees – around eight percent of our managers – worked as expatriates outside their home countries. In addition to the possibilities for sharing know-how and acquiring intercultural skills, these overseas assignments also provide employees with the chance for personal development. Sending employees abroad will remain a central HR policy in 2012. To encourage the transfer of know-how between LANXESS companies, we are increasingly also sending non-managerial employees abroad for periods of up to twelve months for training purposes and project work. Our long-term goal is still to equip local managers with expertise and international competencies. We are supporting achievement of this goal with, for example, our regional Leadership Academy in Brazil which firmly embraces the LANXESS leadership principle of “Head, Heart and Guts.”

The global Diversity X Inclusion initiative The business environment in which LANXESS operates is changing at a dramatic pace. Globalization, demographic change and global competition for the best talents are among the many and increasingly varied factors that influence the economic success of companies like LANXESS.

Our employees with their diverse qualities and skills are the key to our success in the international arena. We aim to foster this diversity and the differences within our global team to an even greater extent. This approach is beneficial both to our employees and to LANXESS. Ensuring diversity within the workforce generates new ideas, impetus and greater creativity – and therefore continued success. Moreover, accepting differences and deviations from the norm, and embracing and encouraging these in a spirit of inclusion, creates a culture in which people feel accepted and enjoy their work.

We aim and need to continue fostering and increasing diversity at LANXESS if we are to maintain our competitive position on the global market in future. This also applies particularly to attracting and inspiring new talents for LANXESS. We are therefore committed to systematically harnessing the power of diversity, to a culture of valuing our employees and, above all, to equal opportunities worldwide. We want LANXESS to become an even more diverse and inclusive company in which our employees feel motivated and valued for their individuality.

However, if we want to improve and increase diversity within the company in the coming years, we first need to know how diverse LANXESS already is. That is why, in fall 2011, we launched our global Diversity X Inclusion initiative. In a first project phase, we are analyzing the gender, nationality and age spread of LANXESS employees worldwide. We are initially focusing on three pilot areas: the Inorganic Pigments and Technical Rubber Products business units and the Accounting group function in Germany, the United States, Brazil, China and India.

Alongside the evaluation of processes within the HR department and anonymous personal data, interviews with employees comprise a key element of the analysis. Following the survey, the project team will develop targeted measures for the pilot areas with a view to improving diversity within the company. An international team comprising HR experts and specialists from various business units and group functions is responsible for project implementation. Dr. Rainier van Roessel is the member of the Board of Management with overall responsibility for the project. Since completion of the pilot phase, roll-out of the project to all other areas of the company began at the start of 2012.

Achieving corporate goals – successfully mastering challenges

Long-term training and ongoing employee development ensure that we achieve our corporate goals and safeguard the competitiveness of our company. In view of the challenge posed by demographic change, LANXESS cooperated closely with the employee representatives in 2009 to develop XCare, a comprehensive demographic concept for the German LANXESS companies based on the collective agreement on lifelong worktime and demography in the chemical industry. This project was continued in 2011 and aims to find answers to the challenges posed by a steady rise in the average age of the workforce coupled with a shortage of skilled young people.

LANXESS Employee Structure Germany[1)]

Age group	Female	Male	Total
< 20	—	2	2
20 – 29	119	379	498
30 – 39	257	1,212	1,469
40 – 49	581	2,595	3,176
50 – 59	366	2,236	2,602
> 60	13	86	99
Total	**1,336**	**6,510**	**7,846**

1) Permanent employees excl. trainees

LANXESS Employee Structure Rest of the World[1)]

Age group	Female	Male	Total
< 20	1	8	9
20 – 29	315	1,081	1,396
30 – 39	566	2,040	2,606
40 – 49	363	2,038	2,401
50 – 59	279	1,627	1,906
> 60	35	191	226
Total	**1,559**	**6,985**	**8,544**

1) Permanent employees

The XCare project is based on an extensive demographic analysis of the entire LANXESS organization in Germany, which resulted in five areas of activity – people and health; work and training; time and organization; career and family life; and savings and retirement provision.

One aspect of work and training was the analysis of our trainee figures from a demographic perspective. Among the measures based on our findings was the decision to increase the number of vocational training places we offer. By 2015, some 600 training places will be available at our sites throughout Germany.

In 2011, 123 young people (97 men and 26 women) took the opportunity to start a technical, commercial or scientific training program at LANXESS, sometimes combining a regular job with a part-time course of study. With a total of 317 trainees in 14 different career paths (as of December 31, 2011), LANXESS continues to train more young people than it needs to meet its own requirements. Despite fluctuating employee numbers, we have directly or indirectly hired 253 trainees for temporary and permanent positions in recent years.

Another main focus of our demographic project is balancing career and family life, which remains an important issue for a large number of LANXESS employees. Around four percent of our employees in Germany aged between 20 and 40 made use of the option to take parental leave. Of this figure, almost 50 percent were fathers. In 2011, in support of parents looking for care for their children, we also started offering our employees reserved places at childcare facilities in Cologne ahead of the relocation of our company headquarters to that city planned for 2013.

The introduction of caregiver leave has long been an important aspect of career and family life. The aim is to support employees who care for family members. In line with the German government's draft legislation on family caregiver leave, which comes into force in 2012, we are one of the first companies to conclude a comprehensive agreement with employee representatives on a multi-stage caregiving program that includes advice from an external service provider, short-term release from duties, and individually agreed part-time working for caregivers. This allows employees to reduce their working time to a greater extent than their salary during the care phase and to make up the shortfall when they return to work.

We have expanded our projects in the area of people and health. Our primary goal is to raise awareness of occupational health among employees and managers and to facilitate the reintegration of employees who have suffered prolonged illness. To this end, workplace integration teams comprising integration officers and employee representatives are now in place at all LANXESS sites. In the area of occupational health management, we have increased the number of our facilities participating in pilot projects. These, too, are steered individually by working groups made up equally of employee and employer representatives who, with the support of external specialists, analyze the existing health situation and develop a participatory action model. The projects encompass management workshops, prevention concepts, advice on ergonomics for plant workers and nutrition programs for shift workers.

Since Canada is experiencing a similar development to Germany, our subsidiary there has been actively addressing demographic change since 2010. By regularly updating succession and training plans, all business units aim to ensure that knowledge is transferred in due time and the handover to the next generation is achieved in an orderly way.

Rewarding performance

LANXESS has established a fair remuneration policy that is linked to the long-term success of the company and offers employees worldwide a transparent and market-oriented compensation system. Collective bargaining agreements provide the main basis for the compensation of non-managerial staff in Germany and numerous other countries. The fixed salaries of managerial staff are supplemented by performance-based compensation components that are linked, on the one hand, to the attainment of the Group's defined EBITDA targets and, on the other, to employees' individual performance.

Following our excellent business performance in 2011, we made a total of €100 million available to give our employees worldwide a share in the company's success. Much of this amount was paid out in the form of an additional bonus. Our managers are able to reward outstanding employee performance quickly and unbureaucratically. In fiscal 2011, this resulted in payments of €8.7 million worldwide – €6.4 million to employees in Germany – for outstanding individual performance.

We again offered an employee stock plan in 2011. All LANXESS Group employees in Germany were given the opportunity to buy LANXESS shares at a 50-percent discount. The shares were purchased at an average price of €57.54 on the Frankfurt Stock Exchange. The participation rate was 75 percent. At the reporting date, our employees and Board of Management members held around one percent of the company's shares through stock plans.

For some time now, we have also offered a long-term incentive program for managers in Germany and similar programs in the United States, Canada, India and China. This stock performance plan compares the company's value against the Dow Jones STOXX 600 Chemicals^{SM} index over a period of three years. Since participants make a personal investment and there is the chance that the stock will increase in value, the program is an attractive long-term incentive and a means of boosting employee loyalty.

For the period 2010 to 2013, the Board of Management has drawn up a new long-term incentive plan (LTIP) for LANXESS. The Long-Term Stock Performance Plan 2010–2013 (LTSP) comprises four tranches, one commencing each year. This plan compares the company's value against the Dow Jones STOXX 600 Chemicals^{SM} index over a period of four years. The participation rate is 89.7 percent.

Acting in partnership

A key pillar of our HR policy is close cooperation with labor unions and employers' associations in accordance with the principle of active codetermination. Almost 70 percent of our employees worldwide are governed by collective agreements. In Germany, the figure is more than 90 percent.

We regularly discuss our corporate objectives with employee representative bodies in Germany, Europe and around the world and involve these bodies at an early stage in the event of organizational changes. In Germany, in the crisis year 2009, we responded to declines in production by implementing QUEST, a training, deployment and job management center, as part of our Challenge09-12 program. This helps employees affected by low capacity utilization levels to prepare for and find new challenges. An internal team of consultants supports the affected employees in qualifying for new tasks and finding jobs inside or outside the company. As of December 31, 2011, the center had already found a permanent solution or a new challenge for more than 87 percent of applicants. It also helped place employees in temporary positions within and outside the LANXESS Group. This innovative instrument has already proved its value as a means of preventing job reductions.

Open to ideas

When LANXESS employees have good ideas for improving work procedures, plants and processes, these ideas pay off. An idea management system fosters the development, processing and implementation of suggestions for improvements to ensure that LANXESS will continually receive proposals for enhancing cost-effectiveness, occupational safety and environmental protection. In 2011, employees at LANXESS's German companies submitted a total of 3,191 new suggestions, a rate of 445 per thousand employees. In the same period, 1,199 ideas were implemented, yielding total savings of €2.2 million. 759 of these ideas led to improvements in occupational safety and environmental protection. A total of €908,000 was paid out to employees whose ideas were put into practice. The highest individual payment amounted to €36,000.

Compared to the record year 2010 when savings amounted to €4.8 million, the figure in 2011 was much lower because the number of ideas that yielded financially quantifiable benefits declined by 31 percent. The average processing time for ideas – including a one-year trial phase to determine the cost savings, as defined in the General Works Agreement on Idea Management – was around 500 calendar days. This means that the relatively low number of new ideas submitted in 2009 because of plant shutdowns and short-time working only took effect in 2011.

As a further incentive to attract ideas, the LANXESS Ideas Competition was launched in 2008. Each year, the company's organizational units can measure themselves in terms of team benefit[1)]. The focus is on identifying further cost-cutting potential, increasing both implementation and participation rates, and shortening processing times. In 2011, the Inorganic Pigments business unit won the Ideas Competition for the fourth year in succession. 241 employees submitted an idea that was implemented and contributed to the business unit's success. They each received an additional payment of €300. All ideas that are implemented are evaluated in accordance with our _FormulaX criteria. At 65 percent, "Come up with solutions" was the most important component in the creativity process. With its attractive, performance-related bonus system, our idea management system is an essential element of innovation management at LANXESS and will continue to play a key role in our company's future success.

_FormulaX

- _Take on responsibility
- _Come up with solutions
- _Dare simplicity
- _Accelerate progress

1) The team benefit is calculated from the proven cost savings yielded by ideas with a financially quantifiable benefit and from the bonuses paid (= benefits) for ideas with no quantifiable benefit and set in relation to the number of eligible employees in an organizational unit.

Health, safety, environment and climate protection

Global HSEQ management

HSEQ (health, safety, environmental protection and quality) management is an important part of LANXESS's integrated management system. From the outset, we have aligned this system toward ensuring uniform standards and reference bases for all our sites worldwide. The key performance indicators (KPIs) required for this purpose are recorded electronically, thus enabling us to systematically determine and analyze performance in each business unit and at each site and to develop this sustainably in the future.

The HSEQ Committee, comprising LANXESS's senior executives under the direction of Board of Management member Dr. Werner Breuers, is tasked with ensuring worldwide compliance with uniformly high quality management, safety and environmental protection standards. The committee has responsibility for initiating and monitoring the global implementation of all necessary HSEQ guidelines, strategies and programs, as well as for defining our HSEQ objectives and monitoring their achievement. It also defines the global strategy for our integrated quality and environmental management system in accordance with ISO 9001 and ISO 14001.

Systematic recording of key performance indicators We use an electronic system for the systematic global recording of KPIs in the areas of safety and environmental protection. This proprietary system enables us to define a broad range of KPIs for each business unit and location worldwide. These provide a valid database for internal and external reporting and map the progress we are making toward achieving our globally applicable HSEQ objectives (see table on page 52). Data for all indicators except the lost time injury frequency rate (LTIFR) are gathered only at those of our production sites in which LANXESS has a holding of more than 50 percent.

We are aware of the challenge involved in defining and ensuring the use of uniform indicators for all sites and regions. Our internal standards and criteria for recording safety and environmental performance data are aligned with the G3 guidelines of the Global Reporting Initiative (GRI G3). We are working continuously to better comply with these requirements. If we deviate from the currently valid GRI definitions, then we indicate this with an explanation.

In the year under review, auditors KPMG AG Wirtschaftsprüfungsgesellschaft assessed our data recording processes and system in the course of a business audit. Most of our HSE indicators for 2010 and 2011 were tested with a view to achieving a "reasonable assurance" rating. The certificate can be viewed at www.lanxess.com.

Environmental and Safety Performance Data*

	2010	2011
Safety		
Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked) 1)	2.3 ++)	2.7 ++)
Volume sold 2) (in thousand tons)	6,404 +), 3)	6,434 +)
Emissions, waste and wastewater		
Emissions into air (in thousand tons)		
Emissions of greenhouse gases as CO_2 equivalents (Scope 1) 4)	1,906 ++), 3)	1,935 ++)
Emissions of greenhouse gases as CO_2 equivalents (Scope 2) 11)	2,650 3)	2,893
Emissions of volatile organic compounds 5)	8.0 ++), 3)	7.8 ++)
CO emissions	2.1 ++), 3), 10)	3.0 ++)
NO_x emissions 6)	2.6 ++), 3), 10)	2.8 ++)
SO_2 emissions 7)	1.7 ++), 3), 10)	1.9 ++)
NH_3 emissions	0.2 ++)	0.2 ++)
Emissions into water (in thousand tons)		
Total nitrogen	0.54 ++), 3)	0.54 ++)
Total organic carbon (TOC)	2.1 ++)	2.2 ++)
Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc)	0.0047 +), 3)	0.0045 +)
Waste (in thousand tons)		
Total waste generated	259 ++), 3)	267 ++)
• Hazardous waste	141 ++), 3)	143 ++)
• Non-hazardous waste	118 ++), 3)	124 ++)
Wastewater (in million cubic meters)		
Total wastewater	31 ++)	33 ++)
Consumption of resources		
Total water consumption (in million cubic meters)	292 ++), 3)	292 ++)
Cooling water consumption 8) (in million cubic meters)	235 ++), 3)	239 ++)
Process water consumption (in million cubic meters)	57 ++), 3)	53 ++)
Energy consumption 9) (in petajoules)	52 ++), 3)	55 ++)

Explanations concerning our environmental and safety performance data

*) The aggregate data refer to all LANXESS production sites in which the company holds an interest of more than 50 percent, but excluding the site at Redmond, U.S.A. The new Keltan sites (since May 2, 2011) at Geleen, Netherlands, and Triunfo, Brazil, and the Darmex sites assigned to Rhein Chemie (since January 11, 2011) at Burzaco and Merlo, Argentina, and Colonia, Uruguay, are already included. The newly acquired Unitex site at Greensboro, U.S.A. (since October 2011) and the Verichem site at Neville Island, near Pittsburgh, U.S.A. (since November 9, 2011) were not included in 2011. On account of limited recording and control options and the resulting estimates, the base data contain some inherent uncertainties.

Data recording in 2011 was aligned with GRI G3. To ensure better comparability, we are reporting our HSE performance data in the same way as in 2010. Our full HSE performance data recorded in 2011 in accordance with GRI G3 can be viewed online at www.lanxess.com.

+) Indicator was assessed (limited assurance) by KPMG AG Wirtschaftsprüfungsgesellschaft in the course of a business audit.

++) Indicator was assessed (reasonable assurance) by KPMG AG Wirtschaftsprüfungsgesellschaft in the course of a business audit.

1) LTIFR: accident rate per million hours worked resulting in one working day or more lost following the day of the accident, calculated for all employees (including subcontract workers) at all sites

2) Volume sold of goods manufactured by LANXESS and sold internally to another LANXESS company or externally (excluding commercial products)

3) Values corrected compared to the values shown in the Annual Report 2010

4) All Scope 1 Kyoto gases are calculated as CO_2 equivalents (CO_2e). In accordance with the GHG Protocol, the CO_2 emissions from the combustion of biomass are shown separately and are not included in the Scope 1 emissions. The following emissions were produced during the reporting period: 2010: 153 kt CO_2; 2011: 241 kt CO_2.

5) Total VOC (volatile organic compounds) excluding methane and acetone
6) Nitrogen oxide (NO_x) calculated as NO_2 (excluding N_2O - nitrous oxide)
7) Sulfur dioxide (SO_2) + SO_3 calculated as SO_2
8) Equivalent to circulating cooling water
9) The energy volumes given were calculated on the basis of simplified assumptions and typical substance values. They do not include other forms of imported energy (e.g. the energy contained in raw materials).
10) Significant increase compared to the published value on the basis of the full inclusion of the CO, NO_x and SO_2 emissions from the use of renewable energies, diesel and gasoline.
11) The conversion factors used were provided by the energy producers for 2008 or 2009. Where these were not available, factors from the IEA (International Energy Agency) for 2009 were used.

Further details on data quality:
- The emission factors used for fossil fuels are based on calculations by the U.S. EPA (AP-42 from 1998) and on the IPCC Guidelines for National Greenhouse Gas Inventories (2006).
- In accordance with the GHG Protocol (2004), the factors for calculating CO_2e are based on the global warming potential (time horizon: 100 years) defined in the IPCC Second Assessment Report (SAR 1995).

Health and safety

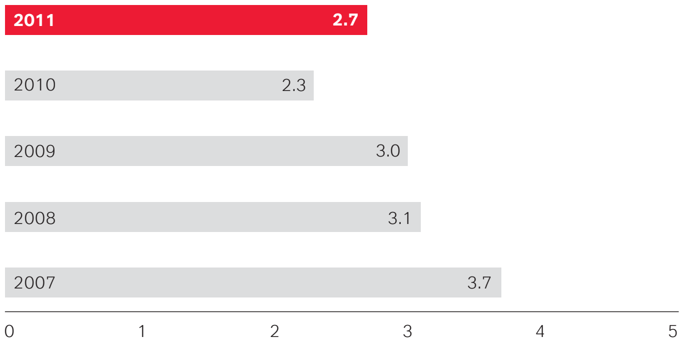
The health and safety of our workforce are among our top priorities. We aim to protect our employees from accidents by maintaining high standards in health protection and plant safety and implementing continuous improvements in workplace safety precautions.

Xact initiative To systematically and sustainably improve all aspects of occupational, process and plant safety, including environmental and health protection, we initiated the global Xact program in 2011. In the analysis phase, which began in mid-September 2011, 22 pilot plants in Germany and abroad were tested carefully and thoroughly. From the second half of 2012, the program will be introduced at all our plants worldwide after adaptation to the specific requirements at each site and business unit. All existing safety programs will then be combined under one roof and refined to meet our objectives.

Occupational safety Thanks to our global electronic Incident Reporting System (IRS), we are able to record accidents and incidents using standardized procedures. The incidents that are documented include accidents involving people, transport accidents, environmental incidents and downtime caused by, for example, bad weather or strike action. We communicate significant incidents worldwide via our intranet or by newsletter. Each incident is carefully analyzed to identify measures that can be taken to avoid similar accidents or disruptions in the future.

The LTIFR, known as MAQ (injuries for every million hours worked) in Germany, is the key indicator we use to assess occupational safety. In 2011, the LTIFR was 2.7, a slight deterioration on the previous year (2.3). This resulted primarily from a number of accidents at just one site – our chrome ore mine in South Africa. The site has gained statistical relevance through the international harmonization of our reporting structures and the employee situation there. We are already implementing a special program that aims to significantly and sustainably reduce the number of accidents at the mine.

Work-Related Injuries to LANXESS Employees Resulting in Absence from Work (LTIFR)



Uniform standards for process and plant safety, occupational safety and environmental protection Across the globe, LANXESS operates at 47 production sites in which it holds an interest of at least 50 percent (as of December 31, 2011). The diversity of the Group's product portfolio necessitates the use of many chemical and technical processes. Uniformly high standards for planning, engineering and operating facilities are applied to ensure a high level of process and plant safety. We use a systematic approach to identify risks and hazard potential and to reduce these by implementing safety measures. To help us achieve this, we have established a comprehensive HSE management system that governs procedures for all safety-critical processes in our production facilities. All LANXESS facilities around the world must verify their safety standards with a certificate.

Regular monitoring and employee training ensure systematic implementation of the HSE management system. We have been carrying out HSE compliance checks at LANXESS facilities in Germany since 2005. Experts conduct specific spot checks to assess whether all necessary measures are being taken to ensure the safe operation of facilities. Since 2007, HSE compliance checks have also been carried out at key production sites operated by LANXESS subsidiaries. In 2011, a total of 32 facilities were checked, 11 of which are assigned to LANXESS Deutschland GmbH.

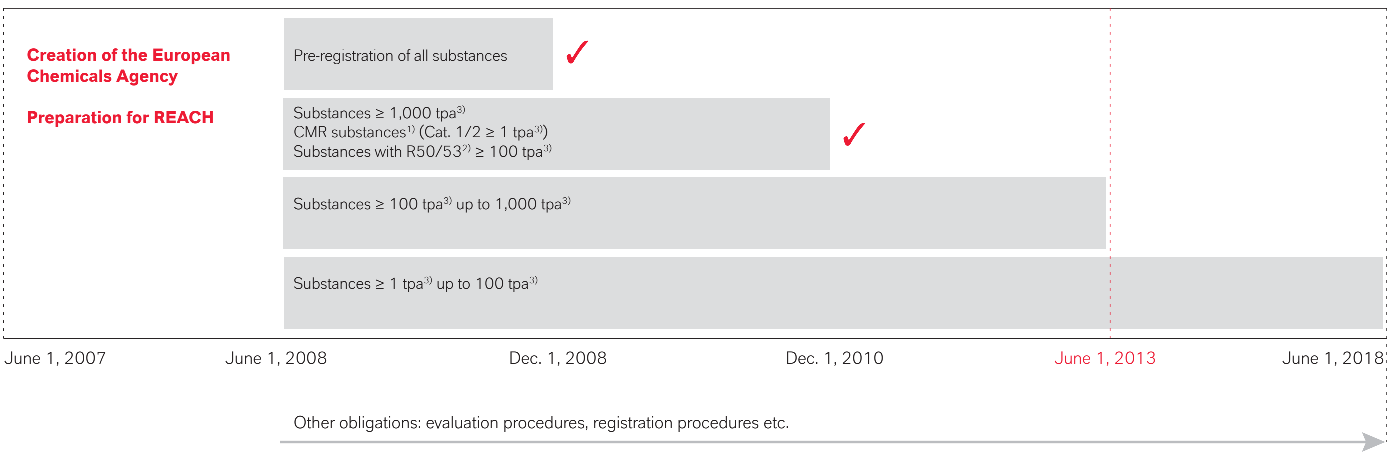
Safety also plays an important role in all our acquisition projects. Before making any acquisition, we carry out technical due diligence tests alongside the economic appraisals. Gap analyses are performed by LANXESS soon after the takeover of a production site. These are used to identify any differences between the HSE system already in place at the site and LANXESS's own system. The results serve as the basis for drawing up action plans to implement LANXESS's binding global HSE standards at these locations. In 2011, we performed four such gap analyses.

Global product stewardship The International Council of Chemical Associations (ICCA) launched the Global Product Strategy (GPS) initiative with the primary aim of establishing global standards for product stewardship and thus minimizing the impact of chemicals on human health and the environment. We believe it is only right that we should implement this initiative. From the moment that LANXESS was founded, we have sought to introduce uniform, global safety standards for the handling and transportation of products. Product safety is a top priority in all the processes along the value creation chain – from research and development, through production and transportation, to downstream processing and disposal. Product stewardship begins for us with the procurement of raw materials and services.

Our product portfolio also includes substances that are classified as hazardous. In order to prevent possible harm to health, we systematically test the properties of our products and draw our customers' attention to the risks associated with their use. LANXESS views product stewardship as a responsibility to continually improve product safety for the sake of both human health and the environment. Our Product Safety Directive steers the Group-wide observance of product stewardship throughout the product life cycle and secures the necessary participation of everyone involved in the supply chain. Our internal Central Product Surveillance Directive governs worldwide tracking of the health-related and ecological implications of raw materials and products.

Successful product safety demands globally standardized substance data and systems for documentation and processing. These also ensure compliance and provide support for business operations worldwide. We control the transportation of our products around the world by employing standardized classifications and interpretations of transportation regulations for hazardous goods. Moreover, we operate a globally applicable electronic system for generating safety datasheets and managing our SAP system in terms of marketability and hazardous goods data. In 2011, we introduced this system in Brazil, Indonesia and South Korea and in three of the businesses we acquired (Keltan EPDM, Syngenta material protection products and Unitex). It is soon to be launched in other countries such as Singapore and China. The system is regularly adapted to the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) in the various countries in the event of changes relating to hazardous goods and other amendments to legislation.

REACH Implementation Schedule



1) CMR: carcinogenic, mutagenic and reprotoxic
2) Very toxic to aquatic organisms; may cause long-term adverse effects in the aquatic environment
3) tpa = tons per annum

We expressly support the protection goals of E.U. chemicals policy. During the first registration phase stipulated by the REACH regulation, we prepared dossiers for all 193 substances at LANXESS that are affected and submitted these to the European Chemicals Agency (ECHA) by the deadline of November 30, 2010. A further 250 substances from our portfolio are now to be registered during the second phase, which runs until the end of May 2013. To date, these activities are going to schedule. We expect to have to complete a total of some 750 dossiers over all three phases through 2018. Since REACH prescribes the stewardship of substances over their entire life cycle, we are cooperating very closely with our suppliers and customers.

In addition to REACH, there is another important regulation in E.U. chemicals policy – the CLP Regulation – which is intended to implement the international GHS initiative in the European Union. The objective of GHS is to harmonize existing classification and labeling systems used in various sectors, such as transportation and consumer, employee and environmental protection. The CLP Regulation (also sometimes referred to as the GHS Regulation) stipulated the classification and labeling of all chemical substances in the E.U. by December 1, 2010. We also met this deadline for all relevant substances in our portfolio.

Environmental and climate protection

As LANXESS sees it, conserving natural resources – for example, through the most efficient possible use of raw materials and energies – and identifying further potential for reducing emissions and waste are an ongoing mission and an inherent part of our ecological responsibility to which we must apply our expertise. The continuous improvement of environmental performance is a key corporate goal.

It is an established part of our strategy to equip all new production sites in line with state-of-the-art environmental standards, even if the applicable local regulations are less stringent. This approach sets us apart from many local competitors, particularly in the emerging markets. It will also give us a clear competitive edge in the medium term, as these regions, too, are gradually introducing much tougher environmental standards.

Progress in climate protection As a driving force in the chemical industry, we are helping to reduce or even eliminate greenhouse gas emissions using a range of cutting-edge technical solutions. Our measures are applied along the value creation chain – from energy generation through manufacturing processes to waste disposal.

We have been involved in the Carbon Disclosure Project since 2006, sharing data and information on climate protection and the reduction of emissions. The Carbon Disclosure Project is an organization representing international institutional investors who have joined forces in order to improve transparency for the financial market on questions linked to climate change and the requisite corporate guidelines.

Since 2007, we have succeeded in reducing our direct greenhouse gas emissions by around 45 percent worldwide. In Germany, our aim was to cut emissions of climate gases through 2012 by around 80 percent compared to 2007 levels. We achieved this target in 2009. A further review showed that CO_2 equivalents remained within the target corridor in 2011.

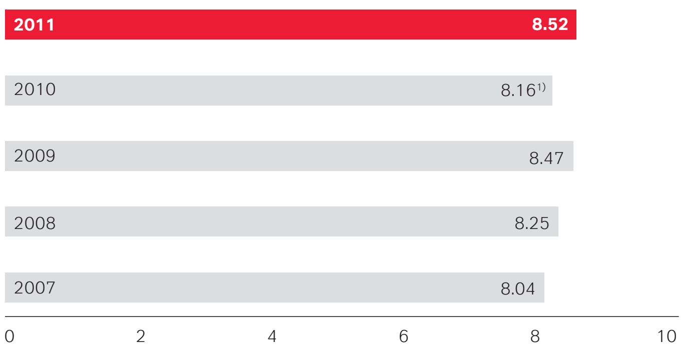
Having succeeded in almost completely neutralizing our emissions of particularly harmful nitrous oxide since the start of 2009, we are now focusing our climate protection efforts on the sustainable generation and economical use of energy by, for example, utilizing one of the most efficient power plant technologies available – cogeneration. In 2010 alone, we started up four new cogeneration plants at our sites in Porto Feliz, Brazil; Nagda and Jhagadia, India; and Zwijndrecht, Belgium. Wherever possible, we use renewable and environmentally friendly raw materials such as waste from food production to fuel these plants.

The use of isobutene from renewable resources will also make a significant contribution to cutting direct and indirect greenhouse gas emissions by our butyl rubber business in the medium term. This manufacturing process is being optimized for industrial-scale use in cooperation with Gevo Inc. (see also page 22). Isobutene is an important raw material for the manufacture of butyl rubber and, until now, has usually been produced from petroleum derivatives. According to our calculations, switching to this new technology would significantly improve the eco-balance of our butyl rubber.

In March 2011, we became the first chemical company to use the TÜV SÜD-approved Eco-Plus solution offered by logistics provider DB Schenker Rail for transporting our products by rail. The electricity required for transport is obtained from renewable energy sources. In this way, we can reduce the CO_2 emissions from our rail transport operations by almost 75 percent. Each year, LANXESS transports a total of around 160,000 tons of chemicals and bulk materials by rail in Europe.

Energy Consumption in Relation to Volumes Sold

gigajoules per ton of product

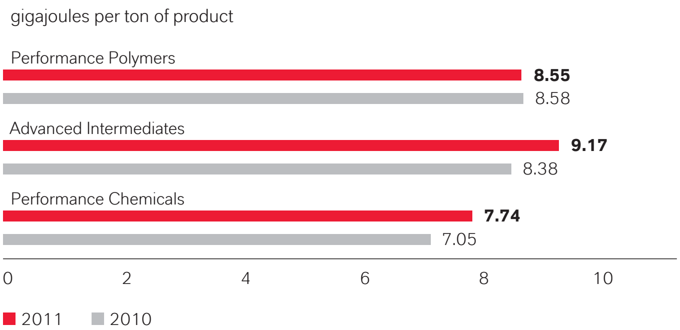


1) Figure restated

The absolute energies for 2010 were corrected as information about new energies was requested subsequently in light of GRI G3. In addition, two sites (Zwijndrecht and Orange) provided some data late, especially in respect of heating oil, diesel and steam. The further increase in absolute energies in 2011 is attributable to the new Keltan sites.

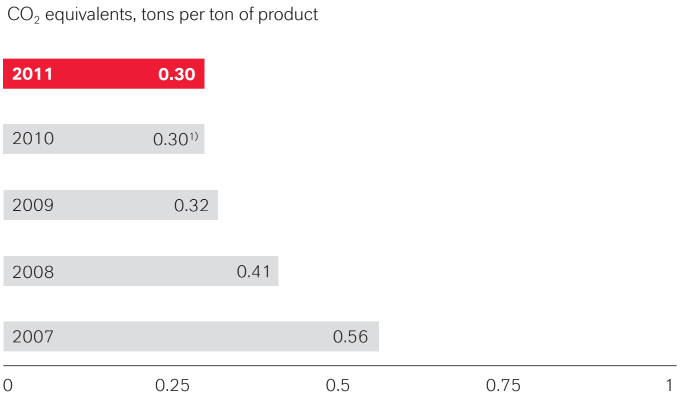
We also aim to continually improve the energy efficiency of our production facilities. The energy management systems we have introduced should help us achieve the targets we have set ourselves. One of these is cutting each segment's specific energy consumption by ten percent by 2015 (base year: 2010).

Energy Consumption by Segment



The Scope 1 specific greenhouse gas emissions are unchanged.

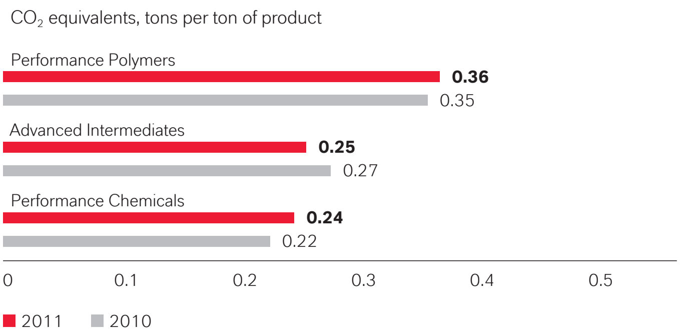
Greenhouse Gas Emissions (Scope 1) in Relation to Volumes Sold



1) Figure restated

Our stated aim is to reduce each segment's specific CO_2e emissions by ten percent by 2015 (base year: 2010).

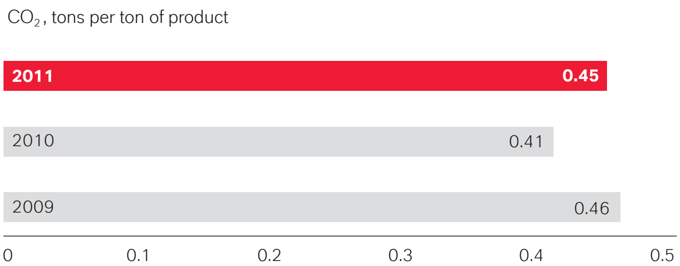
Greenhouse Gas Emissions (Scope 1) by Segment



We have almost halved specific emissions since 2007. Alongside many individual measures, the start-up of a second facility for the reduction of harmful nitrous oxide (N_2O) at our Krefeld-Uerdingen site in 2009 had a major impact on the results.

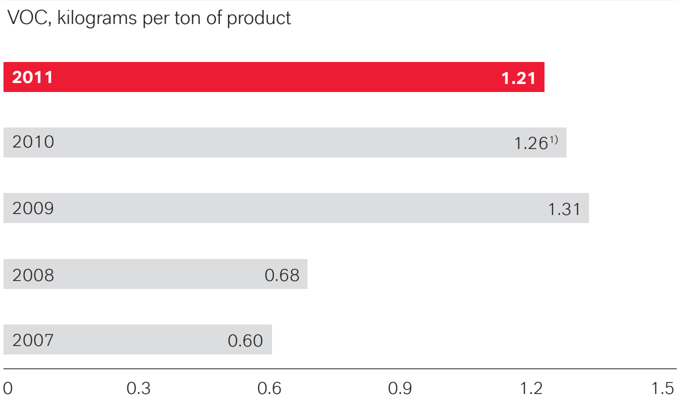
We have also recorded indirect CO_2 emissions worldwide (according to the GHG Protocol Scope 2), as shown below.

Greenhouse Gas Emissions (Scope 2) in Relation to Volumes Sold



Other atmospheric emissions The European Union's NEC (National Emission Ceiling) Directive has set maximum limits for the release of the atmospheric pollutants sulfur dioxide (SO_2), nitrogen oxides (NO_x), ammonia (NH_3) and volatile organic compounds. Since 2011, these limits may no longer be exceeded. We have specifically inspected sites that release relevant emissions and taken all the necessary precautions for ensuring compliance with the limits.

VOC Emissions in Relation to Volumes Sold



1) Figure restated

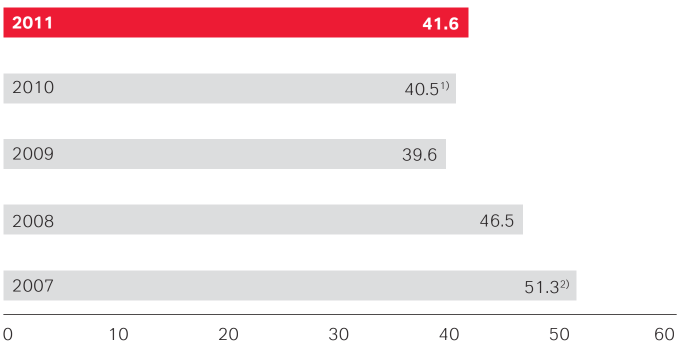
In 2011, VOC emissions declined further year on year in relation to volumes sold. This was due to, among other things, various measures taken to achieve our environmental protection target of cutting VOC emissions by 30 percent through 2015. The general increase in VOC emissions between 2008 and 2009 was attributable to our portfolio expansion, especially in Brazil.

Conserving resources LANXESS attaches great importance to the careful use of resources. The company aims to employ a consistent material flow management process – from the use of raw materials to the manufacture of the final product – so as to minimize the amount of waste we produce. Some forms of waste can be used as secondary raw materials and are thus a valuable resource. Sustainable waste management therefore involves systematically avoiding waste and, if this is not possible, using waste as a raw material and energy source. We are working on the continual optimization of our production processes with the aim of maximizing the reduction in off-spec product. Numerous measures have enabled us to cut absolute hazardous waste volumes in particular by around 32 percent compared to 2007 levels.

In January 2011, we started up a new state-of-the-art waste incineration plant at our site in Nagda, India. It is now no longer necessary to transport production residues to distant incineration facilities. Instead, they can be used effectively at our own site. The off gases from incineration are also used to generate steam, which is fed directly into our production process.

Total Waste in Relation to Volumes Sold

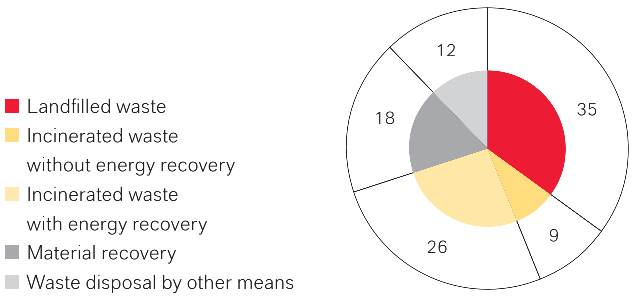
kilograms of waste per ton of product



1) Figure restated
2) Adjusted for one-time effects related to a production closure at the Krefeld-Uerdingen site

Waste for Disposal

%



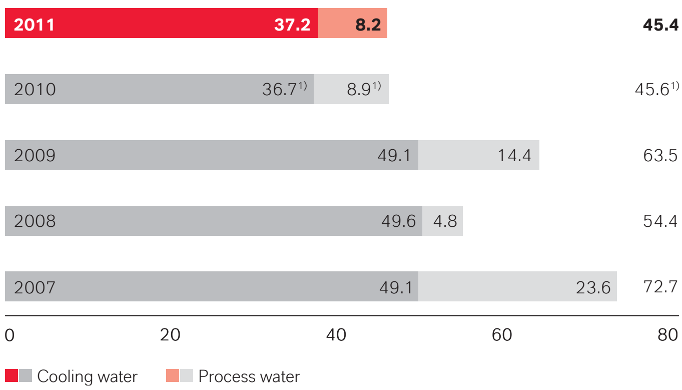
The total amount of waste generated worldwide in relation to volumes sold has decreased by approximately 19 percent compared to 2007. Some 43 percent of our waste is used in material or energy recovery, while around half is classified as hazardous.

Solutions for clear water Our innovative products and technologies help our customers worldwide to clean, treat and conserve water. We also go to great lengths to minimize water consumption and pollution during production operations at our own plants.

Overall, total water consumption in relation to volumes sold declined only marginally year on year.

Water Consumption in Relation to Volumes Sold

cubic meters per ton of product



1) Figure restated

HSEQ Targets for 2011

Target	Program/Measures	Target Date	Target Attainment
1. Improved occupational safety	No injuries	Ongoing	The number of accidents with working days lost increased to 76 compared to 2010 when 61 accidents with working days lost were recorded worldwide.
	LTIFR of work-related injuries resulting in days of absence less than 2.0 in 2011 (all business units, group functions and companies with a higher LTIFR will have failed to attain their target)	2011	In 2011 the LTIFR was 2.7, compared to the prior-year figure of 2.3. The target was not attained.
2. Climate protection	Reduction in specific CO_2e emissions by 10% per business segment by 2015 (base year: 2010)	2015	Unchanged
	Reduction in specific energy consumption by 10% per business segment by 2015 (base year: 2010)	2015	Unchanged
	Footprint analyses for relevant products	2011	Pilot project for Product Carbon Footprint (PCF) concluded for adipic acid; other PCFs will be produced for butyl rubber and Mesamoll®.
3. Environmental protection	Reduction in absolute VOC emissions by 30% by 2015 (base year: 2010)	2015	Reduction from 8,000 t in 2010 to 7,700 t in 2011
4. Implementation of an energy management system	Completion of the project by the end of 2012 (focus on Germany)	2012	A global energy management directive and handbook were compiled as the basis for the management system and optimized in collaboration with two pilot plants in Uerdingen and Leverkusen. The roll-out of the energy management system (ISO 50001) is planned for 2012/2013. In 2012 the focus is on implementation in plants in Germany.
5. REACH implementation – next level	Registration by the specified deadlines of substances > 100 tpa	2013	Fully completed by the specified deadlines
	Adaptation of safety datasheets in accordance with REACH	2011	Fully attained
6. Adaptation to national chemicals programs in non-E.U. countries	Compliance with requirements of national chemicals programs by the specified deadlines	2011	Fully implemented by the specified deadlines
7. Continuation of GHS implementation	Implementation of measures required by GHS in the E.U. by the specified deadlines	2011	GHS and resulting measures were fully implemented by the specified deadlines.
	Monitoring of GHS activities in non-E.U. countries and implementation by the specified deadlines	2011	GHS in the various countries fully implemented by the specified deadlines.
8. Continuation of consolidation of HSE data systems	Global harmonization of HSE data in ATRION (now IHS: global regulatory product compliance system)	2011	The further roll-out of the harmonized HSE data system for categorizing and classifying products, raw materials and waste was completed with the roll-out of SCORE to Brazil, South Africa and Italy. Preparatory work has been started for implementation in China and Singapore.
9. Improvement in transport safety and quality	Optimization of interfaces between external logistics providers and LANXESS to develop stable transport processes and to minimize operative risks; pilot project started in January 2011	2011	Extensive analysis of current situation and development of improvement measures; implementation of measures in 2012
10. Completion of the global matrix certificate (ISO 9001 & ISO 14001)	Inclusion of further sites in LANXESS's global matrix certificate: Liyang (China), Moscow (Russia) and Jhagadia (India)	2011	In 2011, the sales office in Moscow, Russia, was included in the management system for the first time. By the end of 2011, a total of 81 sites (mainly production facilities, technical laboratories and sales offices) had been integrated into our matrix certificate. The site at Jhagadia, India, was audited by DQS at the end of 2011. Inclusion in the certificate is expected for February 2012. At the production site at Liyang, China, the implementation of safety projects has priority. The site is to be included in the matrix certificate in 2012.
11. Standardization of management system tools	Global provision, standardization and optimization of electronic management system tools by the end of 2012	2012	eMax (document management system) was rolled out and implemented in Germany and introduced in both legal entities (LANXESS Pte. Ltd. and LANXESS Butyl Pte. Ltd.) in Singapore. The roll-out process was started at the multi-BU sites in France, North America, Mexico, Brazil, South Africa and Argentina. Triple A (audit and activity management tool), the HSE data recording system and April Star (complaint management system) are already established worldwide and are used systematically.

HSEQ Targets for 2012

Target	Program/Measures	Target Date
1. Improvement in occupational safety and plant safety – no injuries	Implementation of Xact safety project	2012
2. Implementation of international chemical programs	Implementation and monitoring of chemicals programs worldwide by the specified deadlines, e.g. REACH, TSCA Inventory Update Rules Amendments (U.S.A.), South Korean REACH requirements, CSCL in Japan, EHS in Malaysia, notification procedure for China, GHS	By the specified deadlines
3. Climate protection	Reduction in specific CO_2e emissions by 10% per business segment (base year: 2010)	2015
	Reduction in specific energy consumption by 10% per business segment (base year: 2010)	2015
	Increase in resource efficiency and analysis of environmental footprint of suitable products	2012
4. Environmental protection	Reduction in absolute emissions of volatile organic compounds (VOC) by 30% (base year: 2010)	2015
5. Energy management	Introduction of an energy management system based on ISO 50001 (roll-out focus in 2012 is Germany)	2012
6. Harmonization of HSE data for categorizing and classifying products, raw materials and waste	Global harmonization of HSE data in the IHS system (formerly ATRION: global regulatory product compliance system) as part of the • SCORE project for e.g. China, Singapore, Keltan sites • AXAPTA project for the United Kingdom (pilot project)	2012
7. Improvement in transport safety	Optimization of transport safety in line with the potential analysis performed in 2011	2012
8. Standardization of management system tools	Expansion of global implementation of eMax (document management) in accordance with the 2011 plan and implementation of April Star (complaints management), Triple A (audit and activity management tool) and the HSE data recording system at newly acquired sites	2012

Society

As a company, we draw numerous benefits from the society in which we operate – well-trained employees, satisfied customers, legal and political stability and an excellent infrastructure. We believe it is only right that, in line with the concept of corporate citizenship, we assume responsibility and ensure that society also benefits from our success. Our social commitment is based on the same fundamental principle as our entrepreneurial activities – a consistent focus on a manageable number of projects that promise long-term success.

Our not-for-profit activities focus on providing support for science education in schools. After all, skilled employees are a crucial prerequisite for the sustainable success of our company, no matter where in the world it operates. We endeavor to encourage young people to develop a passion for chemistry at a young age, awaken their inventive spirit and make them aware of the diverse career opportunities that the LANXESS Group offers.

The LANXESS education initiative – an award-winning model for success

In 2008, we launched the extensive LANXESS education initiative that underscores our clear commitment to Germany as a business location and as a base for the chemical industry. This initiative has since provided funding to schools close to eight of our sites in Germany. We also regularly offer interested and talented students the chance to gain work experience and to take part in vacation courses and workshops.

The workshops held in 2011 were inspired by the LANXESS Year of High-Tech Plastics. Under the motto “High-tech plastics made easy,” 40 talented high school students took part in a four-day workshop dedicated to this versatile material. The aim was to develop plastic innovations and generate new impetus for the future. The young people were invited to give full rein to their inventiveness and creativity. In addition to the practical side of things, the workshop also encouraged them to think along economic and business lines. They considered future developments such as globalization, climate change, environmental pollution and the increasing scarcity of resources. In a future workshop, they analyzed key trends, developed ideas for new manufacturing processes and designed new applications. They presented their product ideas in a forum attended by leading figures from the region’s political, business and public-sector communities.

In recognition of its valuable contribution to Germany’s position as a business and industry location, the LANXESS education initiative was among the winners in 2011 of the country’s sixth “365 Landmarks in the Land of Ideas” contest. Under the patronage of the German President, this annual competition honors ideas and projects that make a sustainable contribution to Germany’s future viability as a business location.

Over the past four years, we have invested around €3.5 million in the initiative. Feedback from teachers, principals and school authorities confirms that we have succeeded in significantly boosting the importance of the MINT subjects (mathematics, information technology,

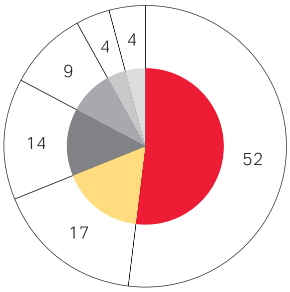
Chemical research and industry play key roles in developing new energy sources, feeding the growing world population and conserving resources. The United Nations proclaimed 2011 the International Year of Chemistry with the aim of drawing attention to chemistry’s accomplishments and contributions to the wellbeing of humanity. We contributed to the celebrations with a total of 48 projects and events worldwide.

2011 C CHEMISTRY

International Year of
CHEMISTRY
2011

Social Activities by Topic [1)]

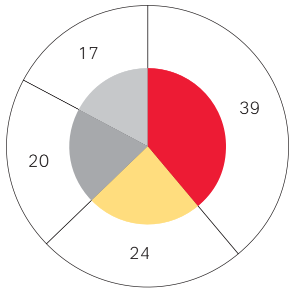
%



1) Basis: 107 projects undertaken in 2011

Social Activities by Region [1)]

%



1) Basis: 107 projects undertaken in 2011

natural sciences and technology) in school timetables, in fundamentally changing the way these subjects are taught and in stimulating the demand for more courses.

Spurred on by this extremely positive feedback, we will continue the initiative in future. In 2012, we plan to provide financial support for school projects, project weeks at schools close to our sites and experiment kits for elementary school children.

Engaged around the world

LANXESS has also initiated projects focusing particularly on the promotion of science education at almost all its sites across the globe. In the BRICS countries especially, we are involved in a wide range of projects and initiatives.

The local activities in Brazil have been merged under the "e3" initiative. "e3" stands for education, ecology and economy. South America's largest country has some catching up to do, particularly in the fields of environmental protection and education. We aim to use our expertise to offer effective support in this area.

The Chemical Theater project at our Triunfo site provides chemistry lessons of a completely different kind. Actors seek to interest students in science by playing short scenes that explain basic chemical principles in an entertaining way. The Rubber Club and Rubber University initiatives launched at Triunfo in 2011 have the same goal. School students of various ages were invited to our facility to investigate the interesting world of synthetic rubber close up.

We also foster scientific knowledge with our Green Cycle environmental competition, which was staged at four Brazilian sites in 2011. The winners not only receive recognition for the environmental protection projects they develop for the competition. LANXESS also fully finances implementation of the projects.

The Educate to Grow initiative in Argentina aims to promote development in the Zárate region by supporting schools and not-for-profit organizations engaged in educational, social and environmental protection activities there. As part of this initiative, we provide funding for sustainable education projects and help those wishing to launch such projects by delivering the fundamental know-how they need. 27 schools took part in the fourth year of the program in 2011. More than 7,000 people have already benefited directly or indirectly from the 29 projects implemented since the program was launched in 2007. In 2011, we received the Corporate Social Responsibility Award from the Industrial Association of Zárate and Campana for our commitment in the region.

An important CR project in India is the long-term Teach for India program, part of the Teach to Lead initiative. It recruits top graduates from Indian universities who, after completing their studies, spend an initial period of two years teaching full-time at schools with insufficient funding. Our financial support, which amounts to €50,000 each year, will fund current Teach for India projects in Mumbai until at least 2013. The funding will also help extend the project to other towns and cities in India, including New Delhi and Jhagadia, where LANXESS has sites.

On a spectacular bike trip from the United Kingdom to Hong Kong, British scientists Jon Lee and Micheil Gordon drew attention to water as an important environmental issue.

The LANXESS Education Project run jointly with the not-for-profit organization Save The Children India (STCI) aims to provide socially disadvantaged children in Mumbai with a pre-school education so that they can attend state-run high schools later on and continue their education there.

Since 2010, our partnership with India's ArriveSafe initiative has focused on road safety. The aim of this cooperation is to make the Indian population more aware that investing in high-quality tires improves road safety. We donated €10,000 to this initiative in 2011 and also supported training events.

A project organized jointly with the Stree Mukti Sanghatana Women's Liberation Organization, a not-for-profit organization that recycles waste paper, combines social responsibility, environmental awareness and resource conservation in a special way. Together, we used World Environment Day as a platform to raise employee awareness of recycling. For example, we implemented a waste separation guideline to help reduce the amount of waste generated in our offices in future.

The environment and sustainable development were also the focus of a project day for high school students at LANXESS's Nagda site. Within the context of the UNESCO International Year of Chemistry initiative, we helped these young people develop ideas for using modern chemistry to protect the environment – for example, in the treatment of drinking water.

Science Day made its debut at our site in Qingdao, China, in 2011. More than 80 participants had the opportunity to look behind the scenes and get involved in experiments themselves.

As an event sponsor, we had our own stand at Fun Chemistry World in South Korea for the first time in 2011. Using a range of entertaining experiments, LANXESS employees gave elementary school students their first encounter with the fascinating world of modern chemistry.

The aim of the Xplore Science with LANXESS program initiated by our subsidiary LANXESS Corporation in the United States is to show young people that science can be exciting and that learning can be fun by introducing interactive learning experiences. In cooperation with the Science Screen Report organization, we distributed educational DVDs on current science-related topics to schools around the country, thus extending the program's reach far beyond our U.S. sites.

At our site in Merebank, South Africa, we organized an employee event to raise awareness and knowledge of HIV. The highlights of the event included a speech and performance by HIV-positive singer Tender Mavundla. All participants also had the opportunity to have their blood sugar, cholesterol and blood pressure measured and to be tested for HIV. The event marked the start of a series of CR activities that we intend to organize in South Africa in the future.

Clean water

Our knowledge of water is a further focal point of our corporate responsibility.

In 2011, we donated equipment and financial support to an unusual water initiative. Environmental scientists Jon Lee and Micheil Gordon took exactly 259 days to cycle from Newbury, United Kingdom, to Hong Kong to raise money for WaterAid and promote awareness of water as an environmental issue through various events and countless conversations. The two young Britons raised more than €23,000 on their 15,740 kilometer trip that took them to many LANXESS sites. WaterAid is a non-governmental organization that aims to provide people in the poorest parts of the world with clean drinking water. Our water treatment products enable us to make an important contribution.

We have also been supporting the African Medical & Research Foundation (AMREF) for a number of years. By the end of 2010, AMREF had used LANXESS's financial assistance to establish water supplies for 25 Tanzanian schools attended by approximately 10,000 children and provide the sanitary facilities they need. In addition to these infrastructure measures, AMREF also provided hygiene training for teachers and children, thus helping spread the safe water message in their daily lives.

We have now launched a similar project at schools near our South African production site in Rustenburg. As many as 3,000 students, their teachers and parents in this area will soon benefit from improved access to clean water and modern sanitary facilities. The project also aims to significantly reduce the incidence of disease caused by contaminated water.

Help where it is needed

Although our social commitment is normally carefully thought out and influenced by strategic considerations, some events require a rapid and unbureaucratic response.

Following the devastating earthquake in Japan in March 2011, for example, we immediately provided €250,000 to help rebuild the local infrastructure such as school buildings. We also matched the donations made by our employees worldwide. Over the course of the year, we gave a further €310,000 to Save the Children Japan.

In 2011, East Africa was hit by one of the worst droughts in more than 60 years. Our donation of €250,000 to the African Medical & Research Foundation (AMREF), an organization we have been working with for many years, was used to fund projects to improve food supplies and medical care in the affected regions. Once again, our employees demonstrated great solidarity and a readiness to help, donating more than €18,000.

Promoting art and culture

For several years now, our cultural commitment has focused on encouraging young musicians. We support two Young Euro Classic orchestras, which bring together the greatest talents from Germany, China and India and give them the opportunity to showcase their ability during concert tours and prestigious events.

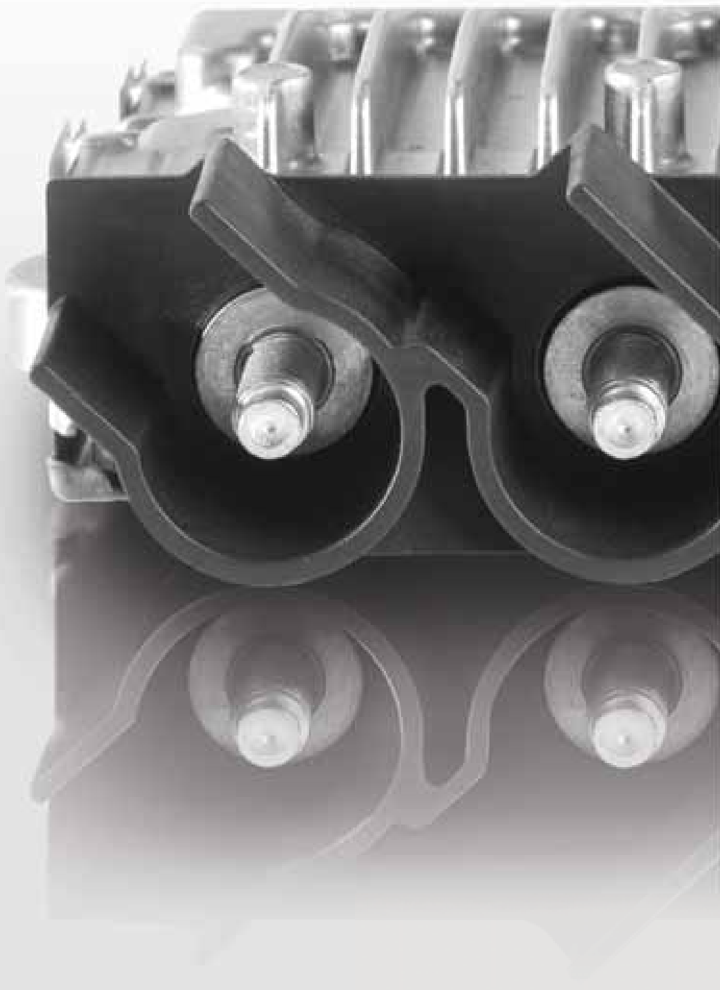
At the end of May 2011, the Young Euro Classic Orchestra Germany-India celebrated its debut at the official celebrations in New Delhi to mark 60 years of diplomatic relations between Germany and India. The performance was enjoyed not only by India's Parliamentary Speaker Meira Kumar and Germany's Chancellor Angela Merkel, but also by the accompanying German delegation which included LANXESS Board of Management Chairman Dr. Axel C. Heitmann. The celebrations to mark the 150th anniversary of the friendship between Germany and Japan were also accompanied by two concerts, including a solidarity concert for the evacuees of the Fukushima disaster.

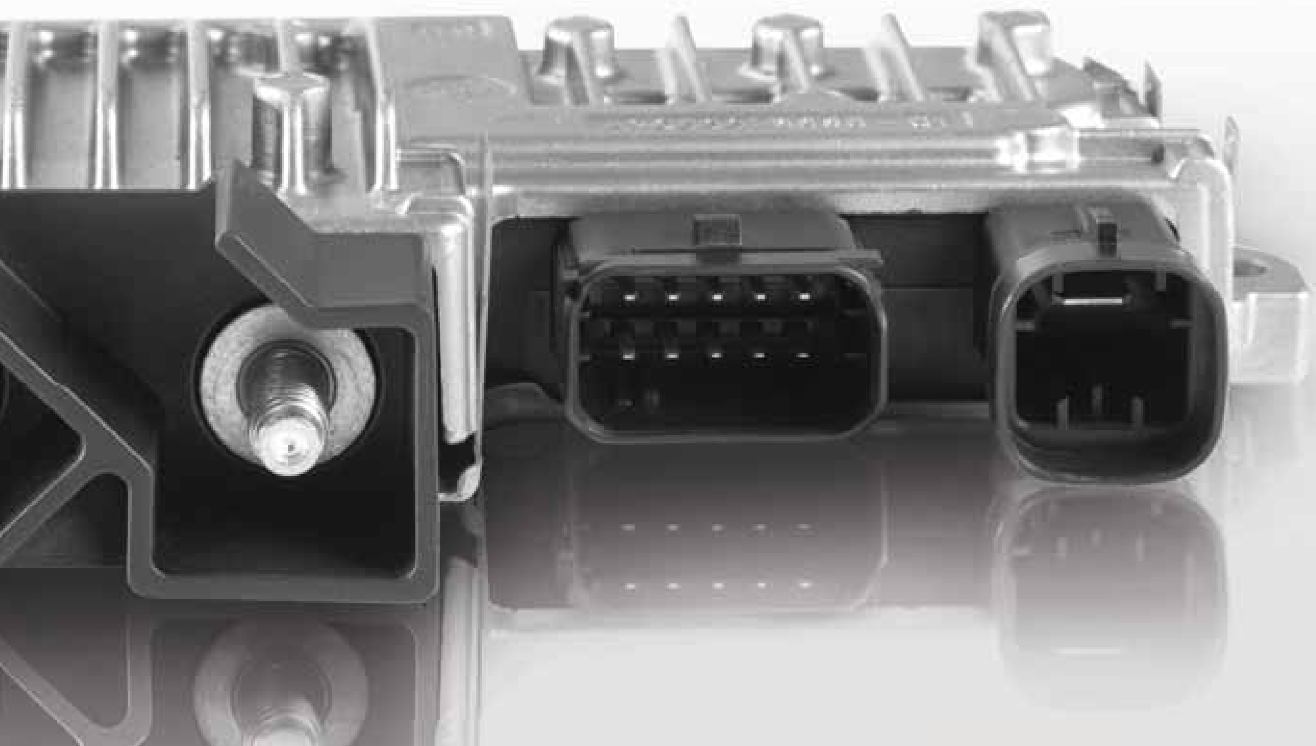
Our LANXESS SNYO Classic cultural initiative sponsors an exchange program for the Singapore National Youth Orchestra. The program is intended for young orchestral musicians who, by rehearsing with internationally renowned soloists, can benefit from the skill and experience of these musical celebrities. We also supported the formation of the Ozawa International Chamber Music Academy Orchestra (OICMA) in 2011. Led by Japanese star conductor Seiji Ozawa, this ensemble offers talented young musicians from across Asia the chance of a top-quality musical education.

We will remain the main partner to lit.COLOGNE, Europe's biggest literature festival in Cologne, until at least 2015. At this annual event, renowned authors and actors demonstrate how the written word can really be brought to life.

For a fast start

An increasing number of cars are equipped with a fuel-saving start-stop system which can reduce consumption by up to 15 percent, especially in urban traffic. Made from our flame-retardant plastic Pocan®, high-performance booster modules for on-board electrical systems are fitted in the engines of the French PSA Peugeot Citroën Group to ensure a fast, almost soundless and vibration-free start. The Pocan® grade used is characterized above all by its low level of distortion, which is crucial for the exact positioning of the circuit boards on the module.





Investor Information

The European debt crisis dominated the stock markets in 2011. In Germany, both the blue-chip DAX and LANXESS's benchmark index MDAX fell sharply. Our stock also came under pressure, dropping in value and closing the year at €40.

In the first half of 2011, the world's stock markets were still posting a gratifying performance overall and stayed at the high level seen in 2010. The DAX touched a new three-year high of over 7,500 points in April. The MDAX, which includes LANXESS stock, again drew close to 11,000 points. Market turmoil then increased from the third quarter and continued until the end of the year. All German indices sustained significant and persistent losses in the wake of the upheaval. The DAX dropped to a low for the year of 4,966 points in September and ended the year at 2009 levels on 5,898 points, a loss of around 15 percent. The MDAX also fell sharply, dipping below 8,000 points to 7,780 points in the fourth quarter. At year's end, it stood at 8,898 points, a decline of 12 percent over the reporting period.

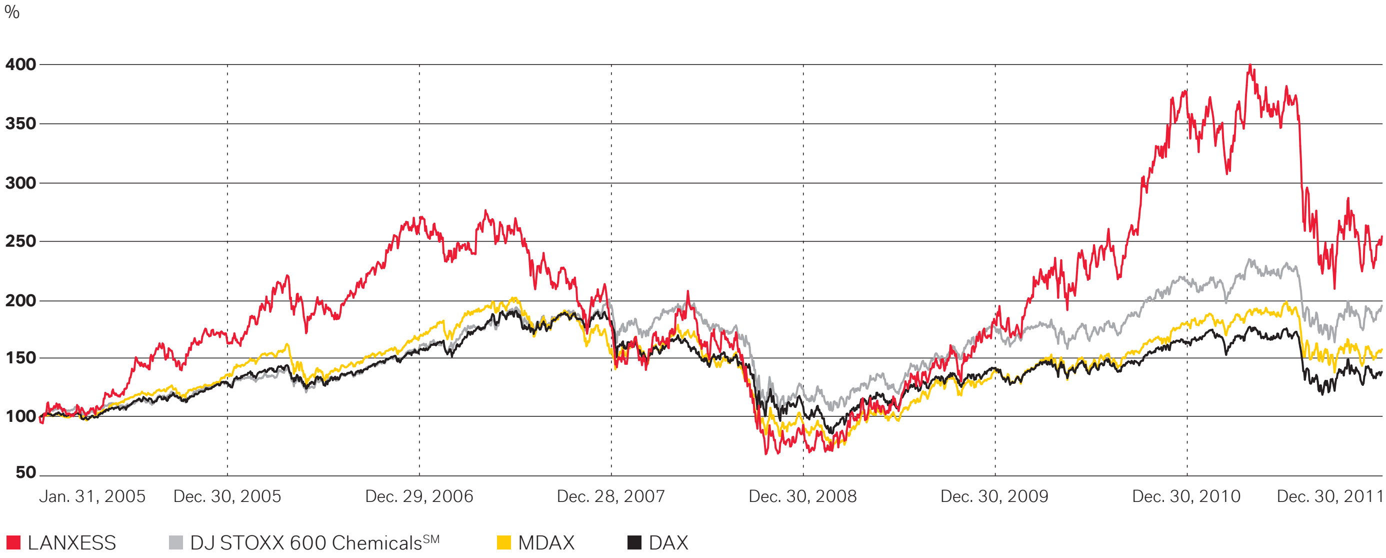
The performance of the Dow Jones STOXX 600 Chemicals℠, the LANXESS benchmark index, was broadly similar to that of the German indices. It climbed above the 600-point threshold in the first half of 2011, only to decline steeply from the third quarter onward and hit a low of about 430 points in October. At the end of December, the DJ STOXX 600 Chemicals℠ registered just under 514 points, a loss of 11 percent on the year.

The international stock markets displayed extreme nervousness last year, chiefly because of the European debt crisis. It increasingly became the dominating theme and influenced stock market performance in the second half of the year especially. Other significant events in 2011, including the political unrest in the Middle East and the catastrophic natural disaster in Japan, triggered significant price corrections, primarily in February and March, but did not have a sustained impact. On the contrary, the strong economic upswing continued to inject positive momentum, especially in the second quarter, leading to the indices' solid performance as described above. At that time, hope still prevailed that Europe's debt crisis would ease, with the member states of the European Union holding out the prospect of additional aid packages, particularly for Greece.

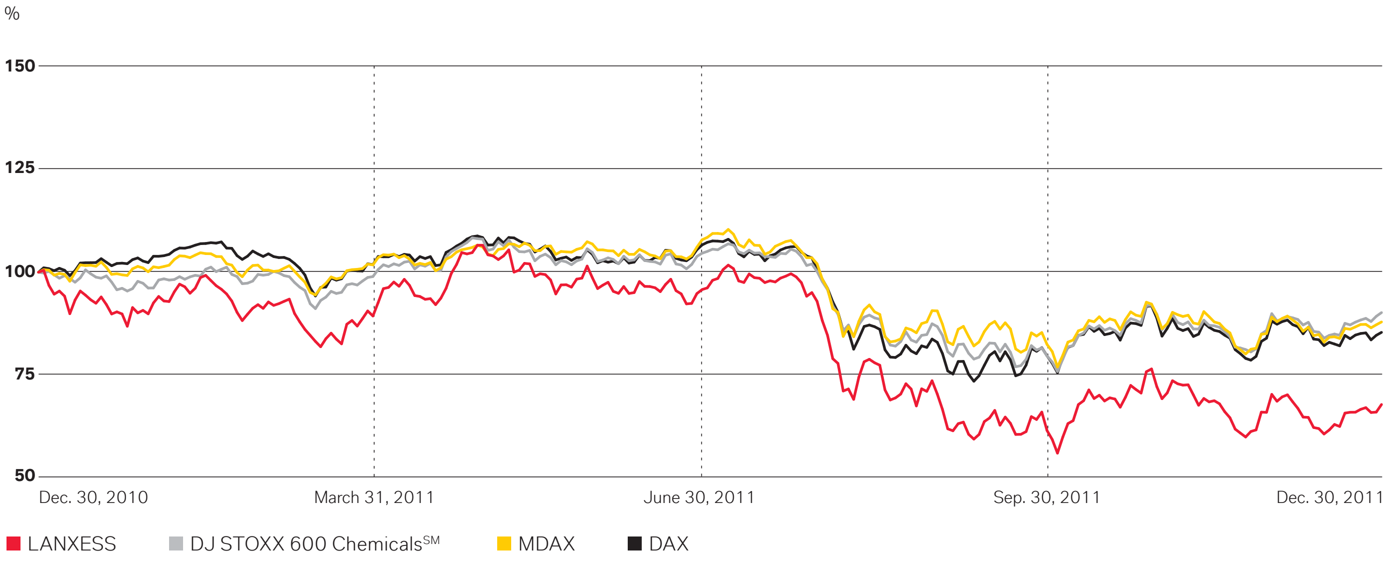
When the debt crisis in Europe intensified in the third quarter, stock prices slumped massively across the world. Greece's overindebtedness worsened dramatically, and the financial crisis in other European countries like Italy and Spain also escalated. The events in Europe dominated market dynamics through the end of 2011. Thus, December 30 marked the end to a very turbulent trading year in which Europe's stock markets in particular performed poorly.

LANXESS stock continued to trade at the high prior-year level during the first half of 2011, reaching €63 (closing price) in early May, the highest price since its initial listing. However, as the European debt crisis worsened, it proved impossible to sustain this positive performance. With the markets growing increasingly nervous, our stock also came under considerable pressure. The share price dropped significantly in the second half, especially in August and September. In August, for example, it dipped to less than €40 for the first time since September 2010 and remained at or near this level in the following weeks. It closed 2011 on €40, a decline of 32 percent on the year.

Stock Performance since Listing



Stock Performance 2011



Performance Data 2011

		Q1 2011	Q2 2011	Q3 2011	Q4 2011	Year 2011
Capital stock/no. of shares[1]	€/no. of shares	83,202,670	83,202,670	83,202,670	83,202,670	83,202,670
Market capitalization[1]	€ billion	4.39	4.71	3.02	3.32	3.32
High/low for the period	€	59.90/47.33	64.08/53.13	61.13/33.40	46.90/31.34	64.08/31.34
Closing price[1]	€	52.78	56.60	36.24	40.00	40.00
Volatility[2]	%	–	–	–	–	38.73
Trading volume	million shares	35.983	33.361	50.792	33.753	153.890
Average daily trading volume	shares	562,234	529,539	769,576	527,390	598,793
Earnings per share	€	2.00	2.17	1.85	0.06	6.08
Price/earnings ratio[1),3)]		–	–	–	–	6.58
Price/cash flow ratio[1),3),4)]		–	–	–	–	4.95

1) End of quarter: Q1: March 31, 2011, Q2: June 30, 2011, Q3: September 30, 2011, Q4 and full year: December 31, 2011
2) Source: Thomson Financial
3) Data, especially cash flow, are influenced by exceptionals, which restricts the significance accordingly
4) Reference value: operating cash flow

With the market characterized by high levels of uncertainty, company-specific news was unable to generate sustained momentum for our share price. For example, when we published very solid results for the first quarter, we announced our guidance for the full year 2011, which included the expectation that EBITDA pre exceptionals would exceed €1 billion for the first time. We posted very good results in the subsequent quarters as well, and raised our growth forecast for the year to 20 percent. We also confirmed our medium-term target for 2015. At our analyst roundtables in September, we presented the projects and investments that are intended to ensure we attain this target.

Other key capital market information related to the successful acquisition of the Keltan EPDM business of Royal DSM N.V. at the beginning of May 2011 and its seamless integration into the Technical Rubber Products (TRP) business unit of our Performance Polymers segment. We also announced another major capital expenditure project in Singapore. Alongside our butyl rubber plant there, we will be building a new neodymium polybutadiene rubber (Nd-PBR) plant at a cost of around €200 million. This is scheduled to come on stream in 2015. Further significant investments in our future growth were made in all three segments (for more information see page 15ff. in the Strategy section).

In the area of sustainability, LANXESS was included for the first time in the globally recognized Dow Jones Sustainability Index (DJSI) World in September. Overall, we raised our sustainability profile significantly in the year under review, further increasing the attractiveness of our stock as a sustainable investment.

Capital Market Information

Share class	No-par shares
Listing code	LXS
WKN (German securities identification number)	547040
ISIN	DE0005470405
Reuters/Bloomberg codes	LXSG.DE/LXS:GR
Market segment	Prime Standard
Trading venues	XETRA, Frankfurt, Munich, Stuttgart, Düsseldorf, Hamburg, Hannover, Berlin
Selective indices	MDAX, Dow Jones STOXX 600 Chemicals℠, DAXsupersector Basic Materials, MSCI Germany Standard, MSCI Germany Mid Cap, Dow Jones Sustainability Index World, FTSE4Good
Investment-grade ratings	Standard & Poor's: BBB (stable) Moody's: Baa2 (stable) Fitch: BBB (stable)

LANXESS drove its growth forward last year and systematically attained the goals communicated for 2011. We also firmed up our strategy and the individual steps with which we intend to achieve our medium-term earnings target for 2015. Unlike in 2010, the company's success and best earnings to date were not reflected in our share price. They were overshadowed by external factors, most notably Europe's debt crisis. Our stock was therefore unable to achieve a positive performance for the full year or to end better than the DAX or LANXESS's benchmark indices, the MDAX and DJ STOXX 600 Chemicals℠. In the second quarter and at the beginning of the third quarter, by contrast, our stock had been significantly outperforming these indices.

Sustainability

Exercising responsibility in our entrepreneurial activities is a key element of our corporate strategy. We continued to raise our sustainability profile last year and pressed our claim to being a sustainable investment. In June, LANXESS signed the United Nations Global Compact, the world's largest and fastest growing corporate social responsibility (CSR) initiative. In September, the company was included in the renowned Dow Jones Sustainability Index (DJSI) World. LANXESS also satisfied the criteria for inclusion in the FTSE4Good index in 2011. In addition, leading rating agency oekom research raised our corporate responsibility rating to C+.

Strengthening our sustainability profile will remain a priority in the current fiscal year. Detailed information about sustainability is available from page 34 and on the Internet at http://corporate.lanxess.com/en/sustainability-home.

Ownership structure

As in previous years, the majority of LANXESS's stockholders in 2011 were institutional investors whose strategy is oriented toward growth or value. At December 31, 2011, these investors held roughly 89 percent of the stock, a slight increase on the previous year (2010: roughly 88 percent).

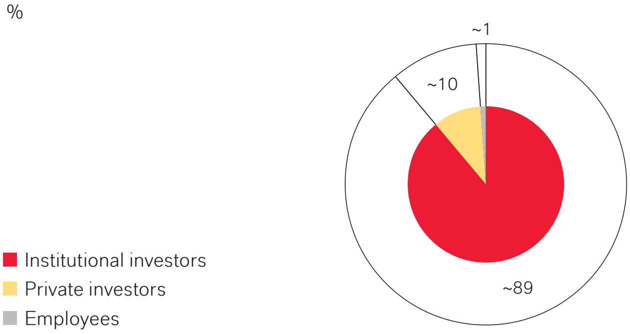
Some of the investors in this group own a stake of at least three percent in LANXESS, which they are required to report in mandatory notices regarding shareholdings in LANXESS. Since 2007, these investors have included U.S.-based Dodge & Cox. Fidelity and Norway's Norges Bank also have reportable holdings. Of the institutional investors based in Germany, Allianz Global Investors last year reported holding more than three percent of LANXESS's voting rights for the first time (see table on page 64).

In addition to the stakes held by institutional investors, around 11 percent of our shares are in the hands of private investors and LANXESS employees. This represents a slight decrease from 2010 (around 12 percent). As in the prior year, these investors were primarily located in Germany.

The United States, United Kingdom and Germany remain the top countries in the regional breakdown of LANXESS's investors. With a share of about 36 percent (2010: roughly 42 percent), the United States has held the lead since our initial listing. The share held by investors in Germany remained stable in 2011, standing at around 27 percent as of December 31, 2011 (2010: roughly 27 percent). Investors in the United Kingdom held around 17 percent of our stock on the reporting date (2010: roughly 21 percent). Investors from other European countries, including, in particular, France, Norway, Denmark, Switzerland and the Netherlands, increased their share significantly to 18 percent, from nine percent in 2010. Last year, we strengthened our investor communications and roadshow activities to other European countries in addition to the major global financial centers (see Investor Relations Activities).

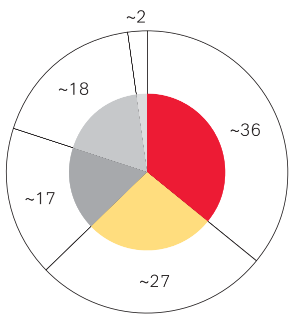
Stockholder Profile as of December 31, 2011

%



Geographical Breakdown as of December 31, 2011[1)]

%



- U.S.A.
- Germany
- U.K.
- Other Europe
- Other regions

1) Based on the stockholders identified

Reported Holdings of Three Percent or Above by Institutional Investors (up to and including February 15, 2012)

Dodge & Cox, San Francisco, U.S.A.	9.93%
BlackRock, Inc.	5.10%[1)]
Norges Bank (central bank of Norway), Oslo, Norway	5.04%
Fidelity	3.13%[1)]
Allianz Global Investors, Frankfurt, Germany	3.04%

1) The reported shareholdings include the interests held by several companies, all of which have submitted voting rights notices.

Analysts

In fiscal 2011, numerous analysts issued reports on the current and future performance of LANXESS. Around 30 sell-side analysts, most of them from Germany and the United Kingdom, regularly issued their appraisals of LANXESS.

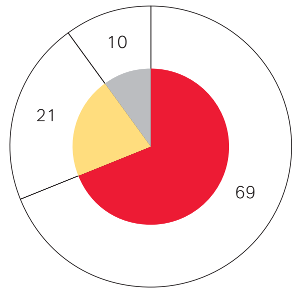
One focus of the broad dialogue with analysts was LANXESS's growth in the current economic environment. Moreover, the sustainable strategic alignment with which we intend to achieve our medium-term earnings target for 2015 was an important aspect of this ongoing exchange.

On the whole, the analysts again evaluated our stock positively for the most part in 2011. The number issuing a buy recommendation on LANXESS shares increased yet again to 69 percent (2010: 59 percent). 21 percent (2010: 31 percent) said to hold our shares, while 10 percent (2010: 10 percent) gave a sell recommendation.

Summaries of analyst appraisals from an independent service provider are available in the Investor Relations section of our website under the Shares menu item.

Recommendations as of February 15, 2012

%



- Buy
- Hold
- Sell

Annual Stockholders' Meeting

With 56.21 percent of the voting capital present (2010: 61.09 percent), corresponding to 46,767,244 shares and the same number of votes, the number of voting stockholders represented at LANXESS's Annual Stockholders' Meeting on May 18, 2011 was once more very high. All the agenda items were passed by solid majorities. Detailed voting results are available to our stockholders on the Internet: http://stockholdersmeeting.lanxess.com.

The next Annual Stockholders' Meeting takes place on May 15, 2012, in the LANXESS arena at Willy-Brandt-Platz 1, Cologne.

Dividend

In principle, LANXESS follows a consistent dividend policy. For the year under review, our most successful ever, we plan to increase our dividend by a further 21 percent compared to 2010. The Board of Management and Supervisory Board of LANXESS AG will propose to the Annual Stockholders' Meeting on May 15, 2012, that a dividend of €0.85 per share be declared for fiscal 2011. Relative to the price at which LANXESS shares ended 2011, this equates to a dividend yield of 2.1 percent. Subject to approval of the corresponding resolution by the Annual Stockholders' Meeting, the dividend will be paid on May 16, 2012.

Bonds

LANXESS successfully placed one new Euro Benchmark Bond on the European capital market in fiscal 2011. The bond has a volume of €500 million, a term of seven years (May 23, 2011 to May 23, 2018) and an annual interest coupon of 4.125 percent.

This brings to four the total number of bonds we successfully issued through the end of 2011. The first Euro Benchmark Bond was placed on the European capital market in fiscal 2005; two others were placed in 2009.

Our first bond with a volume of €400 million runs from June 21, 2005 to June 21, 2012, and has an annual interest coupon of 4.125 percent.

In April 2009, we issued a bond with a volume of €500 million and a term of five years, maturing on April 9, 2014. The annual interest coupon is 7.75 percent. The third bond was issued in September 2009. It has a volume of €200 million and features an annual interest coupon of 5.5 percent. With a term of seven years, it will mature on September 21, 2016. We issued the 2009 bonds under our Debt Issuance Program.

The successful placement of these bonds enabled us to greatly improve our financial flexibility and successfully extend the maturity profile of our financial liabilities to 2018.

The Euro Benchmark Bonds were issued by LANXESS Finance B.V. and are listed on the Luxembourg Stock Exchange. The term sheets are available in the Investor Relations section of our website (http://corporate.lanxess.com/en/investor-relations) under the Bond menu item.

We also placed our first bond on the Asian market in February 2012. This so-called Dim Sum Bond has a volume of CN¥500 million (around €60 million), a term of three years (February 16, 2012 to February 16, 2015) and an annual interest coupon of 3.95 percent. It also trades on the stock exchange in Luxembourg.

Further information about our bonds can be found on page 94.

Overview of LANXESS's Bonds

ISIN/WKN	Volume	Term	Coupon
XS0222550880	€400 million	June 21, 2005 – June 21, 2012	4.125%
XS0423036663	€500 million	April 9, 2009 – April 9, 2014	7.750%
XS0452802175	€200 million	September 21, 2009 – September 21, 2016	5.500%
XS0629645531	€500 million	May 23, 2011 – May 23, 2018	4.125%
XS0746637296	CN¥500 million (around €60 million)	February 16, 2012 – February 16, 2015	3.950%

Ratings

The world's three major rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings, reconfirmed their existing investment-grade ratings with stable outlook for LANXESS in fiscal 2011.

In their rating confirmations, the agencies highlighted LANXESS's leading market positions with key products such as rubber. They believe that LANXESS is in good shape and has strong liquidity which will enable it to continue participating in growth trends in the future and systematically pursue its growth strategy.

Standard & Poor's and Moody's have had LANXESS at a BBB and a Baa2 rating, both with stable outlook, since 2007. Fitch has rated LANXESS a BBB with stable outlook since 2006.

Investor relations activities

We continued to expand our investor relations activities in fiscal 2011. Roadshows, conferences and analyst roundtables are important tools for maintaining an extensive and active dialogue with analysts and investors. LANXESS management representatives, including the Chairman of the Board of Management and the Chief Financial Officer, had a greater role in these activities. However, the Investor Relations team also had a fuller schedule. The declared objective of our investor relations activities remained the same in the year under review. We aim to provide analysts and investors with a broad and continuous flow of information about the LANXESS Group's performance and targets, sustain their confidence in our company and deepen their understanding of how our individual businesses work.

Roadshow frequency increased again

In fiscal 2011, we continued to use roadshows as the central tool for our intensive personal contacts with institutional investors. The frequency of roadshows involving management was increased again from the previous year's already high level. Altogether, we hosted more than 70 roadshow days in 2011. As well as stopping in the major financial centers, we sought dialogue with investors in other European cities like Amsterdam, Brussels, Copenhagen, Edinburgh, Geneva, Madrid, Milan and Oslo. We also stepped up our dialogue with capital market participants in Asia last year by holding roadshows in Singapore and Hong Kong. Our roadshow activities continued to focus on our shareholders, but we also sought to actively address external capital providers and, for the first time, initiate a dialogue with investors who are focused on sustainability (corporate responsibility).

Major conferences used as an important forum

In 2011, capital market conferences remained an important forum for providing information to analysts and investors. LANXESS's Board of Management and Investor Relations team used major international conferences as a platform for communicating the company's performance in 2011 and the important strategic measures being taken to ensure its sustained growth. In addition to established capital market conferences held in Frankfurt, London and New York, conferences organized outside these major financial centers also provided key opportunities for exchanging views. For the first time, we introduced our company to interested investors at conferences in Eastern Europe (Warsaw) and Asia (Singapore). In the current year, conferences will remain an extremely important communications platform for us in our dialogue with both institutional and private investors.

2011 analyst roundtables a platform for strategy updates

After announcing new medium-term targets in 2010, LANXESS's Board of Management used the analyst roundtables held in Frankfurt and London in September 2011 as an opportunity to inform some 40 analysts about the company's progress with its strategy for achieving its announced growth target by 2015 (see page 13ff. in the Strategy section). The Chairman of the Board of Management and the Chief Financial Officer also talked with participants about raw materials, our hedging strategy and the successful integration of the Keltan EPDM business acquired from Royal DSM N.V.

LANXESS will again host a capital markets and media conference in September 2012.

Additional IR activities to promote exchange of information

Conference calls are another important means of providing capital market participants with timely and extensive information updates. In these calls, LANXESS's Board of Management explains newly released results or current strategic events. Conference calls are streamed live in the Investor Relations section of our website, and recorded versions are available for download for one year.

The Investor Relations section of our website also contains the presentations from roadshows and major conferences, which are made available on the date of the respective event. Publications like the LANXESS Fact Book, financial reports, investor news, corporate governance disclosures and information about our shares and bonds complete the range of information offered.

LANXESS earns top marks for its capital market communications

Maintaining a broad, targeted, timely and transparent dialogue with the capital markets has been a priority for us from the beginning. That is why we are especially pleased to have again earned top marks for our capital market communications in prestigious rankings last year. Among the most important criteria for the portfolio managers and analysts polled were the credibility and transparency of communications, the focus on target groups and access to top management.

Our investor relations activities received three first-place honors from the U.K.'s respected IR Magazine. In addition to ranking highest among German companies for our investor relations work, we also took top place for the best analyst/investor event and best IR communications accompanying a corporate transaction (acquisition of DSM Elastomers). These placings were the result of a telephone poll of around 500 portfolio managers and analysts in Europe conducted by IR Magazine.

Additionally, our IR team was again recognized as the best in the European chemical industry in the annual survey by U.S. magazine Institutional Investor. We were also placed third behind two major DAX companies in the magazine's cross-sector ranking of German industry. Some 2,000 investors and analysts were asked for their opinion by Institutional Investor. Our IR team had achieved the top ranking in the European chemical industry for the first time in 2010.

We also retained our top place among MDAX companies in last year's Capital Investor Relations Prize. Some 300 fund managers and analysts evaluated the capital market communications of listed German and European companies for this survey, which is conducted by the German Society of Investment Professionals (DVFA) and German business magazine Capital. With a score of more than 400 points, we were among the few companies across all sectors that is considered to perform very good investor relations work.

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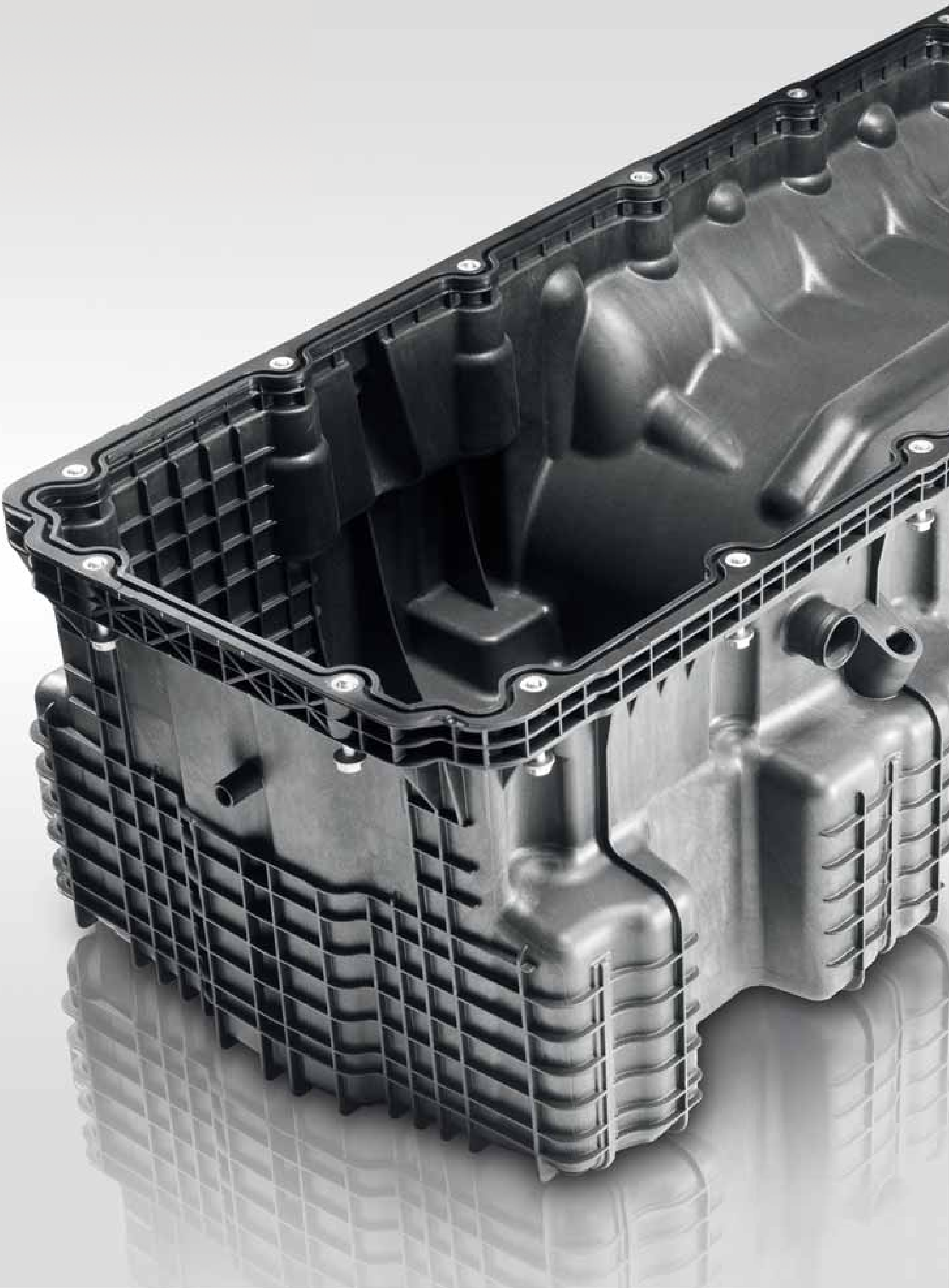
Financial Information



New dimensions

The Durethan® oil pans fitted in the engines for the Mercedes Actros trucks are up to 120 centimeters long, 40 centimeters wide and 35 centimeters deep. Never before have such large truck oil pans been produced from polyamide 6 and 66. This record is proof of the potential of HiAnt®, our technical service offering for high-tech plastics. Using complex computer calculations and simulations, we were able to prove that the project was possible and contribute directly to producing a low-cost design that met the specifications.

Group Management Report and Corporate Governance

LANXESS – Group structure, business and strategy

Group structure

Legal structure LANXESS AG is the parent company of the LANXESS Group and functions largely as a management holding company. LANXESS Deutschland GmbH and LANXESS International Holding GmbH are wholly owned subsidiaries of LANXESS AG, and in turn control the other subsidiaries and affiliates both in Germany and elsewhere.

The following are the principal companies wholly owned by LANXESS AG directly or indirectly:

Principal Direct or Indirect Subsidiaries of LANXESS AG

Company Name and Domicile	Function	Segments
LANXESS Deutschland GmbH, Leverkusen, Germany	Production and sales	All
LANXESS Butyl Pte. Ltd., Singapore	Production and sales	Performance Polymers
LANXESS Corporation, Pittsburgh, U.S.A.	Production and sales	All
LANXESS Elastomers B.V., Heerlen, Netherlands	Production and sales	Performance Polymers
LANXESS Elastomères S.A.S., Lillebonne, France	Production and sales	Performance Polymers
LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil	Production and sales	Performance Polymers
LANXESS Holding Hispania, S.L., Barcelona, Spain	Holding company	All
LANXESS Inc., Sarnia, Canada	Production and sales	Performance Polymers
LANXESS International SA, Granges-Paccot, Switzerland	Sales	All
LANXESS N.V., Antwerp, Belgium	Production and sales	Performance Polymers, Performance Chemicals
LANXESS Rubber N.V., Zwijndrecht, Belgium	Production and sales	Performance Polymers
Rhein Chemie Rheinau GmbH, Mannheim, Germany	Production and sales	Performance Chemicals
Saltigo GmbH, Langenfeld, Germany	Production and sales	Advanced Intermediates

Key additions to the Group portfolio At the beginning of May 2011 we successfully completed the acquisition of the Keltan EPDM business of Dutch company Royal DSM N.V. Assigned to the Performance Polymers segment, the acquisition strengthens the position of our Technical Rubber Products business unit in the steadily expanding EPDM synthetic rubber business.

Through the acquisition of the material protection business of Swiss company Syngenta AG, the Material Protection Products business unit of our Performance Chemicals segment is becoming one of the leading suppliers of biocides for protecting construction materials. The purchase in April 2011 largely covers patents, customer lists, supply agreements and registrations for Syngenta products. The acquisition in November 2011 of Verichem Inc., a U.S. biocide specialist based in Pittsburgh, Pennsylvania, will significantly strengthen the position of the Material Protection Products business unit on the North American market.

Our Rhein Chemie business unit, which is also part of the Performance Chemicals segment, strengthened its product portfolio with three measures. With the acquisition of the Argentina-based Darmex group in January 2011, Rhein Chemie has not only become one of the world's leading suppliers of release agents for rubber products. It has also gained access to the market for vulcanization bladders, which is worth an estimated €300 million. Bladders are used during the vulcanization phase of tire production to give the tires their final shape. The purchase in April 2011 of the Vocol and Santoweb product lines from U.S. company Flexsys America L.P. systematically expanded our portfolio for rubber processors. In addition, the purchase of selected assets from the tire release agents business of Wacker Chemie AG in July 2011 cements our leading position on this market and gives us access to new growth opportunities, especially in the United States.

We acquired U.S. company Unitex Chemical Corporation, which is based in Greensboro, North Carolina, in October 2011. The business, which has some 40 employees, was assigned to the Functional Chemicals business unit of the Performance Chemicals segment. Unitex primarily manufactures environmentally friendly phthalate-free plasticizers and other specialty products, including flame retardants. In addition to acquiring the Unitex product portfolio, the transaction also gives us access to the company's flexible production units. The global market for phthalate-free plasticizers is currently valued at €1.3 billion, with annual growth rates of around 7%.

When U.S. biofuel and biochemical manufacturer Gevo Inc. of Englewood, Colorado, was listed on the stock exchange in February 2011, we raised the minority stake we have held in the company since 2010 to 9.1%. In cooperation with Gevo, we are seeking to manufacture isobutene from renewable resources. Isobutene is a key precursor for the manufacture of butyl rubber.

Management and control organization LANXESS AG has a dual management structure consisting of the Board of Management, which manages the company, and the Supervisory Board, which oversees the Board of Management with the assistance of an Audit Committee formed from among its members to advise on financial matters. The Board of Management shapes Group strategy and manages resource allocation, infrastructure and organization. As the Group management company, LANXESS AG is responsible for financing and for communication with the company's key stakeholders.

For additional information, please see the Corporate Governance section of this Annual Report.

Compensation system and long-term incentive programs Compensation for the members of the Board of Management and Supervisory Board comprises both fixed and variable components. The Board of Management, selected subordinate management levels and certain other employee groups are entitled to participate in long-term, stock-based incentive programs.

Further details are given in the Compensation Report, which forms part of this Management Report.

Business

Business organization We made no changes to our business organization in fiscal 2011. The LANXESS Group is structured in three segments with 13 business units, each of which conducts its own operations and has global profit responsibility. Group functions and service companies assigned to them support the business units by providing financial, legal, technical and other centralized services. Complementing this global alignment of the business units and group functions, the country organizations ensure the necessary proximity to markets and provide the organizational infrastructure required.

At the present time, we do not plan to make any material changes to the legal or organizational structures described above in fiscal 2012.

The segments in brief We have combined our synthetic rubber and high-tech plastics manufacturing activities in the Performance Polymers segment.

Performance Polymers

Business units	Butyl Rubber
	Performance Butadiene Rubbers
	Technical Rubber Products
	Semi-Crystalline Products
Sites	Dormagen, Hamm-Uentrop, Krefeld-Uerdingen, Leverkusen and Marl, Germany
	Antwerp and Zwijndrecht, Belgium
	La Wantzenau and Port Jérôme, France
	Sittard-Geleen, Netherlands
	Sarnia, Canada
	Orange, U.S.A.
	Cabo, Duque de Caxias and Triunfo, Brazil
	Wuxi, China
Applications	Tires
	Automotive
	Electronics
	Electrical engineering
	Medical equipment

The business activities that LANXESS combines in its Advanced Intermediates segment make it one of the world's leading suppliers of industrial chemical intermediates and a key player in the production of chemical precursors and specialty active ingredients for individual customers (custom synthesis and manufacturing).

Advanced Intermediates

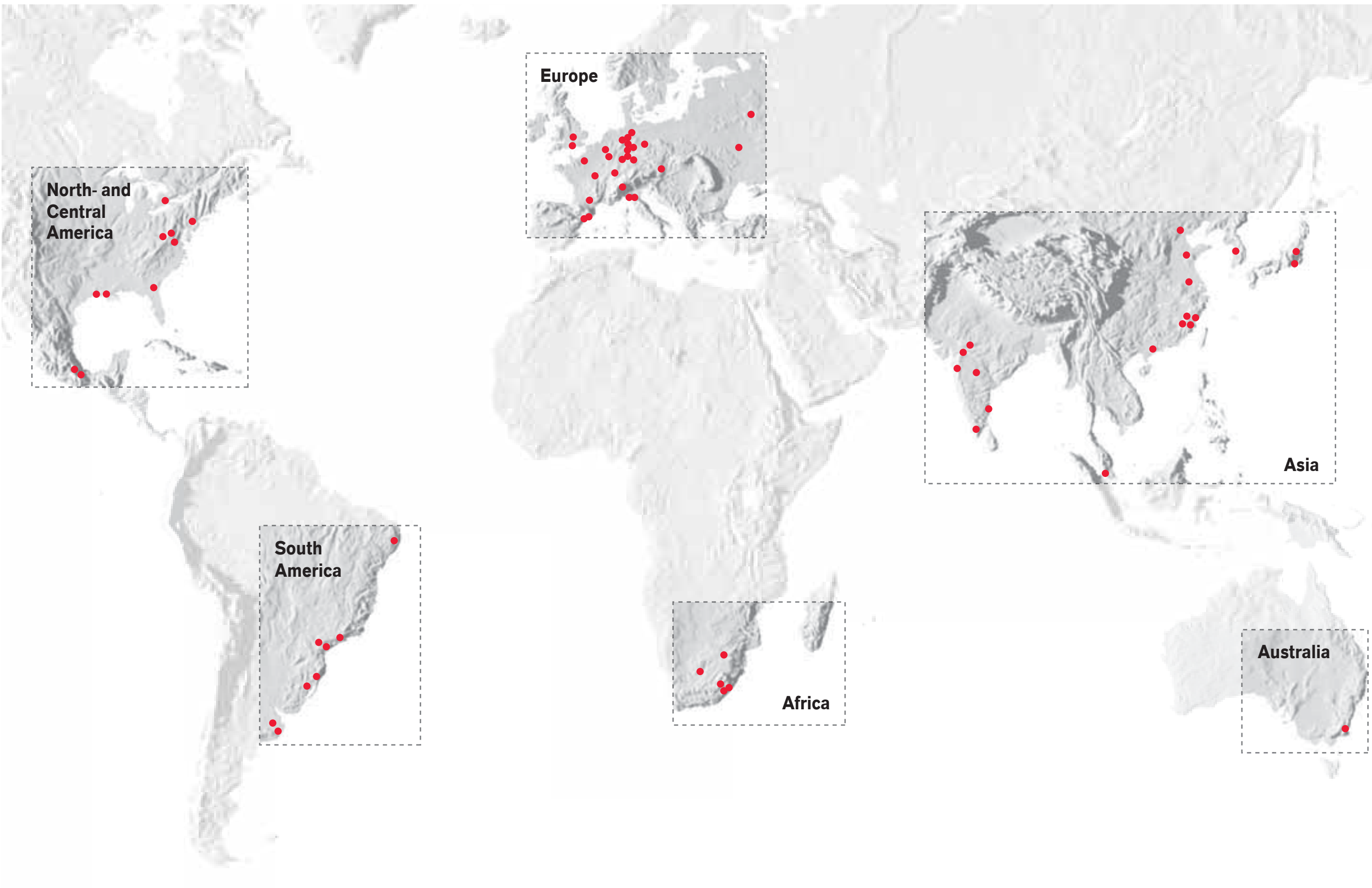
Business units	Advanced Industrial Intermediates
	Saltigo
Sites	Brunsbüttel, Dormagen, Krefeld-Uerdingen and Leverkusen, Germany
	Baytown, U.S.A.
	Liyang, China
	Nagda, India
Applications	Agrochemicals
	Automotive
	Construction
	Dyestuffs
	Coatings
	Pharmaceuticals

We have consolidated our application-oriented specialty chemicals operations in the Performance Chemicals segment.

Performance Chemicals

Business units	Material Protection Products
	Inorganic Pigments
	Functional Chemicals
	Leather
	Rhein Chemie
	Rubber Chemicals
	Ion Exchange Resins
Sites	Bitterfeld, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany
	Antwerp, Belgium
	Filago, Italy
	Vilassar de Mar, Spain
	Branston, United Kingdom
	Isithebe, Merebank, Newcastle and Rustenburg, South Africa
	Burgettstown, Bushy Park, Chardon, Greensboro and Pittsburgh, U.S.A.
	Burzaco, Merlo and Zárate, Argentina
	Porto Feliz, Brazil
	Colonia, Uruguay
	Qingdao, Shanghai, Tongling and Wuxi, China
	Jhagadia, India
	Toyohashi, Japan
	Sydney, Australia
Applications	Disinfection
	Protection and preservation of wood, construction materials, coatings and foodstuffs
	Color pigments
	Leather processing products
	Tire chemicals
	Water treatment

LANXESS has a Presence Throughout the World



Strategy

The LANXESS Group is a globally operating chemicals enterprise with a portfolio ranging from polymers to industrial, specialty and fine chemicals. All of the conditions are in place for long-term success in our core businesses. These include a flexible asset structure, a diversified customer base, a global presence with regional flexibility and an entrepreneurial management structure.

Through innovations and selective additions to our product portfolio, we have positioned ourselves as a reliable high-tech supplier of premium products that actively supports its customers' innovation processes and thereby adds measurable value. This enables us to strengthen customer loyalty, set ourselves apart from our competitors, and remain highly competitive even in economically challenging times.

Sustained megatrends offer potential for future success The future development we anticipate is shaped by four sustained megatrends:

- The growing demand for mobility, particularly in China, India and other large emerging markets, and the simultaneous need to make mobility more environmentally friendly.
- The sharp increase in global food requirements due to a rapidly growing world population.
- Urbanization resulting worldwide in the migration of people from rural areas to cities. According to current forecasts, the number of city-dwellers will jump by 40% this decade. All these people will need living space, offices and a robust infrastructure.
- The rising demand for water due to population growth and climate change will result in water becoming a commodity as valuable as oil in the not-too-distant future.

With the customized products and services offered by their business units, our segments make a valuable social and economic contribution to mastering the challenges presented by these megatrends in everyday life.

Earnings strategy Against this backdrop, we are consistently aligning our product portfolio with markets that promise steady, above-average growth in the coming years. Accordingly, our regional focus is mainly on expanding our businesses and production capacities in the faster-growing BRICS countries, especially Brazil, India and China. To safeguard our profitability, part of our approach right from the start has been to establish our price-before-volume strategy, which involves passing the volatility in raw materials prices on to the market.

Our primary mid-term corporate goal is to increase EBITDA pre exceptionals to €1.4 billion in 2015. The investment projects already under way are expected to make a sustained contribution to increasing EBITDA pre exceptionals to around €1.3 billion (see Opportunity Report). We intend to generate the remaining amount from organic growth as well as from targeted acquisitions, with our focus on organic growth.

Capital expenditure strategy We make targeted capital expenditures to increase our international competitiveness, focusing on attractive growth opportunities in profitable markets. The following principles guide our capital expenditure policy:

- The focus is on building our portfolio of premium products that set us apart from our competitors.
- We invest in sustainably growing markets that are the strategic focus for our operating segments.
- Capital expenditures must satisfy clear financial criteria that improve our company's average return on capital and incorporate an adequate risk premium.
- Most capital expenditures are financed out of the cash flow from operating activities or, if that is insufficient, from other available liquidity or credit lines.

Financing strategy Our conservative, sustainability-based financing policy prepares the ground for long-term dynamic business activity. The cornerstones of this policy are accessing international financial markets and thus securing future financial flexibility.

In respect of capital requirements and capital coverage, we work to optimally reconcile competing requirements for profitability, liquidity, security and autonomy. The debt level is aligned to the ratio systems used by the leading rating agencies for investment-grade companies.

Our company is able to grow as a result of its business operations and by means of specific financing measures. Our goal is to generate positive cash flow along with a positive contribution to earnings.

Value management and control system

Value Management and Control System

		2007	2008	2009	2010	2011
EBITDA pre exceptionals	€ million	719	722	465	918	1,146
EBITDA margin pre exceptionals	%	10.9	11.0	9.2	12.9	13.1
Capital employed	€ million	2,660	2,989	3,475	3,750	4,784
ROCE	%	17.7	15.4	5.9	17.0	17.2
Days of sales in inventories (DSI)	Days	54.5	66.9	55.1	53.7	60.1
Days of sales outstanding (DSO)	Days	49.3	44.6	47.0	46.3	49.9
Net financial liabilities	€ million	460	864	794	913	1,515
Net debt ratio		0.6x	1.2x	1.7x	1.0x	1.3x
Investment ratio	%	4.3	5.4	6.8	7.4	8.0

To achieve our strategic goals, we need specific controlling parameters against which we can measure the success of our efforts. Such assessments are founded on a reliable, readily understandable financial and controlling information system. We are constantly working to further improve the information provided by the Accounting and Controlling group functions through consistent reporting of budget, forecast and actual data.

Financial performance

The key controlling parameter for the LANXESS Group and the individual segments at present is EBITDA (earnings before interest, income taxes, depreciation and amortization) pre exceptionals. It is calculated from EBIT by adding back operational depreciation and amortization and any exceptional items. Every operational decision or achievement is judged by its sustainable impact on EBITDA. As part of the annual budget and planning process, targets are set for this benchmark of our company's success, which are then incorporated into the assessment of employees' variable income components (see the Employees section in this Management Report).

Simple revenue data such as net sales are not among the Group's controlling parameters because they do not permit any direct conclusions about our profitability. Volatile raw material prices are a hallmark of our industry. When raw material prices fluctuate throughout the year, we adjust our selling prices in line with our price-before-volume strategy. This has an effect on sales, but almost none on the margins that are significant to our profitability. We therefore give no guidance on sales.

Company-specific lead indicators

Lead indicators support the timely identification of material changes in assets and liabilities, financial condition and earnings performance. Our annual budget and planning process provides the starting point for measuring the Group's profitability and our ability to finance operations from our own funds. This information is used, for example, to make financing decisions. To ensure a timely response to changes in market conditions and the competitive environment, operational forecasts are prepared three times each year as the basis for updating the full-year budget and the associated key values we use to control the Group.

Profitability

Return on capital employed (ROCE) has been implemented as a controlling parameter at Group level. ROCE is a profitability ratio that indicates how efficiently we utilize our capital. This makes it an important criterion in investment decisions, for example. All new investment projects must exceed the Group's ROCE.

$$\text{ROCE} = \frac{\text{EBIT pre exceptionals}}{\text{Capital employed}}$$

Capital employed = Total assets
Less deferred tax assets
Less interest-free liabilities

Interest-free liabilities comprise provisions (except those for pensions), income tax liabilities, trade payables, and items included under "other liabilities." In addition, we use a simplified variant of ROCE, called "business ROCE," to manage our business units.

EVA (economic value added) is also used as a parameter for value management in the context of strategic planning and decisions about the long-term alignment of the business units.

Cost of capital

Borrowing costs are calculated from risk-free interest, i.e. in our case, from the return on a long-term German government bond plus a risk premium for industrial companies in the same risk category as LANXESS. The cost of equity reflects the return expected by investors from an investment in LANXESS shares. Equity investors demand a risk premium due to the greater risk involved in acquiring shares than in buying risk-free government bonds. This is known as a market risk premium and is calculated using the long-term excess return generated by a stock investment over an investment in risk-free government bonds and adjusted by the beta factor denoting the relative risk of an investment in LANXESS stock compared to that of the market as a whole.

At 17.2%, ROCE in 2011 (2010: 17.0%) was well above our weighted average cost of capital (WACC), which was adjusted for comparability. After tax, the WACC amounted to 8.4% in fiscal 2011 (2010: 8.4%). The net debt ratio (ratio of net financial debt to EBITDA pre exceptionals) rose only slightly, from 1.0 in the prior year to 1.3 as of December 31, 2011, resulting from the implementation of our growth strategy and the associated increase in investment activity last year.

Capital employment

To control our working capital, we use two key performance indicators: DSI (days of sales in inventories) and DSO (days of sales outstanding). These represent inventories and receivables, respectively, in relation to sales. Another important performance indicator is business free cash flow, which indicates how much cash our business units are generating directly. It is calculated for the operating units using a simplified cash flow method.

Expenditures for property, plant and equipment are subject to rigorous capital discipline and are aligned systematically with those product areas with the greatest potential for success. We prioritize investment projects on the basis of financial indicators such as the pay-off period, net present value and ROCE.

Debt

The net debt ratio, which we use solely at Group level, is defined as net financial liabilities divided by EBITDA pre exceptionals. Net financial liabilities are the total of current and non-current financial liabilities, less cash, cash equivalents and near-cash assets. The financial liabilities reflected in the statement of financial position are adjusted here for liabilities for accrued interest.

Net Financial Liabilities

€ million	2007	2008	2009	2010	2011
Non-current financial liabilities	601	959[1]	1,462	1,302	1,465
Current financial liabilities	59	168	94	176	633
Less					
Liabilities for accrued interest	(11)	(14)	(47)	(41)	(55)
Cash and cash equivalents	(189)	(249)	(313)	(160)	(178)
Near-cash assets	0	0	(402)	(364)	(350)
	460	**864**	**794**	**913**	**1,515**

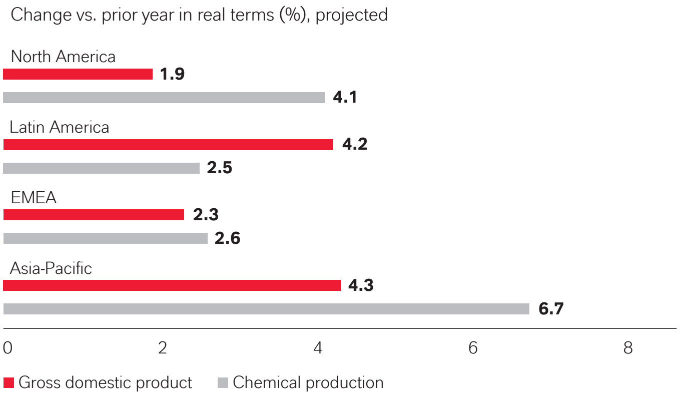
1) After deduction of €27 million in specific exchange hedging of financial liabilities

Legal environment

There were no changes in the legal environment in 2011 that would have had a material impact on the cash flows, financial condition or results of operations of the LANXESS Group.

Business conditions

GDP and Chemical Production in 2011



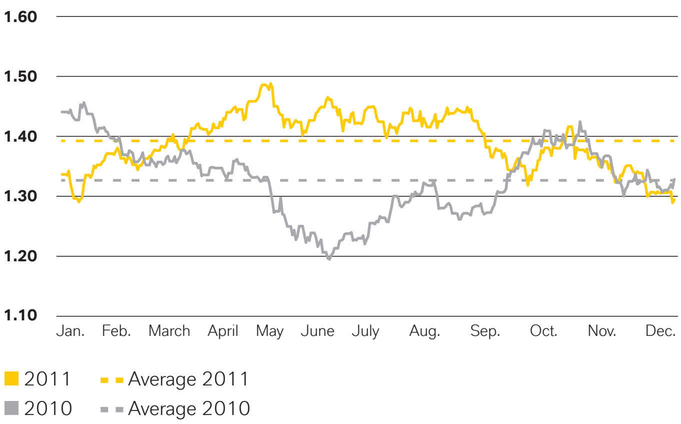
The economic environment

2011 was characterized by economic expansion. However, its pace slowed as the year progressed to yield an overall growth rate of 2.7%. One of the main reasons for this slowdown was the less robust growth in the industrialized countries. The Japanese economy in particular suffered from the direct and indirect consequences of the March 2011 earthquake disaster. In the United States, the rising public debt, high unemployment and ongoing difficulties in the real estate sector dampened growth to 1.8%. In addition, the financial markets grew increasingly nervous in the face of the European debt crisis and the debate about possible solutions. Growth in Western Europe was slow at 1.5%, although Germany stood out with expansion of 3.0%. The market uncertainty described above was also reflected in a cooling of the economy in the emerging markets. Nevertheless, China and India still posted high growth rates of 8.5% and 6.8%, respectively.

The subdued performance of the global economy also affected the world's capital markets, which showed mixed trends over the course of the year and regionally. The first half of the year was dominated by share price gains, but then a downturn took hold from the third quarter that saw key indices post a loss for 2011 overall. Impacted by the public debt crisis in Europe, the DAX shed 15% while the FTSE 100 dropped around 6%. The Nikkei Index lost around 18% following the natural disaster in March 2011. The U.S. Dow Jones was the only index to go against the trend, with gains of around 6% for 2011. In this environment, central banks worldwide continued to pursue their low-interest policy. LANXESS shares were also unable to evade the developments on Europe's stock markets and ended the year down 32%.

The exchange rate between the euro and the U.S. dollar was again very volatile during 2011. The value of the dollar dropped significantly against the euro up to the middle of the year. In the second half, however, a steady recovery began, in the course of which the U.S. dollar more than recouped its losses, trading at a lower rate than at the start of the year. At the end of the year, the euro was worth US$1.29, which represented an increase in the value of the U.S. currency of about 3.7% over the course of 2011. Its average price for the year was US$1.39, which was weaker than the prior-year price of US$1.33. Due to the positioning of our business, a stronger U.S. dollar generally has a positive effect on our earnings. Centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

Value of the U.S. Dollar against the Euro



Despite the global economy's rather restrained performance, raw material prices continued the upward trend begun in 2010 in the reporting period. As a purchaser primarily of petrochemical raw materials, particularly butadiene, LANXESS is impacted by this trend, as it leads to higher production costs.

The chemical industry

The trend observed in the chemical industry was positive overall, with production expanding by 4.6% in 2011, somewhat less than the 5.5% we had forecast. Following a very robust first half, growth in chemical production slowed as the year progressed, triggered by the increasing market uncertainty. The NAFTA region performed better than we expected with growth of 4.1%. By contrast, Western Europe's expansion of 1.3% lagged behind our expectations. Growth in the Asia-Pacific and Latin America regions was also slower than we had anticipated at 6.7% and 2.5%, respectively.

Evolution of major user industries

Evolution of Major User Industries in 2011

Change vs. prior year in real terms (%) (projected)	Tires	Automotive	Agrochemicals	Construction
Americas	2.1	8.8	6.6	2.7
NAFTA	1.7	9.7	8.0	2.4
Latin America	3.4	6.1	4.1	4.5
EMEA	6.9	6.5	6.0	2.0
Germany	2.3	6.2	7.4	6.4
Western Europe	2.2	3.1	4.7	1.0
Central and Eastern Europe	10.7	12.4	10.3	3.9
Asia-Pacific	3.7	(0.5)	7.8	6.0
World	**4.2**	**3.4**	**6.9**	**3.9**

Tire industry production expanded by a robust 4.2% in 2011, driven mainly by 10.2% growth in Central and Eastern Europe. Asia also performed well with overall growth of 3.7%, led by the ASEAN region with 5.6% and China with 5.3%. Supported by the upswing in the automotive industry, the original equipment business proved to be a key driver of this positive performance. The replacement tire business was slightly weaker than anticipated on account of the strong demand in the prior year. Truck tires, especially in the OEM segment, posted substantial growth, above all in Europe and the NAFTA region. By contrast, the performance of the replacement tire business was below average overall. OEM car tires saw very positive development across all regions. The replacement tire market was weak in North America, but grew in Europe.

The automotive industry continued to grow. The large backlog in demand in the United States and Russia led to strong expansion in the NAFTA region (9.7%) and Central and Eastern Europe (12.4%). By contrast, automobile production in China fell by 0.5% although it remained at a high level. This decline was caused by expiring incentive programs that had been launched in 2010 to encourage the purchase of smaller commercial vehicles. After the previous year's steep increase, production in this vehicle category decreased significantly in 2011 due to lower demand and a high baseline figure. The natural disasters in Japan pushed production down by 9.2% over the course of the year. Overall, production in the Asia-Pacific region decreased by 0.5%. In Western Europe, the automotive sector grew by 3.1%. Expansion in Germany was particularly robust at 6.2%, due in large part to higher exports. Production in South America was also very strong, with a gain of 6.1%.

The production of chemicals for the agricultural industry grew by a significant 6.9%. This very positive trend was driven by the high prices for agricultural products. The growth in production was particularly high in the NAFTA region at 8.0% and in Central and Eastern Europe at 10.3%.

The construction sector in the industrialized countries finally stabilized at a low level after having contracted sharply since the start of the global economic crisis in 2008/2009. Construction in the NAFTA region actually showed a slight upward trend in 2011 with growth of 2.4%, whereas Western Europe saw only marginal improvement of 1.0%. Germany was a positive exception, posting healthy growth of 6.4%. The Asia-Pacific region remained the construction industry's growth engine with expansion of 6.0%.

Key events influencing the company's business

Our business in 2011 was shaped mainly by the performance of our Performance Polymers segment and, in geographical terms, the markets in our EMEA (excluding Germany) and Latin America regions. The sharp rise in raw material prices across all our segments did not have a sustained impact on our business due to the systematic implementation of our price-before-volume strategy.

The Performance Polymers segment posted the strongest year-on-year growth rates in terms of both sales and EBITDA pre exceptionals and was therefore the main engine of our business success. This positive trend was based on brisk demand from the tire industry for high-quality synthetic rubber and from the automotive industry for high-tech plastics, which are used in car bodies and other components. It was additionally supported by the acquisition in early May 2011 of the Keltan EPDM business from Royal DSM N.V., since demand from car makers for these products was also strong.

Driven by the demand for agricultural products, sales of the Advanced Intermediates segment's agrochemicals also increased.

Sales grew significantly in all reporting regions. Adjusted for currency and portfolio effects, the most marked business expansion was seen in Latin America. Demand from the tire and automotive-related industries was the driving force here.

Comparison of forecast and actual business

Fiscal 2011 was dominated by the mobility and agriculture megatrends.

At the end of 2010, we anticipated continued healthy business performance in view of the excellent global positioning of our segments. We assumed that our key customer industries would continue to perform well, albeit with regional differences, and anticipated higher sales and improved earnings compared to the prior year.

Key industries, particularly the tire and automotive sectors but also agrochemicals, exceeded our expectations, in some cases by a wide margin, and enabled us to achieve excellent results, primarily in the Performance Polymers segment. The regional performance of our businesses was more homogeneous than we had originally anticipated, with growth rates of more than 20%. Only Germany lagged slightly behind this trend.

Taking into account the market developments at the time, we projected a year-on-year increase in EBITDA pre exceptionals of between 10% and 15% when we reported our results for the first quarter of 2011. In view of subsequent economic forecasts, our results for the first half of the year, and the successfully completed acquisition of the Keltan EPDM business of Royal DSM N.V., we later raised our guidance to an increase of 20%. Our EBITDA pre exceptionals for 2011 came to €1,146 million, representing an increase of 24.8%, which exceeded our forecast and is mainly attributable to the positive performance of our polymers business.

As generally expected, the price of the raw materials used by the Group increased by around 27%. In line with our price-before-volume strategy, these higher costs were passed on to the market and did not have an adverse effect on the results of operations.

In connection with the ongoing LANXESS Technology Initiative, our research and development spending increased by 24.1% to €144 million in 2011. Our investment in the company's future potential was therefore higher than originally planned. The focus was on the Performance Polymers segment, with a share of 50%.

In the year under review, the cash outflow for capital expenditures totaled €679 million, around 13.2% more than the figure forecast during the course of the year. This was mainly due to our completion ahead of schedule of the capacity expansion at the existing butyl rubber plant in Zwijndrecht, Belgium, early expenditures for the butyl rubber plant in Singapore, and extensive maintenance measures undertaken in the fourth quarter of 2011.

In light of the maturity structure of our financial liabilities, there was no need for substantial refinancing in 2011. As a replacement for the bond that is maturing in 2012, we took advantage of the favorable interest rates in May 2011 to issue a €500 million Euro Benchmark Bond.

Comparison of Forecast and Actual Business

	Forecast for 2011 in Annual Report 2010 & Q1 Interim Report	Forecast for 2011 in H1 Interim Report	Forecast for 2011 in Q3 Interim Report	Actual 2011
Business development: Group				
EBITDA pre exceptionals	10% to 15% increase	20% increase	20% increase	24.8% increase
Seasonality of sales	H1 > H2	H1 > H2	H1 > H2	H1 > H2 [1)]
Business development: segments				
Performance Polymers	Increasing demand	Increasing demand	Increasing demand	Sales +37%
Advanced Intermediates	Increasing demand	Increasing demand	Increasing demand	Sales +10%
Performance Chemicals	Increasing demand	Increasing demand	Increasing demand	Sales +8%
Raw material prices	Further increase	Further increase	Further increase	Significant increase
Research and development				
Research and development expenses	+15%	+15%	+15%	+24%
Financial condition: Group				
Cash outflows for capital expenditures	€550–600 million	€550–600 million	Approx. €600 million	€679 million

1) Portfolio-adjusted

Business performance of the LANXESS Group

- Sales up 23.2%, largely due to price effects, supported by portfolio additions
- Positive demand trend, particularly in automotive and tire industries
- Significant sales growth in all reporting regions
- EBITDA pre exceptionals up 24.8% to €1,146 million
- EBITDA margin pre exceptionals of 13.1% tops strong prior-year 12.9%
- Net income rises to €506 million after €379 million in previous year
- Earnings per share of €6.08, up from €4.56
- Solid statement of financial position and financing structure
- Net debt ratio up only moderately, from 1.0 to 1.3, despite extensive acquisition and investment activities

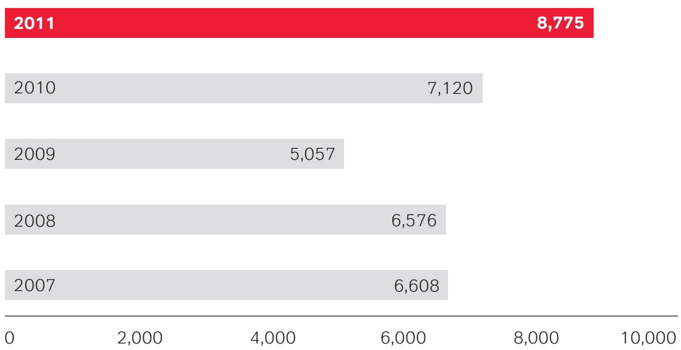
Key Financial Data

€ million	2010	2011	Change %
Sales	7,120	8,775	23.2
Gross profit	1,739	2,010	15.6
EBITDA pre exceptionals	918	1,146	24.8
EBITDA margin pre exceptionals	12.9%	13.1%	—
EBITDA	890	1,101	23.7
Operating result (EBIT) pre exceptionals	635	826	30.1
Operating result (EBIT)	607	776	27.8
EBIT margin	8.5%	8.8%	—
Financial result	(114)	(121)	(6.1)
Income before income taxes	493	655	32.9
Net income	379	506	33.5
Earnings per share (€)	4.56	6.08	33.5

Sales and earnings

Group Sales

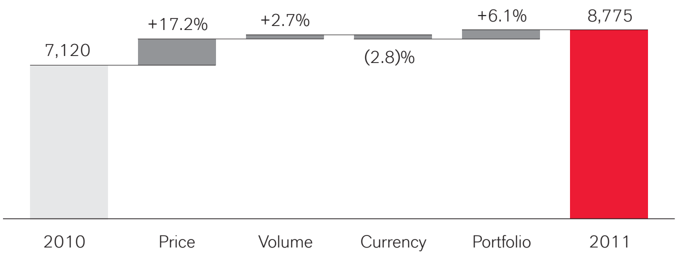
€ million



LANXESS Group sales rose by a robust 23.2% from €7,120 million in the prior year to €8,775 million. Adjustments to selling prices because of significantly higher raw material costs characterized 2011. Sales volumes were up 2.7% over the strong prior-year period. With positive portfolio and currency effects of 3.3% on balance, operational sales improved by 19.9%. Volumes expanded in all segments. Due to higher raw material prices, selling prices also increased in all segments. In some cases, particularly in the Performance Polymers segment, these increases were substantial. Sales contributed by the businesses acquired in 2011 generated a positive portfolio effect of 6.1%.

Effects on Sales

€ million/%



Sales by Segment

€ million	2010	2011	Change %	Proportion of Group sales %
Performance Polymers	3,692	5,059	37.0	57.7
Advanced Intermediates	1,411	1,545	9.5	17.6
Performance Chemicals	1,978	2,130	7.7	24.2
Reconciliation	39	41	5.1	0.5
	7,120	**8,775**	**23.2**	**100.0**

2010 figures restated

Our Performance Polymers segment performed very positively throughout the reporting year, increasing sales by a substantial 37.0% compared to the previous year. The effects of strong demand in the first nine months were dampened by a decline in volumes in the fourth quarter, resulting in a mid single-digit percentage increase in volumes for the year as a whole. A sharp rise in raw material prices against the prior year led to a significant increase in selling prices, despite a temporary and in some cases considerable drop in the price of certain strategic raw materials that was observed before the end of the year. The gratifying operational performance was supported by the positive portfolio effect from acquiring the Keltan EPDM business, offset slightly by currency effects.

Sales by the Advanced Intermediates segment expanded by 9.5%. Increased raw material costs resulted in higher selling prices in this segment as well. Volumes grew rapidly during the first half of the year, but demand then began to wane, especially in the fourth quarter. This resulted in a low single-digit percentage increase in volumes for the year. Currency effects had a slightly negative impact on sales growth.

In our Performance Chemicals segment, sales were up 7.7%. We raised prices here, too, because of rising raw material costs. Business expansion was also supported by acquisitions made in 2011. These activities were assigned to the Rhein Chemie, Material Protection Products and Functional Chemicals business units. A slight increase in volumes compared to the previous year had a positive effect on sales, while currency effects had a mildly negative impact.

We grew sales in all regions, in most cases by well over 20%. The Performance Polymers segment proved to be a major growth driver in all regions. This positive regional performance is representative of the stable demand worldwide in nearly all our customer industries in fiscal 2011 and of LANXESS's sustained successful positioning in the growth markets.

Order book status

Most of our business is not subject to long-term agreements on fixed volumes and prices. Instead, our business is characterized by long-standing relationships with customers and revolving master agreements. Our activities are focused on demand-driven orders with relatively short lead times which do not provide a basis for forward-looking statements about our capacity utilization or volumes. Our business is managed primarily on the basis of regular Group-wide forecasts of Group operating targets. For additional information, please see "Company-specific lead indicators."

Any disclosure of the Group's order book status at a given reporting date therefore would not be indicative of the Group's short- or medium-term earning power. For this reason, no such disclosure is made in this report.

Gross profit

The cost of sales rose slightly more than sales, increasing by 25.7% from the prior year to €6,765 million. As a result, the gross profit margin decreased, from 24.4% to 22.9%. Among the reasons for this development were write-downs on inventories that became necessary when prices for certain strategic raw materials began to fall in the second half of the year. Until then, the prices for strategic raw materials had been much higher than the year before, with a significant inflationary effect observed for butadiene and isobutylene, but also cyclohexane and toluene. At Group level, the higher prices were passed on in full to the market, so our price-before-volume strategy remained intact. Capacity utilization was just above the prior-year level at around 86%. Maintenance shutdowns and the adjustment of production to declining demand toward the end of the year kept capacity utilization in the fourth quarter below the level for the year as a whole. The resulting costs for idle capacities and maintenance projects as well as energy costs, which rose over the course of the year, increased manufacturing costs. Currency effects, which were negative on a full-year basis, also had an adverse effect on the gross margin. The resulting charge to gross profit contrasted with positive hedging results reported in other operating income. The acquisitions made during the reporting year yielded a positive portfolio effect on the gross profit despite the negative effects of the purchase price allocations.

EBITDA and operating result (EBIT)

Selling expenses rose by €86 million to €732 million in 2011, mainly due to volume- and price-related increases in freight charges and to portfolio effects. However, the ratio of selling expenses to sales receded from 9.1% to 8.3%.

Research and development costs increased by 24.1% to €144 million, underscoring the continued expansion of research activities as part of the LANXESS Technology Initiative. As a percentage of sales, they were level with the prior year at 1.6%. The number of employees in R&D grew to 731 as of December 31, 2011, up substantially from 519 on December 31, 2010.

General administrative expenses climbed from €298 million to €325 million in 2011. Reasons for this included portfolio effects as well as an increase in employees' variable compensation due to the company's positive performance in 2011. These expenses accounted for 3.7% of sales, down from 4.2% in the previous year.

Other operating expenses, net of other operating income, decreased by €39 million to €33 million. Positive results from hedging transactions and the absence of one-off expenses from the previous year had a favorable impact. The exceptional charges of €50 million included in this figure, €45 million of which impacted EBITDA, related mainly to various reorganization projects and portfolio measures. In 2010, net exceptional charges amounted to €28 million, all of which impacted EBITDA. These were also associated primarily with restructuring and portfolio measures.

EBITDA Pre Exceptionals by Segment

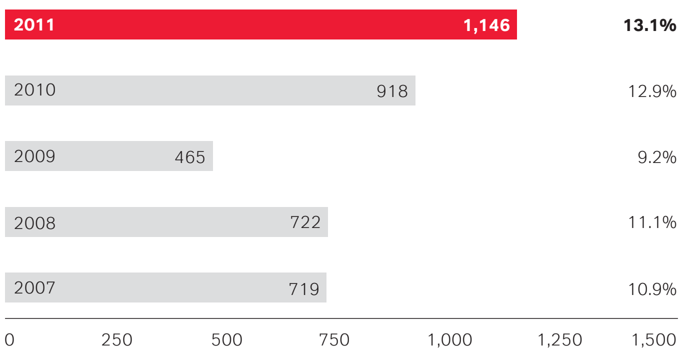
€ million	2010	2011	Change %
Performance Polymers	548	768	40.1
Advanced Intermediates	259	264	1.9
Performance Chemicals	281	289	2.8
Reconciliation	(170)	(175)	(2.9)
	918	**1,146**	**24.8**

2010 figures restated

We significantly increased our operating result before depreciation and amortization (EBITDA) pre exceptionals to €1,146 million in 2011 from €918 million the year before. This improvement was primarily due to increased raw material costs being passed quickly on to the market, the continual optimization of the Group's product mix, increased volumes, and the portfolio effect from the acquisitions made in the reporting year, particularly the Keltan EPDM business. Currency changes resulting from the appreciation in the value of the euro compared to the prior-year period had the opposite effect. The Group's EBITDA margin pre exceptionals improved from 12.9% to 13.1%.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



EBITDA pre exceptionals of the Performance Polymers segment grew by approximately 40% against the previous year. Higher raw material costs were passed on in full to the market. The increase in volumes and a significant portfolio effect from the acquisition of the Keltan EPDM business contributed substantially to the earnings improvement. In the Advanced Intermediates segment, selling prices were raised to compensate for the higher raw material costs. An increase in energy costs and negative currency effects were mitigated by the expansion of volumes, which resulted in earnings being slightly higher than in the previous year. EBITDA pre exceptionals of the Performance Chemicals segment also improved during the reporting period. By quickly passing higher raw material costs on to the market, we were able to offset higher costs in other areas, including energy and freight. Volumes remained at or near the prior-year level. The slight decline in EBITDA pre exceptionals reported in the reconciliation was due in part to an increase in research expenditure, performance-related, one-time payments at the end of the fiscal year, expenses for portfolio measures, and the design and implementation of IT projects.

The operating result (EBIT) improved very substantially from €607 million to €776 million in fiscal 2011.

Reconciliation of EBIT to Net Income

€ million	2010	2011	Change %
Operating result (EBIT)	**607**	**776**	**27.8**
Income from investments accounted for using the equity method	16	7	(56.3)
Net interest expense	(83)	(93)	(12.0)
Other financial income and expenses – net	(47)	(35)	25.5
Financial result	**(114)**	**(121)**	**(6.1)**
Income before income taxes	**493**	**655**	**32.9**
Income taxes	(112)	(148)	(32.1)
Income after income taxes	**381**	**507**	**33.1**
of which:			
attributable to non-controlling interests	2	1	(50.0)
attributable to LANXESS AG stockholders (net income)	379	506	33.5

Financial result

The financial result came in at minus €121 million in fiscal 2011, compared to minus €114 million for the prior year. The pro-rated income from investments accounted for using the equity method, primarily Currenta GmbH & Co. OHG, came to €7 million, against €16 million in 2010. Interest expense rose considerably, while interest income remained constant. This was due mainly to the increase in net financial liabilities by €602 million from the previous year, to €1,515 million, as a result of investments and acquisitions as well as the business-related increase in working capital. The capitalization of a portion of borrowing costs, mainly relating to the construction of the new butyl rubber plant in Singapore, had the opposite effect. In total, net interest expense was €10 million higher than in the previous year at €93 million. The improvement in the other financial income and expense items was due to a significantly better net exchange position compared to the prior-year period. This contrasted with a slight year-on-year increase in the interest portion of interest-bearing provisions, mainly because of interest rate adjustments.

Income before income taxes

Due to the positive EBIT trend, income before income taxes rose by €162 million to €655 million.

Income taxes

In fiscal 2011, the Group had tax expense of €148 million, compared to €112 million the year before. The Group's tax rate was 22.6%, after 22.7% in the previous year.

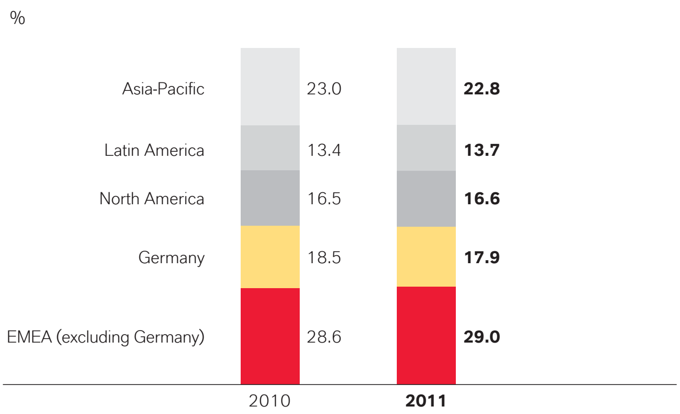
Net income, earnings per share

The LANXESS Group's net income increased significantly by €127 million year on year to €506 million. €1 million (2010: €2 million) was attributable to non-controlling interests.

With the number of LANXESS shares in circulation unchanged, earnings per share improved substantially year on year, from €4.56 to €6.08, due to the high level of net income.

Business trends by region

Sales by Market



Sales by Market

	2010		2011		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	2,038	28.6	2,546	29.0	24.9
Germany	1,320	18.5	1,569	17.9	18.9
North America	1,174	16.5	1,458	16.6	24.2
Latin America	955	13.4	1,201	13.7	25.8
Asia-Pacific	1,633	23.0	2,001	22.8	22.5
	7,120	**100.0**	**8,775**	**100.0**	**23.2**

EMEA (excluding Germany)

In the EMEA region (excluding Germany), we recorded sales of €2,546 million, €508 million or 24.9% more than in 2010. Adjusted for portfolio and currency effects, sales grew by 17.9%. Please see “Key additions to the Group portfolio” in this Management Report for detailed information about the portfolio changes. The Performance Polymers and Advanced Intermediates segments drove operational sales expansion with nearly identical mid double-digit growth rates. Growth in the Performance Chemicals segment was slightly lower with a high single-digit percentage increase. In Eastern Europe and the Middle East, sales grew by high double-digit percentages. Western Europe posted lower growth rates, but dominated operating performance in absolute figures. The individual countries where growth was very gratifying included Hungary, Russia, Turkey, Switzerland and the United Kingdom.

The EMEA region (excluding Germany) accounted for 29.0% of Group sales, up 0.4 percentage points on the prior-year level.

Germany

In Germany, our sales came to €1,569 million in 2011, up €249 million, or 18.9%, over the previous year. Adjusted for portfolio effects from the acquisitions made in the reporting year, growth was 15.9%. The Performance Polymers segment, where business increased by a double-digit percentage, accounted for a significant share of this growth. The Performance Chemicals and Advanced Intermediates segments reported sales increases in the high single-digit percentage range.

Germany’s share of Group sales fell slightly from 18.5% to 17.9%.

North America

In this region, we generated sales of €1,458 million in 2011, up €284 million, or 24.2%, from the previous year. Adjusted for positive portfolio and negative currency effects that nearly canceled each other out, operational sales growth was almost identical at 24.4%. The Performance Polymers segment was the primary driver of this development with a growth rate of around 40%, followed by the Performance Chemicals segment, where growth neared the double-digit percentage range. Advanced Intermediates saw sales growth in the low single digits.

At 16.6%, the North American share of Group sales remained close to the prior-year level of 16.5%.

Latin America

As in the previous year, we posted our largest percentage sales increases in Latin America. Sales there advanced by €246 million, or 25.8%, to €1,201 million in 2011. Adjusted for negative currency and positive portfolio effects, operational sales growth was nearly identical at 25.6%. This growth was driven by the Performance Polymers segment, which expanded sales by a high double-digit percentage. The Advanced Intermediates segment held steady with low single-digit growth compared to the previous year, while sales in the Performance Chemicals segment came in slightly below the prior-year figure. Brazil contributed significantly to the expansion of sales in this region.

Latin America’s share of Group sales edged up from 13.4% to 13.7%.

Asia-Pacific

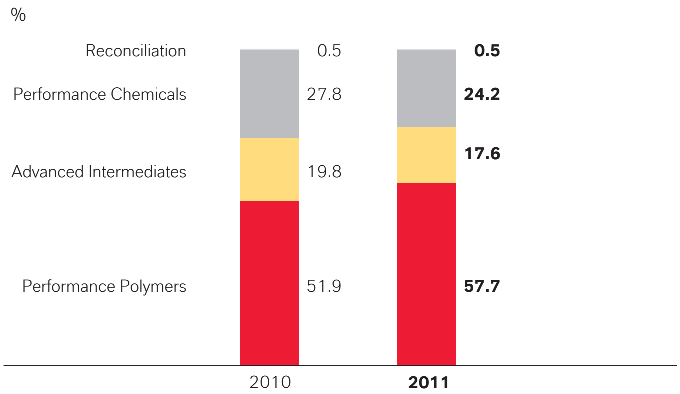
Sales in this region increased by €368 million, or 22.5%, to €2,001 million in 2011. After adjustment for currency and portfolio effects, sales grew by 19.0%. The strongest expansion was in the Performance Polymers segment, which raised sales by a mid double-digit percentage, followed at a considerable distance by Advanced Intermediates with a growth rate just below double digits. Operational sales in the Performance Chemicals segment rose by a mid single-digit percentage. We saw very positive sales momentum in China (including Hong Kong), India and South Korea.

Asia-Pacific’s share of Group sales declined slightly year on year, from 23.0% to 22.8%. However, it remained the Group’s second-strongest region in terms of sales.

Segment information

- Performance Polymers: positive price and portfolio effects increase sales and earnings considerably
- Advanced Intermediates: strong earnings driven by agricultural business with slight decline in other customer industries at year end
- Performance Chemicals: prices lift earnings on specialty chemicals

Sales by Segment



Performance Polymers

Overview of Key Data

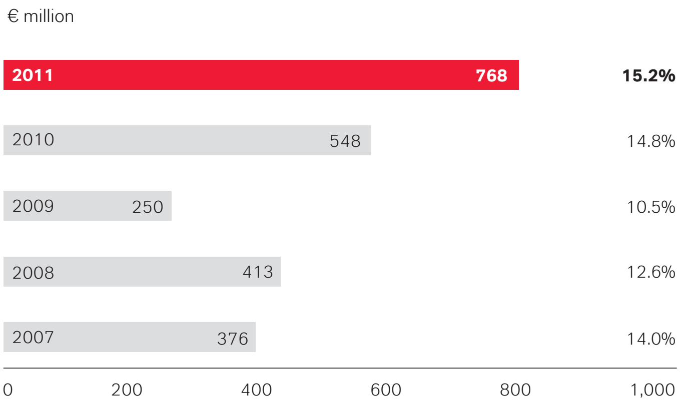
	2010		2011		Change
	€ million	Margin %	€ million	Margin %	%
Sales	3,692		5,059		37.0
EBITDA pre exceptionals	548	14.8	768	15.2	40.1
EBITDA	549	14.9	759	15.0	38.3
Operating result (EBIT) pre exceptionals	407	11.0	607	12.0	49.1
Operating result (EBIT)	408	11.1	598	11.8	46.6
Cash outflows for capital expenditures[1]	298		437		46.6
Depreciation and amortization	141		161		14.2
Employees as of Dec. 31	4,281		4,977		16.3

2010 figures restated
1) Intangible assets and property, plant and equipment

In fiscal 2011, our Performance Polymers segment posted an excellent performance, with sales increasing 37.0% from the prior year to €5,059 million. High year-on-year inflation in the cost of raw materials, particularly butadiene and isobutylene, was offset by timely selling price increases, giving a positive price effect on sales of 26.7%. Volumes rose 3.5% on account of the robust demand situation compared to the prior year. Negative currency effects of 3.8% were more than compensated by the positive portfolio effect of 10.6%. This was due to inclusion in the Group's results of the sales of the Keltan EPDM business, which we acquired in early May 2011 and assigned to the Technical Rubber Products business unit. The integration of this business is proceeding according to plan.

All of the segment's business units recorded an increase in demand from all principal customer industries through most of 2011. In the fourth quarter, volumes fell slightly due to maintenance shutdowns and some inventory reductions at our customers. The Butyl Rubber and Performance Butadiene Rubbers business units, which have close ties with the tire industry, benefited from the strong demand in the markets for OEM and replacement tires, and were able to raise volumes compared to the prior year. In the Technical Rubber Products and Semi-Crystalline Products business units, sales increased because of rising demand from automobile manufacturers. The Technical Rubber Products business unit saw the largest year-on-year increase in sales and benefited especially from the portfolio effect from the acquisition of the Keltan EPDM business. North America was the region with the strongest percentage growth, although absolute increases were very high overall.

EBITDA and EBITDA Margin Pre Exceptionals



EBITDA pre exceptionals in the Performance Polymers segment rose by €220 million, or 40.1%, to €768 million. Raw material costs were up year on year, but all business units passed these increases on to the market in the form of higher selling prices. Earnings also improved as the result of product mix effects and volume growth due to stable demand. Despite scheduled expansion and maintenance shutdowns at the end of the year and destocking by customers, capacity utilization for the segment surpassed prior-year levels. Valuation effects on inventories due to deflationary trends for some key raw materials in the fourth quarter adversely affected earnings. The consolidation of the Keltan EPDM business we acquired more than compensated for the adverse exchange rate developments which negatively impacted earnings. The EBITDA margin pre exceptionals improved from 14.8% to 15.2%.

The exceptional charges of €9 million that impacted the segment's EBITDA related to expenses in connection with corporate transactions and remediation measures at our site in Canada. The exceptional income of €1 million that positively affected EBITDA in fiscal 2010 was related to past efficiency improvement measures.

Advanced Intermediates

Overview of Key Data

	2010		2011		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,411		1,545		9.5
EBITDA pre exceptionals	259	18.4	264	17.1	1.9
EBITDA	259	18.4	245	15.9	(5.4)
Operating result (EBIT) pre exceptionals	201	14.2	198	12.8	(1.5)
Operating result (EBIT)	201	14.2	175	11.3	(12.9)
Cash outflows for capital expenditures[1]	73		107		46.6
Depreciation and amortization	58		70		20.7
Employees as of Dec. 31	2,903		2,883		(0.7)

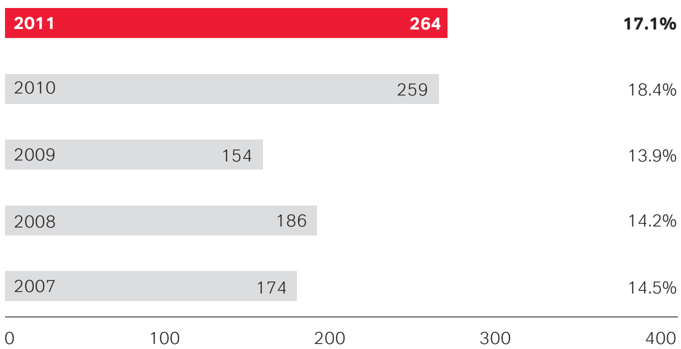
2010 figures restated
1) Intangible assets and property, plant and equipment

Sales in the Advanced Intermediates segment grew by €134 million, or 9.5%, to €1,545 million in 2011. Price increases implemented to compensate for higher raw material prices yielded a 7.7% price effect. Volumes rose by 3.4% due to improved demand, while exchange rates had a slightly negative impact on sales of 1.6%.

Demand for agrochemicals remained strong throughout the year. Both of the segment's business units profited from this development. In the Saltigo business unit, volumes for fungicide precursors increased, while volumes for pharmaceutical precursors declined. The Advanced Industrial Intermediates (formerly Basic Chemicals) business unit posted year-on-year volume growth, especially with products from the aromatics network for the agrochemical and automotive-related industries. By contrast, volumes with products for the construction industry declined. Higher prices for raw materials, including toluene, were offset by selling price adjustments. Growth was strongest in the EMEA region (excluding Germany) in both absolute and relative terms.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



EBITDA pre exceptionals in the Advanced Intermediates segment increased by €5 million to €264 million. Higher prices for raw materials were passed on in full to the market. Stable growth in the agricultural sector led to a positive volume effect in both business units. The segment's capacity utilization exceeded the prior-year level overall. In the fourth quarter, however, it dropped from the previous quarters' high level due to shutdowns for expansion and maintenance. Adverse exchange rate effects had a negative impact on earnings, causing the EBITDA margin pre exceptionals to dip from 18.4% to 17.1%.

In 2011, exceptional items amounted to €23 million, €19 million of which impacted EBITDA. These charges relate to the Saltigo business unit. Saltigo is anticipating a continued downturn in demand in the pharmaceuticals custom manufacturing business. By contrast, the growth trend in the agrochemicals custom manufacturing business remains intact. Saltigo is addressing this development proactively and will therefore be focusing more strongly on the successful agrochemicals business. Existing infrastructure and resources from the pharmaceuticals area will be gradually converted for use by the growing agrochemicals business or taken off stream. The Group has recognized provisions accordingly.

Performance Chemicals

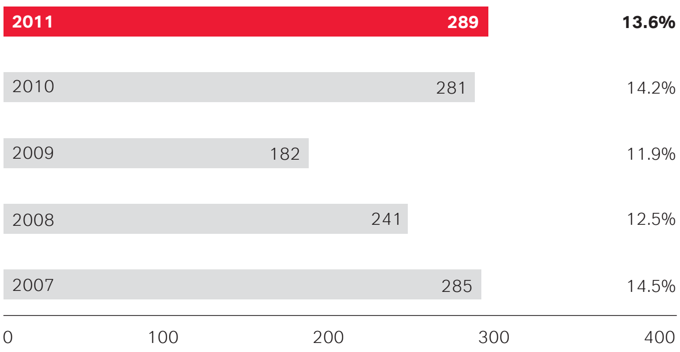
Overview of Key Data

	2010 € million	2010 Margin %	2011 € million	2011 Margin %	Change %
Sales	1,978		2,130		7.7
EBITDA pre exceptionals	281	14.2	289	13.6	2.8
EBITDA	276	14.0	289	13.6	4.7
Operating result (EBIT) pre exceptionals	214	10.8	211	9.9	(1.4)
Operating result (EBIT)	209	10.6	211	9.9	1.0
Cash outflows for capital expenditures[1)]	114		112		(1.8)
Depreciation and amortization	67		78		16.4
Employees as of Dec. 31	4,907		5,819		18.6

1) Intangible assets and property, plant and equipment

EBITDA and EBITDA Margin Pre Exceptionals

€ million



Sales in our Performance Chemicals segment rose 7.7% in fiscal 2011, from €1,978 million to €2,130 million. This growth was primarily attributable to the 6.8% increase in selling prices, but volumes also increased by a modest 0.4%. Negative exchange rate effects of 1.9% were more than compensated by positive portfolio effects of 2.4% resulting from acquisitions assigned to the Rhein Chemie, Material Protection Products and Functional Chemicals business units.

Volumes in the segment were just above the prior-year level, but the picture across the business units was mixed. The Rubber Chemicals and Rhein Chemie business units, which generate a significant proportion of their revenues from customers in the automotive industry, posted substantial year-on-year volume growth. However, both business units saw a negative trend in the second half of the year due to destocking by customers. The Ion Exchange Resins business unit benefited from the commissioning of a new production facility in India and increased volumes, both in the fourth quarter and year on year. Volumes in the Leather business unit were adversely affected by a lack of feedstock related to a supplier's plant shutdowns. A decline in orders from the construction industry at the end of the year caused a decline in volumes in the Inorganic Pigments business unit as well. The EMEA region (excluding Germany) posted the highest growth in both absolute and relative terms.

EBITDA pre exceptionals for the Performance Chemicals segment improved by €8 million over the prior year to €289 million. This growth was largely attributable to positive selling price effects. The segment's higher raw material costs were passed along in full to the market. However, earnings were slightly dented because capacity utilization fell below the high prior-year level, resulting primarily from scheduled maintenance shutdowns in the fourth quarter and a seasonal drop in demand amplified by destocking by customers. The positive portfolio contribution from acquisitions made during the year partly offset negative currency effects. The EBITDA margin pre exceptionals fell from 14.2% to 13.6%, in part because of the negative margin effect and despite passing on higher raw material prices to customers in full.

In the reporting year, the segment had no exceptional items that impacted EBITDA. The exceptional items of €5 million in the prior year related to restructuring expenses in the Functional Chemicals business unit.

Reconciliation

Overview of Key Data

€ million	2010	2011	Change %
Sales	39	41	5.1
EBITDA pre exceptionals	(170)	(175)	(2.9)
EBITDA	(194)	(192)	1.0
Operating result (EBIT) pre exceptionals	(187)	(190)	(1.6)
Operating result (EBIT)	(211)	(208)	1.4
Cash outflows for capital expenditures[1)]	16	23	43.8
Depreciation and amortization	17	16	(5.9)
Employees as of Dec. 31	2,557	2,711	6.0

1) Intangible assets and property, plant and equipment

The EBITDA pre exceptionals of minus €175 million reported in the Reconciliation (against minus €170 million in the prior year) was influenced in part by a planned expansion of central research activities. The exceptional charges of €18 million, of which €17 million impacted EBITDA, primarily related to expenses for the design and implementation of IT projects and for portfolio adjustments. Such expenses included personnel adjustment costs, expenses for the closure or partial closure of facilities, and costs for the preparation and execution of corporate transactions, to the extent that these expenses could not be allocated accurately to the segments or business units. The exceptional charges of €24 million reported in the Reconciliation in 2010, all of which impacted EBITDA, primarily related to expenses for restructuring activities and portfolio adjustments.

Statement of financial position and financial condition

Statement of financial position

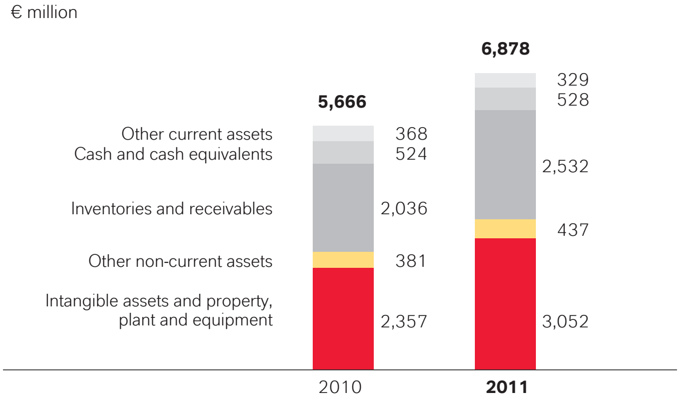
- Solid statement of financial position provides basis for further growth
- Total assets increase, mainly due to acquisitions
- Higher working capital as a result of sharp rise in raw material prices and strong demand
- Equity ratio remains close to prior-year level
- External financing of pensions through further allocations under CTA
- Net financial liabilities rise to €1,515 million due to capital expenditures and acquisitions

Structure of the Statement of Financial Position

	Dec. 31, 2010		Dec. 31, 2011		Change
	€ million	%	€ million	%	%
Assets					
Non-current assets	2,738	48.3	3,489	50.7	27.4
Current assets	2,928	51.7	3,389	49.3	15.7
Total assets	**5,666**	**100.0**	**6,878**	**100.0**	**21.4**
Equity and liabilities					
Equity (including non-controlling interests)	1,761	31.1	2,074	30.2	17.8
Non-current liabilities	2,454	43.3	2,715	39.5	10.6
Current liabilities	1,451	25.6	2,089	30.3	44.0
Total equity and liabilities	**5,666**	**100.0**	**6,878**	**100.0**	**21.4**

Structure of the statement of financial position Total assets of the LANXESS Group amounted to €6,878 million as of December 31, 2011, an increase of €1,212 million, or 21.4%, on the prior-year figure. This was primarily due to acquisitions made during the year and the increase in working capital. The latter resulted from higher raw material prices against the prior year and high demand, as well as portfolio effects. The ratio of non-current assets to total assets rose from 48.3% to 50.7%. On the equity and liabilities side, current liabilities especially were higher due to the reclassification from non-current to current financial liabilities of the 2005 Euro Benchmark Bond that is maturing in 2012. At the end of 2011, the equity ratio was 30.2% after 31.1% in the previous year.

Structure of the Statement of Financial Position – Assets



Non-current assets rose by €751 million, or 27.4%, to €3,489 million. Intangible assets and property, plant and equipment increased by €695 million to €3,052 million, largely due to capital expenditures and acquisitions. Cash outflows for purchases of property, plant, equipment and intangible assets, at €679 million, were very significantly above the prior-year figure of €501 million because of the planned expansion of investment projects. Depreciation and amortization totaled €325 million, against €283 million in the previous year. The nearly unchanged carrying amount of investments accounted for using the equity method was chiefly attributable to the positive earnings of Currenta GmbH & Co. OHG during the reporting period and the offsetting effects from adjusting the interest rates relevant to the measurement of this affiliate's pension provisions. In addition, LANXESS raised its capital contribution to the joint venture company LANXESS-TSRC (Nantong) Chemical Industrial Co. Ltd. in China. The change in investments in other affiliated companies was influenced by the stock market listing of U.S. company Gevo Inc., in conjunction with which LANXESS raised its holding in the company, and the recognition in other comprehensive income of the difference resulting from the fair-value measurement of the investment following the recent decline in the share price.

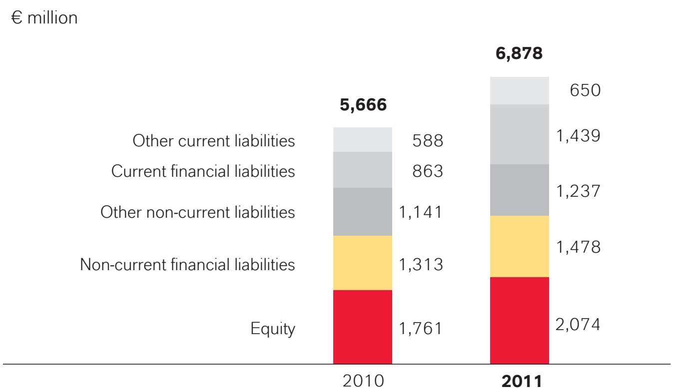
Current assets increased by €461 million against the prior year, to €3,389 million. The ratio of current assets to total assets declined to 49.3% from 51.7% in the previous year. Inventories grew by €292 million to €1,386 million, chiefly because of higher raw material prices and the portfolio effect from the acquisition of the Keltan EPDM business. In addition, inventory levels were increased to support the positive business performance. Days of sales in inventories (DSI) increased to 60.1 from 53.7 in 2010. Trade receivables rose by a substantial €204 million against the previous year to €1,146 million, mainly due to the strong expansion in business and to portfolio effects. There were no material defaults. Days of sales outstanding (DSO) came in at 49.9 compared to 46.3 in the previous year. The total of cash, cash equivalents and near-cash assets increased by €4 million against the end of 2010, to €528 million.

Because of accounting rules, the statement of financial position of the LANXESS Group does not contain significant internally generated assets. These include LANXESS's brand equity and the value of the company's other brands. A variety of measures was deployed in the reporting period to continually enhance these assets, which contributed to our ongoing success in positioning our business units in the market.

Our established relationships with customers and suppliers also constitute a significant intangible asset. These long-standing, trust-based partnerships with customers and suppliers, underpinned by consistent service quality, have made it possible for us to systematically apply our price-before-volume strategy. Our specific competence in technology and innovation, also a valuable asset, is rooted in our expertise in the areas of research and development and custom manufacturing. It enables us to generate added value for our customers.

The know-how and experience of our employees are also central pillars of our corporate success. In addition, our sophisticated production and business processes create competitive advantages for us in the markets in which we operate.

Structure of the Statement of Financial Position – Equity and Liabilities



Equity, including non-controlling interests, amounted to €2,074 million, up from €1,761 million in the previous year. At the end of 2011, the equity ratio was 30.2% after 31.1% at the end of 2010. A prominent factor in the equity increase was the high net income for the year. This was offset by negative currency translation adjustments in other equity components and by the dividend payout of €58 million to LANXESS AG stockholders in May 2011.

Non-current liabilities rose by €261 million to €2,715 million as of December 31, 2011.This resulted mainly from the €163 million increase in other non-current financial liabilities to €1,465 million, due largely to the issue in May 2011 of a €500 million Euro Benchmark Bond that will mature in 2018. The Euro Benchmark Bond issued in 2005 and maturing in 2012 was reclassified to other current financial liabilities. Provisions for pensions and other post-employment benefits increased by €74 million as against the end of 2010, mainly on account of an adjustment in the interest rates used to measure the provisions. The allocation of €30 million (2010: €75 million) under the contractual trust arrangement (CTA) offset this increase. The ratio of non-current liabilities to total assets was 39.5%, down from 43.3% at the end of 2010.

Current liabilities increased by €638 million to €2,089 million against the end of 2010. This was due primarily to the increase in other current financial liabilities, which reflects the aforementioned reclassification of the 2005 Euro Benchmark Bond that matures in 2012. Trade payables grew by €102 million to €766 million as a result of higher raw material prices, portfolio effects and increases in purchasing volumes linked to business growth. The ratio of current liabilities to total assets was 30.3% as of December 31, 2011, up from 25.6% at year end 2010.

Net financial liabilities increased by €602 million from the previous year to €1,515 million. The reasons for this development included our extensive capital expenditures and company acquisitions made in fiscal 2011.

The Group's key ratios developed as follows:

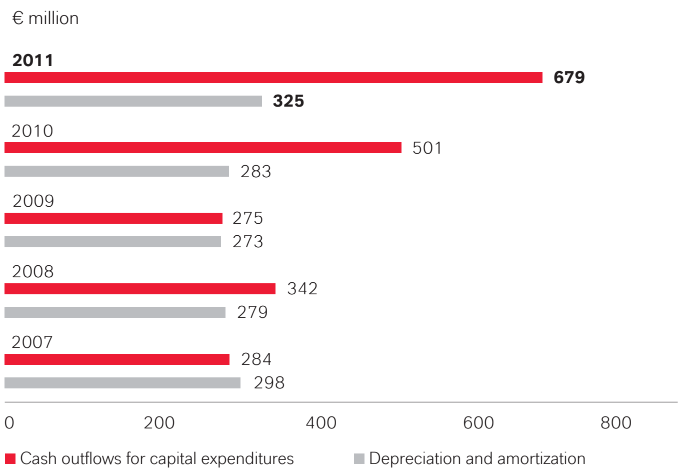
Ratios

%		2007	2008	2009	2010	2011
Equity ratio	Equity[1] / Total assets	37.7	29.2	28.5	31.1	30.2
Non-current asset ratio	Non-current assets / Total assets	44.6	47.2	47.0	48.3	50.7
Asset coverage I	Equity[1] / Non-current assets	84.4	61.7	60.7	64.3	59.4
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	165.1	151.8	165.8	153.9	137.3
Funding structure	Current liabilities / Total liabilities	42.3	40.0	30.9	37.2	43.5

1) Including non-controlling interests

Capital expenditures In 2011, capital expenditures for property, plant and equipment and intangible assets came to €700 million, compared to €529 million the year before, and led to cash outflows of €679 million (2010: €501 million). Depreciation and amortization totaled €325 million in the same period (2010: €283 million). This figure included €5 million in impairments reported as exceptional items (2010: €0 million). Adjusted for these impairments, capital expenditures in support of our growth strategy exceeded depreciation and amortization by a substantial 118% (2010: 87%).

Cash Outflows for Capital Expenditures vs. Depreciation and Amortization



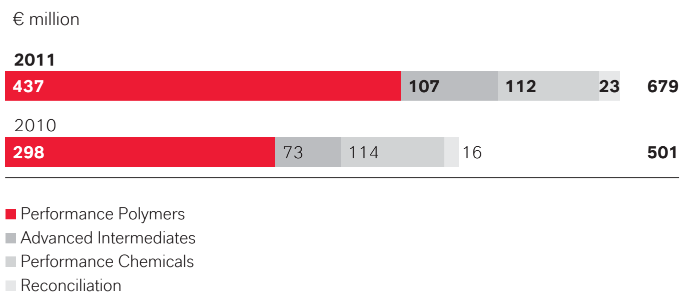
In 2011, capital expenditures focused on the following areas:

- construction of new facilities, expansion and maintenance of existing facilities;
- measures to increase plant availability;
- projects to improve plant safety, enhance quality and comply with environmental protection requirements.

71% of the capital expenditures in 2011 went toward expansion or efficiency improvement measures, while the rest went to replace existing facilities. This underlines our goal of generating further organic growth through investments, as described under "Earnings strategy" in the "Strategy" section of this Management Report.

In regional terms, 32% of capital expenditures in 2011 were made in Germany, 24% in the EMEA region (excluding Germany), 7% in North America, 6% in Latin America and 31% in Asia-Pacific. Major capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in all segments, to complete construction of a new plant for the Ion Exchange Resins business unit and to expand facilities for the Advanced Industrial Intermediates business unit. The large share of capital expenditures made in the Asia-Pacific region is due primarily to the construction of a new butyl rubber plant for the Butyl Rubber business unit in Singapore, the largest investment project in our company's history.

Cash Outflows for Capital Expenditures by Segment



In the Performance Polymers segment, capital expenditures were €447 million (2010: €298 million), €437 million (2010: €298 million) of which were cash outflows. Depreciation and amortization amounted to €161 million (2010: €141 million). The major capital expenditures in this segment were made in the Butyl Rubber business unit. Capital expenditures in the Advanced Intermediates segment amounted to €117 million (2010: €101 million). Cash outflows came to €107 million (2010: €73 million), exceeding the depreciation and amortization of €70 million (2010: €58 million). This figure includes capital expenditures in the Advanced Industrial Intermediates business unit for construction of a new formalin plant and expansion of menthol production in Krefeld-Uerdingen. In the Performance Chemicals segment, capital expenditures came to €113 million (2010: €114 million), €112 million (2010: €114 million) of which were cash outflows. Depreciation and amortization stood at €78 million (2010: €67 million). Key capital expenditures were the completion of a plant for water treatment products for the Ion Exchange Resins business unit in Bitterfeld, Germany, and the start of construction of a production facility for leather chemicals for the Leather business unit in Changzhou, China.

The following table shows major capital expenditure projects in the LANXESS Group.

Selected Capital Expenditure Projects 2011

Segment	Site	Description
Performance Polymers		
Butyl Rubber	Singapore	Construction of a new butyl rubber plant, start-up in the first quarter of 2013
Butyl Rubber	Zwijndrecht, Belgium	Expansion of butyl rubber capacities
Performance Butadiene Rubbers	Orange, U.S.A.	Expansion of neodymium polybutadiene rubber capacities
Performance Butadiene Rubbers	Singapore	Construction of a new neodymium polybutadiene rubber plant, start-up in the first half of 2015
Technical Rubber Products	Leverkusen, Germany; Orange, U.S.A.	Expansion of synthetic rubber capacities
Technical Rubber Products	Geleen, Netherlands	Conversion of EPDM rubber production to innovative Keltan ACE technology
Semi-Crystalline Products	Jhagadia, India; Gastonia, U.S.A.; Porto Feliz, Brazil	Construction of three new compounding plants for high-tech engineering plastics
Semi-Crystalline Products	Antwerp, Belgium	Expansion of glass fiber capacities
Semi-Crystalline Products	Hamm-Uentrop, Germany	Doubling of high-tech plastics capacities at plant operated jointly with U.S. company DuPont
Advanced Intermediates		
Advanced Industrial Intermediates	Krefeld-Uerdingen, Germany	Construction of a new formalin plant
Advanced Industrial Intermediates	Krefeld-Uerdingen, Germany	Expansion of menthol production, completion in the first half of 2012
Performance Chemicals		
Ion Exchange Resins	Bitterfeld, Germany; Jhagadia, India	Completion of facilities for membrane filtration technology and ion exchange resins
Rhein Chemie	Burzaco, Argentina	Expansion of vulcanization bladder capacities
Leather	Changzhou, China	Construction of a new plant for leather chemicals

Expansion of investment portfolio Please see the "Key additions to the Group portfolio" section of this Management Report for more information on the subsidiaries and affiliates added to our portfolio in fiscal 2011, including the acquisition of DSM's Keltan EPDM business, the Darmex group, Unitex and Verichem.

Financial condition

- High operating cash flow thanks to strong business performance
- Cash tied up in working capital increases due to raw material prices
- Cash used for investing activities reflects acquisitions and extensive capital expenditures for growth projects
- Liquidity reserve for continued implementation of growth strategy

The cash flow statement shows inflows and outflows of cash and cash equivalents by type of business operation.

Cash Flow Statement

€ million	2010	2011	Change
Income before income taxes	493	655	162
Depreciation and amortization	283	325	42
Other items	(126)	(52)	74
Net cash provided by operating activities before change in working capital	**650**	**928**	**278**
Change in working capital	(220)	(256)	(36)
Net cash provided by operating activities	**430**	**672**	**242**
Net cash used in investing activities	**(375)**	**(923)**	**(548)**
Net cash provided by (used in) financing activities	**(214)**	**276**	**490**
Change in cash and cash equivalents from business activities	(159)	25	184
Cash and cash equivalents as of December 31	160	178	18

2010 figures restated

Cash provided by operating activities, before changes in working capital, increased by a significant €278 million to €928 million in fiscal 2011 compared to the year before. This was mainly due to income before income taxes, which grew by €162 million over the prior year to €655 million. The LANXESS Group's asset base expanded due to our extensive investment and acquisition activities, and depreciation and amortization increased as a result from €283 million to €325 million. The change in other items is primarily due to lower income tax payments in the year under review. A further €30 million (2010: €75 million) was paid into LANXESS Pension Trust e.V. (CTA) during the reporting year for the external financing of the company's pension obligations.

The increase in working capital compared to December 31, 2010 resulted in a cash outflow of €256 million. The outflow from the change in working capital in 2010 was €220 million. The increase in operating cash flow in 2011 is mainly attributable to higher prices for raw materials as well as to the strong operating business and the associated replenishment of inventories and increase in receivables. This was financed from the high cash inflows yielded by operating activities.

LANXESS's investing activities in fiscal 2011 resulted in a cash outflow of €923 million, up from €375 million in the previous year. Disbursements for intangible assets and property, plant and equipment totaled €679 million, which was €178 million more than in fiscal 2010. The cash outflows for the acquisition of subsidiaries and other businesses, net of acquired cash and subsequent purchase price adjustments, amounted to €285 million. Cash inflows from financial assets came to €24 million and mainly comprised the proceeds from the sale of short-term money market investments, which offset the cash outflows for the purchase of additional shares of Gevo Inc. in the United States and the capital increase at LANXESS-TSRC (Nantong) Chemical Industrial Co. Ltd. in China, which is accounted for using the equity method in the consolidated financial statements.

Free cash flow – the difference between the cash inflows from operating activities and the cash used in investing activities – decreased by €306 million from €55 million in 2010 to minus €251 million, a development attributable to the extensive investments and acquisitions we carried out in the year under review in pursuit of our growth strategy.

Net cash provided by financing activities came to €276 million, against a net outflow of €214 million the year before. Borrowing resulted in cash inflows of €655 million, mainly from the issue of a €500 million Euro Benchmark Bond in May and from an installment loan of €120 million granted by the Kreditanstalt für Wiederaufbau (KfW). Principal and interest payments were comparable to the previous year's amounts. A €58 million outflow was accounted for by the dividend paid to the stockholders of LANXESS AG in May (2010: €42 million).

The net change in cash and cash equivalents from business activities in fiscal 2011 was €25 million (2010: minus €159 million). After taking into account other changes in cash of minus €7 million, cash and cash equivalents at the closing date amounted to €178 million (2010: €160 million). Taken together with near-cash assets (short-term investment of liquid assets in money market funds) of €350 million (2010: €364 million), the Group retained a sound liquidity position of €528 million as of December 31, 2011 (2010: €524 million).

Principles and objectives of financial management LANXESS pursues a conservative financial policy characterized by secured long-term financing and the forward-looking management of financial risks. Our aim is to be able to provide sufficient liquidity to our business operations at all times, regardless of cyclical fluctuations in the real economy or financial markets. The debt level is largely aligned to the ratio systems of the leading rating agencies for investment-grade companies. In addition to liquidity risk, financial management also covers other financial risks, such as interest and foreign exchange risks. Here too, we aim to mitigate the financial risks that arise and increase planning reliability, partly by using derivative financial instruments. Detailed information about the management of these risks is contained in the Risk Report and in Note [35], "Financial instruments," to the Consolidated Financial Statements. The success and accuracy of our financial management was confirmed in fiscal 2011, as in previous years. Our sound financial position and our rating were not adversely affected by the volatility of the capital markets. This stable financial condition enabled us to successfully pursue our growth strategy and attain our operational targets.

LANXESS Group ratings Access to the capital markets and good relations with German and international commercial banks are essential for achieving our financial management objectives. Accordingly, ongoing dialogue and communication with banks, investors and rating agencies are of crucial importance. In fiscal 2011, the latter continued to assess LANXESS's creditworthiness with ratings of BBB and Baa2 with stable outlook. They also emphasized that our conservative financial policy coupled with the aforementioned objectives is a very important factor in the retention of these ratings.

Development of LANXESS Ratings and Rating Outlook Since 2007

	2007	2008	2009	2010	2011
Standard & Poor's	BBB/stable July 31, 2007	BBB/stable May 16, 2008	BBB/stable May 28, 2009	BBB/stable Sept. 1, 2010	BBB/stable Aug. 23, 2011
Moody's Investors Service	Baa2/stable July 17, 2007	Baa2/stable July 25, 2008	Baa2/stable May 26, 2009	Baa2/stable May 19, 2010	Baa2/stable Nov. 23, 2011
Fitch Ratings	BBB/stable May 31, 2007	BBB/stable Dec. 4, 2008	BBB/stable July 20, 2009	BBB/stable Dec. 17, 2010	BBB/stable Nov. 22, 2011

Financing analysis LANXESS started fiscal 2011 with a very sound financial and liquidity position thanks largely to our ongoing commitment to our conservative financial policy and to the increase in our operating income in fiscal 2010. Particularly notable in this regard is the elimination of the financial covenant from our syndicated credit facility in the amount of €1.408 billion and the conclusion of new loan agreements for €450 million without financial covenants. Additional information is provided in the "Liquidity analysis" section.

There was no material change in our solid financial situation in fiscal 2011. The improvement in earnings from business operations financed the growth in current assets and the increase in capital expenditures in property, plant and equipment. We succeeded in financing additional growth from acquisitions using existing liquidity and credit lines, which resulted in higher net financial liabilities compared to the previous year. Initially, this led to a reduction in the liquidity reserves available at the start of the year. In May 2011, we took advantage of the favorable market environment to place a €500 million bond with a term of seven years. This helped us strengthen our liquidity position at favorable terms and created financial reserves for redemption of the €402 million bond that matures in 2012. Accordingly, the cash and cash equivalents and near-cash assets items in the statement of financial position were close to the prior-year levels at €178 million (2010: €160 million) and €350 million (2010: €364 million), respectively.

LANXESS launched a €2.5 billion debt issuance program in March 2009. Using this documentation base, aligned with the prevailing market conditions, bonds can be placed very flexibly on the capital market. The €500 million bond placed in May 2011 was based on this documentation. As of December 31, 2011, just under half of the €2.5 billion financing facility had been utilized since 2009 to issue three bonds with a total volume of €1.2 billion.

The other financing measures implemented in the year under review served primarily to finance internal and external growth projects, improve the maturity structure of our financial liabilities, and make timely preparations ahead of the aforementioned bond redemption in 2012. In spring 2011, new long-term credit facilities amounting to around €330 million were arranged. An additional credit facility for €120 million with a term of up to seven years was obtained in September 2011 and utilized in October. In total, we successfully obtained new financing amounting to some €950 million in 2011. These transactions were the main reason for the increase in long-term borrowings from €1,302 million to €1,465 million.

Current financial liabilities increased from €176 million to €633 million, primarily because the €402 million bond which matures in 2012 was reclassified from non-current to current financial liabilities.

We also used finance leases to further diversify financing sources. These are reported accordingly as financial liabilities in the statement of financial position. As of December 31, 2011, this item amounted to €84 million, against €90 million in the previous year. Minimum future payments relating to lease agreements and operating leases totaled €418 million (2010: €235 million). The increase over the prior year is principally due to the construction of the new production facility in Singapore and conclusion of the lease for the new Group headquarters in Cologne.

As of December 31, 2011, LANXESS had no material financing items not reported in the statement of financial position in the form of factoring, asset-backed structures or project financing, for example.

LANXESS's total financial liabilities, i.e. net of accrued interest, climbed from €1,437 million in 2010 to €2,043 million as of December 31, 2011. Net financial liabilities – the total financial liabilities net of cash and near-cash assets – rose by €602 million, from €913 million to €1,515 million.

Of the total financial liabilities, some 98% bear a fixed interest rate over the term of the financing, which is comparable to the previous year. Interest rate changes therefore do not have a material effect on LANXESS's financial condition considering the current financing structure. The average proportion of loans and bonds denominated in euros was 97% (2010: 94%). The weighted average interest rate for our financial liabilities was 5.3% at year end 2011 (2010: 5.9%).

The following overview shows LANXESS's financing structure as of December 31, 2011 in detail, including its principal liquidity reserves.

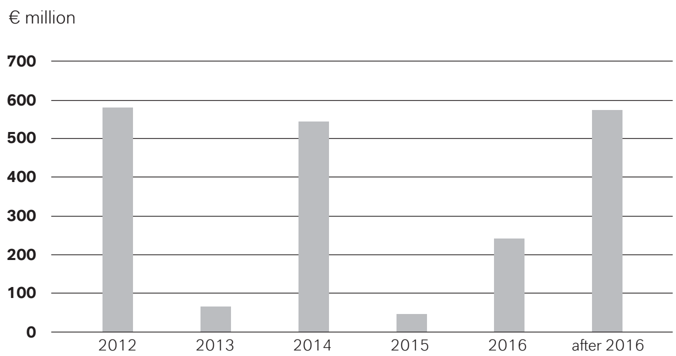
Financing Structure

Instrument	Amount € million	Maturity	Interest rate %	Financial covenant[1]
Eurobond 2005/2012 (€402 million)	401	June 2012	4.125	no
Eurobond 2009/2014 (€500 million)	497	April 2014	7.750	no
Eurobond 2009/2016 (€200 million)	199	September 2016	5.500	no
Eurobond 2011/2018 (€500 million)	496	May 2018	4.125	no
Investment loan	80	December 2017		no
Development bank loan	120	September 2018		no
Other loans	166	n/a		no
Finance lease	84	n/a		no
Total financial liabilities	**2,043**			
Cash	178	<=90 days		
Near-cash assets	350	<=90 days		
Total liquidity	**528**			
Net financial liabilities	**1,515**			

1) Ratio of net financial liabilities to EBITDA pre exceptionals

Thanks to extensive financing measures taken in past fiscal years, we have continually improved the maturity profile of our financial liabilities. At the time this Group Management Report was finalized, LANXESS therefore had no need for substantial refinancing other than for the €402 million Euro Benchmark Bond that matures in June 2012. The other loans relate mainly to short- and medium-term use of credit facilities by subsidiaries in Brazil, China, India and Argentina, some of which mature in 2012. Because these facilities are regularly extended – annually, for example – we do not expect any need for substantial refinancing.

Maturity Profile of LANXESS Financial Liabilities as of Dec. 31, 2011



Liquidity analysis In addition to cash of €178 million and various investments in highly liquid AAA money market funds of €350 million, LANXESS has additional sizeable liquidity reserves in the form of undrawn credit facilities. The investments in money market funds are undertaken only at European Group companies that are not subject to restrictions on foreign exchange and capital transfers. We can therefore freely dispose of the funds. Around 85% of our cash is held in Group companies in countries with no restrictions on foreign exchange and capital transfers. Only about 15% of our cash is held in companies in regulated capital markets where cash transfers are restricted.

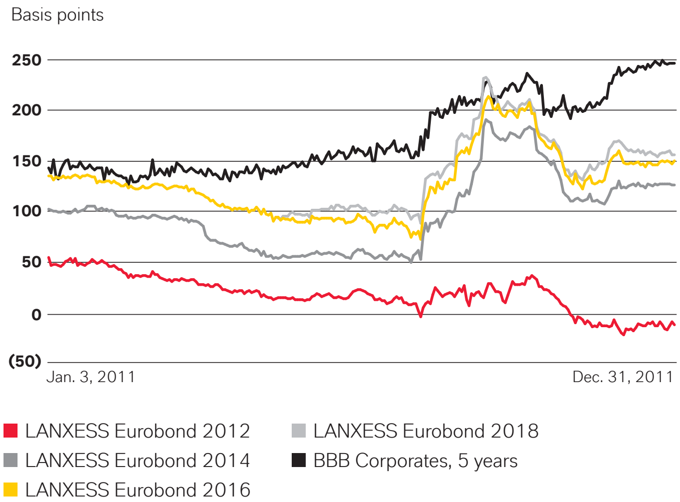
Thanks to our strong liquidity position, our solvency was assured at all times in fiscal 2011. This is an aspect that was assessed positively by the rating agencies in their credit ratings in 2011.

By far the most important of our credit lines is the syndicated credit facility of €1.4 billion that is valid until November 2014 and was undrawn at the end of 2011. This credit facility is designed as an operating line of credit and to provide funds for capital investment. It corresponds to market requirements in the European syndicated loan market for investment-grade companies with a BBB rating. In April 2011, the financial covenant made for this credit line, which existed in addition to the standard rights and obligations of the parties to syndicated loan contracts, was eliminated for the remaining duration of the credit facility by arrangement with the lending banks. The essence of the covenant was that the net financial liabilities excluding pension obligations could not exceed 3.5 times EBITDA pre exceptionals. As of December 31, 2011, this ratio was 1.3 (1.0 in the previous year). Just like the stable ratings issued by the rating agencies, this is a good indicator of LANXESS's very sound financial management. At this time, therefore, none of our major loan agreements contains a financial covenant. LANXESS had unused credit lines totaling around €1.8 billion as of December 31, 2011.

The total of liquid assets and undrawn credit lines gives us a liquidity scope of more than €2.3 billion. Given the ongoing volatility of the capital markets, the capital market liabilities maturing in 2012 and our growth targets, this liquidity reserve is an expression of our forward-looking and conservative financial policy. Our solvency is safeguarded for the short and long term, and we also do not expect any liquidity bottlenecks going forward.

Bond performance – evolution of credit spread in 2011 An important indicator for corporate bonds, apart from the absolute change in price, is the relative valuation of the risk specific to the issuer in comparison to a reference interest rate. This credit risk premium is expressed in what is known as the credit spread. Due to the higher default risk associated with longer bond maturity, long-term bonds generally feature a wider credit spread. This, and factors such as liquidity and trading volume, also apply to the various LANXESS bonds. The chart below shows the evolution of the credit spreads of our bonds and the average credit spread of corporate bonds with a BBB rating and a five-year maturity in comparison to the interest rate swap curve.

LANXESS Eurobond Spreads vs. BBB Corporates Index



As in 2010, credit spreads for corporate bonds continued to be strongly influenced by financial market uncertainties throughout 2011. Spreads were still relatively stable in the first half of the year, but then started to widen from the second quarter of 2011 in response to the European debt crisis.

Credit spreads in the BBB-rated reference group were relatively constant in the first half of 2011, when market conditions were favorable. Our spreads increasingly improved, particularly in the second quarter, and therefore outperformed the BBB reference index. In the second six months, the market for government and corporate bonds was dominated by growing uncertainty about the escalating debt crises in Greece and other peripheral eurozone countries, causing credit risk premiums to rise sharply. As a result of this development, the spreads on our bonds widened by up to 140 basis points, drawing much closer to the BBB reference index in the third quarter. In the fourth quarter, our spreads improved significantly compared to the BBB-rated reference group and thus ended the year only slightly higher than at the start of the year. The substantially improved spread of our bond that matures in June 2012 was due particularly to the short remaining term.

Management's summary of the fiscal year

Fiscal 2011 was characterized by the economic upturn carried over from 2010, which varied by region and lost momentum in the second half of the year.

We succeeded in boosting sales by 23.2% year on year. Adjusted for currency and portfolio effects, operational sales rose by 19.9%, largely due to higher prices. Driven mainly by business in the Performance Polymers segment, all regions contributed significant double-digit percentage growth to this result.

Our price-before-volume strategy remained intact in 2011. Year on year, EBITDA pre exceptionals increased substantially, exceeding the €1 billion mark for the first time in the course of the year. The EBITDA margin also improved further. Earnings per share rose significantly compared to the prior year due to the high after-tax income.

Based on our conservative accounting and financing policies, our statement of financial position is solid. Of special note is the equity ratio of 30.2%. Total assets increased, mainly due to acquisitions, and working capital rose substantially compared to the previous year because of our very positive business performance in the reporting year. In accordance with the consistency principle, we applied the same measurement methods and exercised the same discretion as in the previous year. For further information, please see the explanations in the "Estimation uncertainties and exercise of discretion" section in the Notes.

Our liquidity position is solid, as shown by the statement of financial position, and additional substantial liquidity reserves are also available. Of the total financial liabilities, some 98% bear a fixed interest rate over the term of the financing, which is comparable to the previous year. Interest rate changes therefore do not have a material effect on the LANXESS Group's financial condition considering the current financing structure. As a result of successful negotiations last year, our financial liabilities are now free of financial covenants.

Net financial liabilities stand at €1,515 million, which is 1.3 times EBITDA pre exceptionals. In fiscal 2011, the rating agencies reconfirmed the LANXESS Group's creditworthiness with ratings of BBB and Baa2 with stable outlook.

Through the acquisitions made in the reporting year, we have placed our business on a broader base and unlocked additional growth potential. In particular, the purchase of the Keltan EPDM business of Royal DSM N.V. has enabled us to acquire a leading technology for our Performance Polymers segment that provides the prospect of attractive profits. The transactions completed for our Performance Chemicals segment strengthen the core competencies of the affected business units and open up new business opportunities, especially with Darmex's vulcanization bladder technology.

In view of this business performance and our sound liquidity and financing positions, we believe that our company's business situation is positive overall and provides a suitable foundation for attaining the profitable growth targets we have set. The first two months of fiscal 2012 have gone well and have been characterized by solid demand resulting from the careful inventory management undertaken by our customers at the end of the previous year.

Business Ratios – Multi-Period Overview

€ million	2007	2008	2009	2010	2011
Earnings performance					
Sales	6,608	6,576	5,057	7,120	8,775
EBITDA pre exceptionals	719	722	465	918	1,146
EBITDA margin pre exceptionals	10.9%	11.0%	9.2%	12.9%	13.1%
EBITDA	513	602	422	890	1,101
Operating result (EBIT) pre exceptionals	472	462	204	635	826
Operating result (EBIT)	215	323	149	607	776
EBIT margin	3.3%	4.9%	2.9%	8.5%	8.8%
Net income	112	183	40	379	506
Earnings per share (€)	1.32	2.20	0.48	4.56	6.08
Liquidity					
Cash flow from operating activities	470	492	565	430	672
Depreciation and amortization	298	279	273	283	325
Cash outflows for capital expenditures	284	342	275	501	679
Net financial liabilities	460	864	794	913	1,515
Assets and liabilities					
Total assets	4,049	4,592	5,068	5,666	6,878
Non-current assets	1,806	2,169	2,382	2,738	3,489
Current assets	2,243	2,423	2,686	2,928	3,389
Net working capital	1,217	1,289	1,096	1,372	1,766
Equity (including non-controlling interests)	1,525	1,339	1,445	1,761	2,074
Pension provisions	470	498	569	605	679
Key data					
ROCE	17.7%	15.4%	5.9%	17.0%	17.2%
Equity ratio	37.7%	29.2%	28.5%	31.1%	30.2%
Gearing	30.2%	64.5%	54.9%	51.8%	73.0%
Non-current asset ratio	44.6	47.2	47.0	48.3	50.7
Asset coverage I	84.4	61.7	60.7	64.3	59.4
Net working capital/sales	18.4%	19.6%	21.7%	19.3%	20.1%
Employees (as of December 31)	14,610	14,797	14,338	14,648	16,390

2008 figures restated

Employees

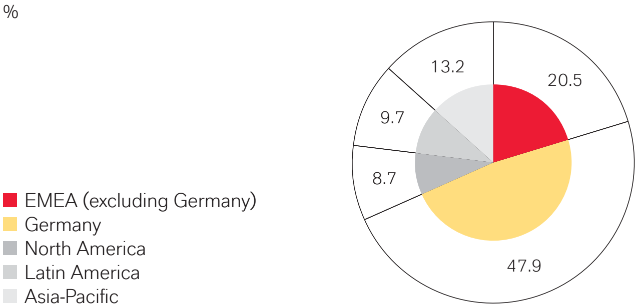
As of December 31, 2011, the LANXESS Group had a total of 16,390 employees, 2,895 of whom were women and 8,472 of whom were non-German nationals. This was 1,742 more than a year earlier, including 301 women and 1,517 non-German nationals. In addition, we had 416 employees working on temporary employment contracts. The number of employees increased primarily as a result of acquisitions plus additional new hires within the framework of LANXESS's growth strategy. Part-time employees currently account for 10.5% of the workforce at our German core companies.

In the EMEA region (excluding Germany), the number of employees as of December 31, 2011 was 3,357, up from 2,638 in the previous year. In Germany, the headcount grew from 7,590 to 7,846. The number of employees in North America rose from 1,309 as of December 31, 2010 to 1,427, while Latin America saw its workforce expand from 1,215 in the previous year to 1,585. At the reporting date, we also had a higher headcount in Asia-Pacific, where the increase from 1,896 to 2,175 reflected our expansion through acquisitions and organic growth.

Personnel expenses totaled €1,244 million in fiscal 2011 (2010: €1,141 million). Wages and salaries, at €985 million (2010: €912 million), accounted for the greater part of this figure. Social security contributions were €174 million (2010: €160 million), while pension plan expenses totaled €77 million (2010: €61 million), and social assistance benefits came to €8 million (2010: €8 million).

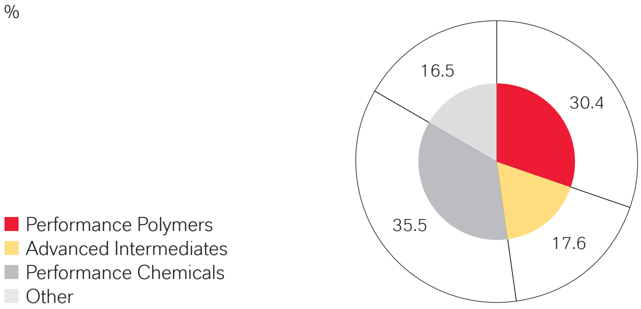
Employees by Region

%



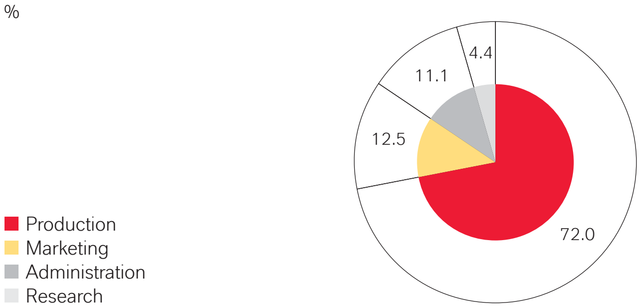
Employees by Segment

%



Employees by Functional Area

%



Working conditions and HR policy

Our success is fundamentally based on the performance and commitment of our employees. The only way to reach our corporate goals and ensure our competitiveness is through focused and sustainable training and development of our workforce. By actively exercising social responsibility, providing attractive jobs in an international environment with flat hierarchies, offering performance-based, market-rate compensation, and promoting a culture that inspires leadership and trust, we give our employees access to remarkable career development opportunities.

In addition to developing and implementing innovative concepts for mastering the challenges resulting from demographic change, the top long-term strategic human resources goal is to attract and cultivate talented employees, regardless of their national origin or gender. To this end, we are also working to continually expand our tools for building a comprehensive employer brand that enables us to recruit, integrate and retain talented young people and professionals for LANXESS worldwide. We involve our existing employees at numerous internal and external events to provide an authentic picture of LANXESS as an employer. Working together with our specialist departments, we have systematically expanded our network of contacts with research institutes, colleges and universities worldwide.

A major focus in the year under review was support for internal and external growth. In this context, we exercised special care in integrating new employees into the Group, particularly when they joined us as the result of acquisitions.

One of the pillars of our human resources policy is close cooperation between employee representatives and management, including labor unions and employer associations, in line with the principle of active codetermination. Nearly 70% of our employees worldwide are covered by the terms of collective agreements; in Germany this figure is more than 90%.

We maintain a close dialogue with employee representative bodies in Germany, Europe and around the world to regularly discuss our corporate goals and involve these bodies in organizational change processes at an early stage. In the crisis year 2009, for example, as part of the Challenge09-12 program in Germany, we implemented QUEST in response to declines in production. This is a training, deployment and job management center that serves as an internal job placement office for employees affected by capacity reductions. An internal team of consultants supports the affected employees in qualifying for new tasks and finding jobs inside or outside the company. As of December 31, 2011, a permanent solution or a new challenge had been found for more than 87% of the employees affected. The placement phase was accompanied by the offer of temporary assignments inside and outside the LANXESS Group. This innovative instrument has already proved its value as a means of preventing job reductions.

Compensation and stock plan

Following our excellent business performance in 2011, we made a total of €100 million available to give our employees worldwide a share in the company's success. Much of this amount was paid out in the form of an additional bonus. Our managers are able to reward outstanding employee performance quickly and unbureaucratically. In fiscal 2011, this resulted in payments of €8.7 million worldwide (€6.4 million in Germany) for outstanding individual performance.

We strive for a merit-based compensation system linked to our company's success and employees' individual performance. Compensation systems that include variable compensation components in addition to fixed remuneration have been implemented for more than 85% of our employees.

We again offered an employee stock plan in 2011. All LANXESS Group employees in Germany were given the opportunity to buy LANXESS shares at a 50% discount. The shares were purchased on the Frankfurt Stock Exchange at an average price of €57.54. The participation rate was 75%. At the reporting date, our employees and Board of Management members held around 1% of the company's shares through stock plans.

The Board of Management launched a plan to succeed the LANXESS Long-Term Incentive Plan (LTIP) for the years 2010 to 2013. The Long-Term Stock Performance Plan 2010–2013 (LTSP) comprises four tranches, one commencing each year. This plan compares the company's value against the Dow Jones STOXX 600 Chemicals℠ index over a period of four years. The participation rate is 89.7%.

Vocational training

Providing vocational training for young people has always been a high priority at LANXESS. It helps to safeguard the company's future and is an element of our social responsibility. In 2011, we strengthened the marketing activities for our vocational training programs in various media, attended all major regional career fairs and visited schools. We also address interested young people directly at our own events, such as "neXt Azubi" (neXt Apprentice), where we give them valuable guidance about their subsequent career choices.

In Germany, young people can opt to combine vocational training at LANXESS with university studies, or they can complete a traditional scientific, technical or commercial training program in our plants and departments. In addition to the combined IT vocational training and study program, we will strengthen our natural sciences offering in the future with a combined program of university studies and vocational training in the fields of technical chemistry and business administration. With a view to leveraging expertise and synergies, we are supported by the Training Department of our affiliate Currenta GmbH & Co. OHG for some aspects of theoretical training and for organizational and administrative functions.

Across Germany, 317 young people were being trained in 14 different career paths as of the December 31, 2011 reporting date. This means we are providing solid training opportunities for significantly more young people than we need to meet our own requirements. Despite fluctuating employee numbers and the economic crisis, we have directly or indirectly hired 253 trainees for temporary and permanent positions in recent years. We expressly seek out the opportunity to promote the concept of combined vocational training and studies outside Germany as well. In China, for instance, we have entered into a partnership with Changzhou Institute of Engineering Technology to attract larger numbers of technically skilled employees, bringing our diverse experience and practical focus to the program.

Each year, under the motto "Prepare for the Future," we attract particularly highly skilled university graduates for our LANXESS corporate trainee programs. Through the end of 2011, 51 highly qualified university graduates had taken part in various intakes of our trainee program. Our aim is to prepare the participants for an international career within the LANXESS Group and establish a global pool of young managers with an international perspective.

In 2010, we created the China Management Trainee Program specifically for the Chinese market. This two-year program aims to prepare highly qualified business and technology graduates for management roles and create a pool of local talent. In China, we were again honored as "China's Top Employer" by the CRF Institute. In the United States, we received two prestigious "Best Places to Work" awards: in Pennsylvania and in Ohio. At our Pittsburgh site, we were also named "Manufacturer of the Year" by the Pittsburgh Business Times.

Employee development

We assign great importance to motivating employees throughout their entire career to undertake continuing professional development and accept new challenges within the Group regardless of their age. To promote the talents of individual employees, LANXESS has established a systematic, multi-stage process of global employee development conferences where future managerial employees from around the world are regularly evaluated with regard to their potential. In 2011, the LANXESS Academy continued promoting leadership and management skills with nearly all managers from around the world attending its modular programs as part of the uniform leadership system that is in effect throughout the LANXESS Group. In addition, we provided extensive support to our young managers through focused coaching and modular leadership seminars.

In view of our ambitious growth targets, one focus of our human resources development activities in 2011 was the creation of the International LANXESS Sales Academy (ILSA), which offers a tailored and practical training program to all sales employees worldwide. The one-year modular program aims to develop both the specialist knowledge and soft skills of our sales employees. It perfectly complements the programs already in place in the business units and countries by facilitating communication and the sharing of best practices across business units and national borders. We believe that the broad qualification of our global sales team gives us an important lever for further improving our customer relationships. It also gives LANXESS a crucial competitive edge in today's global markets.

Occupational safety

The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, is the key indicator we use to assess occupational safety. The LTIFR in 2011 was 2.7, a slight deterioration on the previous year (2.3). This resulted primarily from a number of accidents at just one site – our chrome ore mine in South Africa. The site has gained statistical relevance through the international harmonization of our reporting structures and the employee situation there. A special program aimed at significantly reducing the number of accidents is already being implemented.

Idea management

When LANXESS employees have good ideas for improving work procedures, plants and processes, these ideas pay off. An idea management system fosters the development, processing and implementation of suggestions for improvements to ensure that we will continually receive proposals for enhancing cost-effectiveness, occupational safety and environmental protection. In 2011, employees at our German companies submitted 3,191 new suggestions, a rate of 445 per thousand employees. In the same period, 1,199 ideas were implemented, yielding total savings of €2.2 million. 759 of these ideas led to improvements in occupational safety and environmental protection.

Compensation report

A description of the compensation system and details of the compensation paid to the individual members of the Board of Management and the Supervisory Board are contained in the "Compensation report" starting on page 123, which is equally a part of this Group Management Report.

Report pursuant to Section 315 Paragraph 4 of the German Commercial Code

Pursuant to Section 315 Paragraph 4 Nos. 1 to 9 of the German Commercial Code, we hereby make the following declarations:

1. The capital stock of LANXESS AG amounted to €83,202,670 as of December 31, 2011 and is composed of 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.

2. We are not aware of any restrictions affecting voting rights or the transfer of shares. However, shares allocated under employee stock plans are subject to a lock-up period before they may be sold.

3. We received no reports of direct or indirect equity investments in the capital of LANXESS AG exceeding 10% of total voting rights.

4. No shares carry special rights granting control authority.

5. Employees hold a direct interest in the capital of LANXESS AG through employee stock programs. There are no restrictions on directly exercising the control rights arising from these shares.

6. Sections 84 and 85 of the German Stock Corporation Act and Section 31 of the German Codetermination Act apply to the appointment and dismissal of Board of Management members. Under the provisions of these sections, Board of Management members are appointed by the Supervisory Board for a term not exceeding five years. Such appointment may be renewed or the term of office may be extended, provided that the term of each such renewal or extension shall not exceed five years. Appointments require a majority of at least two-thirds of the Supervisory Board members' votes. Section 6 Paragraph 1 of the articles of association states that the Board of Management must consist of at least two members. Over and above this, the number of members of the Board of Management is determined by the Supervisory Board. The Supervisory Board may appoint a chairman of the Board of Management and a vice chairman of the Board of Management. Alternative members of the Board of Management may be appointed. The Supervisory Board may revoke the appointment of a member of the Board of Management or the appointment of a member as Chairman of the Board of Management for cause (Section 84 Paragraph 3 of the German Stock Corporation Act).

   Section 179 of the German Stock Corporation Act provides that a resolution of the Stockholders' Meeting is required for any amendment to the articles of association. Pursuant to Section 17 Paragraph 2 of the articles of association, resolutions of the Stockholders' Meeting require a simple majority of the votes cast and, if a capital majority is required, a simple majority of the capital stock, unless otherwise required by law or provided by the articles of association. The articles of association contain no further provisions in this regard. Section 10 Paragraph 9 of the articles of association of LANXESS AG authorizes the Supervisory Board to resolve on amendments relating solely to the form of the articles of association.

7. The Board of Management of LANXESS AG has been authorized to issue or repurchase shares as follows:

   Repurchase of own shares On May 18, 2011, the Annual Stockholders' Meeting of LANXESS AG issued an authorization, valid through May 17, 2016, to the Board of Management to purchase shares of the company up to a total of 10% of the company's capital stock for any legally permissible purpose. The company's affiliates as well as any third parties acting on the company's or its affiliates' behalf may also exercise this authority. At the discretion of the Board of Management, such shares may be acquired on the stock exchange or via a public purchase offer. The Board of Management is authorized to use them for any purpose permitted by law. In particular, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interests in companies or in order to conclude mergers. It is also authorized to use them to satisfy conversion rights from convertible or warrant bonds and/or profit-participation rights or income bonds (or any combination of these instruments) issued by the company and to grant holders of convertible or warrant bonds and/or profit-participation rights or income bonds (or any combination of these instruments) issued by the company or its direct and indirect affiliates that grant a conversion or option right or stipulate a conversion or warrant obligation the number of shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights or fulfillment of the conversion or warrant obligation. Except when shares are retired, the subscription right of stockholders shall be excluded in the aforementioned cases.

   Conditional capital The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011, authorized the Board of Management until May 17, 2016, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as "bonds") – either as registered or as bearer bonds – with a total nominal value of up to €2,000,000,000, with or without limited maturity, and to grant option rights to, or impose option obligations on, the holders or creditors of warrant bonds, profit-participation rights with warrants or income bonds with warrants, and/or to grant conversion rights to, or impose conversion obligations on, the holders or creditors of convertible bonds, convertible profit-participation rights or convertible income bonds in respect of bearer shares of the company representing a total pro-rata increase of up to €16,640,543 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4 Paragraph 4 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €16,640,534 (Conditional Capital).

   The conditional capital increase shall only be implemented to the extent that the holders or creditors of, or persons obligated to exercise, option or conversion rights pertaining to bonds issued by the company or a dependent company against cash contributions, or issued against cash contributions and guaranteed by the company or a dependent company, on or before May 17, 2016 on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 18, 2011, exercise their option or conversion rights or, where they are obligated to do so, fulfill such obligation, or to the extent that the company elects to grant shares in the company in place of all or part of the cash amount due for payment. The conditional capital increase shall not be implemented if cash compensation is granted or if the company's own shares, shares issued out of authorized capital or shares in another listed company are used to service the option or conversion rights.

When issuing bonds, the Board of Management is authorized, with the approval of the Supervisory Board, to exclude subscription rights in the following cases:

- for residual amounts resulting from the subscription ratio;
- insofar as is necessary to grant to holders of previously issued option or conversion rights or obligations subscription rights to the number of new shares to which they would be entitled to subscribe as stockholders upon exercise of their option or conversion rights or fulfillment of their option or conversion obligations;
- in the case of issuance against cash contributions, if the issue price is not significantly below the theoretical market value of the bonds with option or conversion rights or conversion obligations, as determined using accepted pricing models; if bonds are issued by application of Section 186 Paragraph 3 Sentence 4 of the German Stock Corporation Act, in which case the issued shares may not exceed a total of 10% of the capital stock either at the time this authorization takes effect or at the time it is utilized;
- if profit-participation rights or income bonds without option or conversion rights or conversion obligations are vested with bond-like characteristics.

Authorized Capital I and II Pursuant to Section 4 Paragraph 2 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 7, 2009 authorized the Board of Management until May 6, 2014, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Further details are given in Section 4 Paragraph 2 of the articles of association.

In addition, pursuant to Section 4 Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 28, 2010 authorized the Board of Management until May 27, 2015, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Further details are given in Section 4 Paragraph 3 of the articles of association.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the compensation report in this Management Report. Such agreements, albeit with different terms, also exist between the company and members of the first and second levels of upper management. In addition, the terms of the €500 million Euro Benchmark Bond issued by LANXESS Finance B.V. in 2005 contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. The bond was guaranteed by LANXESS AG. The same applies to the terms of the €500 million and €200 million Euro Benchmark Bonds issued by LANXESS Finance B.V. in the 2009 fiscal year, the €500 million Euro Benchmark Bond issued by LANXESS Finance B.V. in the 2011 fiscal year as well as the CN¥500 million bond issued by LANXESS Finance B.V. in February 2012, which

are all guaranteed by LANXESS AG. The company has signed an agreement with one major bank for a loan of €93 million. This agreement may be terminated without notice or repayment of the outstanding loan may be required if another company or person gains control of more than 50% of LANXESS AG. The same applies to two additional loan agreements for €200 million and €120 million that LANXESS Finance B.V. signed with investment banks in fiscal 2011. The company also entered into an agreement with a syndicate of banks concerning a credit facility that is currently at €1,408 million. This agreement can also be terminated without notice if another company or person takes control over more than 50% of LANXESS AG. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.

9. The service contracts between the company and the members of the Board of Management of LANXESS AG as well as between the company and members of the first and second levels of upper management of LANXESS AG contain compensation agreements applicable in the event of a change of control, as such change is more particularly described in the respective contracts.

Procurement and production

Procurement

LANXESS uses a centrally managed global procurement organization to ensure a reliable supply of materials and services. Global Categories coordinate with our business units to pool requirements. Our worldwide procurement network helps them leverage purchasing synergies, so that we can move efficiently in the market and exploit price advantages. We avoid delivery bottlenecks or reliance on individual suppliers using techniques like multiple sourcing. We systematically apply best-practice processes. These include e-procurement tools, such as e-catalogs and electronic marketplaces, many of which are integrated into our internal IT systems. In 2011, about 55% of all items ordered (2010: around 48%) were handled through e-procurement.

Our HSEQ management process begins when raw materials and services are procured. We expect our suppliers to comply with all applicable national and other laws and regulations on safeguarding the environment, ensuring health and safety in the workplace and using appropriate labor and hiring practices. These criteria play an important role in our selection and evaluation of suppliers. Regular supplier audits conducted in Germany and abroad help verify compliance with these regulations. Internally, a global procurement directive defines how our staff should behave toward suppliers and their employees.

Procuring chemical raw materials is a significant priority at LANXESS. The biggest suppliers here in 2011 included BASF, Bayer, BP, Braskem, Chevron Phillips, Enterprise, Evonik, Exxon Mobil, INEOS, LyondellBasell, Nova Chemicals, Sabic, Shell Chemicals, Texas Petrochemicals and Total/Petrofina.

Among the most important strategic raw materials by far for our production operations in 2011 were ammonia, 1,3-butadiene, caustic soda, crude butadiene, cyclohexane, ethylene, isobutylene, propylene, toluene and styrene. In all, strategic raw materials accounted for a purchasing volume of about €3.9 billion in fiscal 2011 (2010: approx. €2.6 billion), or around 85% of the LANXESS Group's total expenditure for raw materials and goods in 2011, which amounted to approximately €4.6 billion (2010: approx. €3.5 billion). Our total procurement volume in 2011 was around €6.8 billion (2010: about €4.8 billion).

We are still not dependent on individual suppliers. Furthermore, no delivery shortfalls or bottlenecks occurred in the reporting period that had a material effect on our business development.

Production

LANXESS is one of the world's major producers of chemical and polymer products. Our production facilities make anywhere from very small batches of custom-synthesized products to basic, specialty and fine chemicals and polymers in quantities of several ten thousand tons.

Each of our production facilities is organizationally assigned to an individual business unit. The most important production sites are at Leverkusen, Dormagen and Krefeld-Uerdingen, Germany; Antwerp, Belgium; Sittard-Geleen, Netherlands; Orange, United States; Sarnia, Canada; Triunfo and Duque de Caxias, Brazil; Jhagadia, India; and Wuxi, China. LANXESS also has other production sites in Argentina, Australia, Belgium, Brazil, China, France, Germany, India, Italy, Japan, South Africa, Spain, the United Kingdom, the United States and Uruguay. For a complete breakdown of our production sites by segment, please see "The segments in brief" in this Management Report.

The following significant changes occurred in our global production network in 2011:

- At the site in Zwijndrecht, Belgium, we completed work to add 14,000 tons to the annual production capacity of our Butyl Rubber business unit ahead of schedule.
- Our Performance Butadiene Rubbers business unit completed an expansion in Orange, United States, that raised annual production capacity for Nd-PBR rubber by 15,000 tons.
- With the acquisition of the Keltan EPDM business of the Dutch company Royal DSM N.V., our Technical Rubber Products business unit took over two EPDM sites: one in Sittard-Geleen, Netherlands, and the other in Triunfo, Brazil.
- In Wuxi, China, our Semi-Crystalline Products business unit started up the second expansion phase of its state-of-the-art compounding facility.
- This business unit also completed the expansion of caprolactam production in Antwerp, Belgium, as scheduled.
- Our Advanced Industrial Intermediates business unit commissioned a new formalin plant at the Krefeld-Uerdingen site at the end of 2011.
- In India, we relocated all the production facilities previously operated at the Madurai site to our new site in Jhagadia. The move affected our Material Protection Products, Leather and Rhein Chemie business units.
- The takeover by our Functional Chemicals business unit of Unitex Chemical Corporation based in Greensboro, United States, marked our first acquisition of a U.S. production facility.
- With the purchase of Verichem Inc., based in Pittsburgh, United States, our Material Protection Products business unit added another site to its global biocide production network.
- Our Rhein Chemie business unit took over the Darmex group with its production facilities in Burzaco and Merlo, Argentina, and Colonia, Uruguay.
- Following a successful start of the pilot and development phase, we officially commissioned a new plant for membrane filtration technology at our Bitterfeld site for the Ion Exchange Resins business unit.

Including the above-mentioned measures, our cash outflows for capital expenditures came to €679 million in the past fiscal year. Additional information is given under “Capital expenditures” in the Financial Condition section of this Management Report.

Sales organization and customers

Sales organization

We sell our products all over the world, to several thousand customers in more than 150 countries across all continents. LANXESS’s long-standing customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers’ needs, we have set up very flexible marketing and sales structures. We manage our sales throughout the world through 49 companies owned by LANXESS itself. We are continuing to extend our global presence so we are closer to our customers and can better evaluate strategic potential. Growth regions are where we too are growing.

We have responded quickly in recent years to the sharp rise in demand in Central and Eastern Europe and have established our own sales companies – LANXESS Central Eastern Europe s.r.o. and OOO LANXESS – in Bratislava and Moscow, respectively. LANXESS controls all its business activities in the Czech Republic, Hungary, Poland, Slovakia, Russia and the Commonwealth of Independent States (CIS) from these locations. This proximity allows us to take direct advantage of interesting opportunities with respect to raw material sourcing and the growing demand for quality products. The most recent of our sales organizations is the representative office established in Dubai in 2011, which is managed by LANXESS Middle East GmbH. In countries where we do not yet have our own company, we work with local sales partners.

To keep as close as possible to customers and ensure they receive individual support, each of our business units manages its own sales organization. Another competitive advantage is provided by our 47 production sites in 17 countries. Wherever possible, customers are supplied from production sites in the same region, which saves them both time and money.

Orders worth €1,583 million, or 18.0% of total sales, were processed via e-business in fiscal 2011. This capability is provided by the LANXESS one Internet portal and the system-to-system connections via ELEMICA. Compared to the previous year, the net sales invoice values accounted for by e-business continued to increase in euro terms. Altogether, around 300,000 orders and the respective automated follow-up notices in the areas of purchasing, sales and logistics were handled as e-business. We will continue to expand this process, which provides benefits for all involved, by adding additional partners and technical services.

Selling costs for fiscal 2011 came to 8.3% of LANXESS Group sales, down 0.8 percentage points on the prior-year level of 9.1%.

The table below shows selling costs by segment over the last five years.

Selling Costs

	2007	2008	2009	2010	2011
Selling costs (€ million)	659	658	530	646	732
% of sales	10.0	10.0	10.5	9.1	8.3
Breakdown by segment					
Performance Polymers	190	228	178	216	262
Advanced Intermediates	99	110	92	122	127
Performance Chemicals	305	307	253	300	320
Reconciliation	65	13	7	8	23

Customers

Because of our many products and lines of business, we have business relationships with a vast range of customers all over the world. These customers need an individualized, well-focused approach, which we are able to provide because our sales organizations are managed through the business units. Individual marketing strategies are reviewed on the basis of regular customer satisfaction surveys.

LANXESS serves the following industries in particular: tires, chemicals, automotive supply, plastics, electronics, agrochemicals, pharmaceuticals, food, water treatment, construction and furniture.

Shares of Sales by Industry Sector

%	2011
Tires	~25
Chemicals	~15
Automotive	~15
Construction, electrical/electronics, agrochemicals, leather/footwear	in each case 3–10
Others (cumulative share)	~15

In fiscal 2011, our top ten customers accounted for about 28% of total sales (2010: 25%). None of our customers accounted for more than 10% of Group sales. 53 (2010: 40) customers accounted for annual sales in excess of €20 million. The increase is due to the strong level of demand and the resulting high purchasing volumes by key accounts. In addition, our customers benefited from the expansion of our product range in the area of high-performance rubbers following our acquisition of the Keltan EPDM business from DSM in May. Sales per customer were also impacted by the considerable increase in raw material prices during the year as a result of our price-before-volume strategy.

The number of customers in each segment varied widely. The Performance Polymers segment had some 3,100 customers in 2011 (2010: 3,100), while Advanced Intermediates and Performance Chemicals had about 2,900 (2010: 2,900) and 12,000 (2010: 12,400), respectively. This information is based on the customer numbers issued in each segment. Each segment includes all customer groups and sales categories. However, one customer may do business with more than one segment.

The comparatively low sales per customer in the Performance Chemicals segment, as well as its broad customer base, reflect the way in which its business often involves custom-tailored solutions in specialty chemicals. The substantially lower number of customers in the Performance Polymers segment, which generates relatively high sales, is likewise typical of the synthetic rubber products business. This extensive customer base means that no segment can be considered dependent on just a few customers.

Research and development

We continued to systematically broaden our research and development activities in 2011. Existing products and processes were refined and optimized with a short- to medium-term time horizon. We also expanded our Innovation & Technology Group Function which initiated additional medium- to long-term research projects to ensure success in the high-growth areas of the future and thus safeguard the Group's sustainable performance.

Cost trend and employees

Our total research and development expenditures in 2011 increased by 24.1% on the prior year to €144 million, or 1.6% of sales (2010: €116 million or 1.6% of sales). The Technical Rubber Products, Butyl Rubber, Saltigo and Semi-Crystalline Products business units accounted for the largest share of these expenditures at 54% (2010: 53%). Saltigo, Material Protection Products, Ion Exchange Resins and Butyl Rubber were the business units most active in research in terms of their ratios of research and development expenses to sales.

The table below shows research and development expenditures in the last five years.

Research and Development Expenditures

	2007	2008	2009	2010	2011
Research and development expenditures (€ million)	88	97	101	116	144
% of sales	1.3	1.5	2.0	1.6	1.6

A commitment for long-term financing from the European Investment Bank (EIB), the E.U.'s Luxembourg-based development bank, will increase our scope for funding research and development activities over the next seven years. It covers a €200 million credit facility that carries attractive conditions. We see the partnership as affirmation of our innovative potential and recognition of our clear focus on developing sustainable products and production processes.

At the end of 2011, we employed 731 people (2010: 519) in our research and development laboratories worldwide.

Number of Employees in Research and Development

	2007	2008	2009	2010	2011
Year end	408	453	489	519	731
% of Group employees	2.8	3.1	3.4	3.5	4.5

Our largest research and development units are at the sites in Leverkusen, Krefeld-Uerdingen and Dormagen, Germany; London, Canada; and Qingdao and Wuxi, China. The development and testing of high-performance rubber products for energy-saving green tires and high-tech plastics for lightweight construction applications in the automotive industry are examples of the work we perform there. By consolidating our research and development activities for nitrile-butadiene rubber (NBR) at our site in La Wantzenau, France, in 2010, we are now in an even better position to develop innovative, high-quality, sophisticated products that are tailored to our customers' specific requirements.

Fields of activity and patent strategy

In 2011, we conducted around 210 research and development projects (2010: 170), around 125 of which (2010: 100) aimed to develop new products and applications or improve existing ones. Some 85 projects (2010: around 70) concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity. We plan to have roughly 20% of the research and development projects we started in 2011 in the market or technical implementation stages by the end of 2012 (previous year: about 20%).

The results of our research and development work are protected by patents, where this is possible and expedient. In the course of 2011, we submitted 84 priority applications worldwide. As of December 31, 2011, the full patent portfolio included approximately 1,100 patent families covering around 7,200 property rights. As part of the purchase of the Keltan business, we acquired the intellectual property rights to the Keltan ACE technology, which has also strengthened our proprietary technology base.

Organizational focus

Our research and development activities are closely allied to the needs of the market and our customers. Organizationally, the LANXESS Group's research and development units are assigned to the individual business units. For example, business units with a substantial proportion of products in very mature markets, such as Advanced Industrial Intermediates, concentrate on constantly improving their production facilities and processes (process optimization). Other business units focus their research and development activities more on optimizing their products and product quality and on developing new products to meet market requirements and customers' special needs. We have set ourselves the goal of aligning our research programs in the future more directly and more systematically with the major global megatrends: the expanding need for mobility, sharply rising global food requirements, increasing urbanization and the growing demand for water.

Our basic research is conducted mainly via alliances with universities and research institutes. Generating knowledge in this way is substantially more efficient and cost-effective than if we were to maintain our own resources for this purpose. In 2011, we had a total of 145 (2010: 143) major research and development alliances, 50 (2010: 53) of which were with universities, 55 (2010: 53) with suppliers or customers, and 40 (2010: 37) with research institutes.

Innovation & Technology Group Function

As a central unit, the Innovation & Technology Group Function complements our business units' research work with new, longer-term, cross-business unit projects to ensure that potential synergies are exploited to the full and innovations can be applied in various LANXESS units. We further expanded this group function in 2011 so that it now consolidates our expertise in both chemistry and technology. The Innovation & Technology Group Function's research concentrates on process and product innovation. An additional focus is supporting the business units in all issues relating to energy technology within the context of the newly established LANXESS energy efficiency program.

In the area of process innovation, we direct our efforts toward developing new processes and integrating new technologies into existing production processes with the aim of achieving cost and technology leadership. One focus is on reviewing current production processes using mathematical methods in order to pinpoint optimization potential. In this way, we have already identified and in some cases achieved considerable savings on raw materials and energy. We made further savings in operating costs by implementing our process control concepts in a number of facilities. These newly implemented concepts – including online analytics – enable us to run plants even closer to the optimum operating point, which, in addition to reducing costs, in some cases even increases their capacity. Against the backdrop of our strategic growth initiative, we are also stepping up our efforts to refine the technological aspects of our processes for growth projects.

Product innovation is focused on the development of new products and new applications for existing products as well as on product modifications. The search for new products is more broadly based than in the business units, the main topics are generally applicable to multiple business units, and there is a medium- to long-term time horizon. Here, too, our research goals are derived from the global megatrends. By launching an ideas platform on the company's intranet, we have created a Group-wide forum for developing ideas and solutions for future-oriented innovations. We have already transformed a large number of ideas into concrete projects with the help of standardized processes. These projects are regularly evaluated with regard to their technological and financial attractiveness. We have further expanded our broad network of external partners through the establishment of new alliances with universities, institutes and leading companies in various fields such as biotechnology, nanotechnology, microtechnology and membrane technology.

Our research collaboration with the Russian Academy of Sciences (RAS), which we started in 2010, was strengthened in the year under review. RAS numbers among the world's most distinguished scientific institutions and has a history dating back over 285 years. We initiated additional cooperation projects with some of the Academy's renowned research institutes, for example, in the area of catalysis research.

Overall, research and development plays a significant role in increasing our competitiveness and further expanding our business through the development of innovative, original processes and products as well as the ongoing optimization of existing production processes.

Corporate responsibility

In our business activities we are committed to taking account of the demands of economics, ecology and society in equal measure. With our products and our expertise in the area of sustainable development we can make a significant contribution to supporting our customers, protecting the environment and improving the quality of life of people everywhere. All our corporate responsibility activities must be linked to our core business or to our available expertise.

We have been supporting the Responsible Care® initiative since 2006, when we became a signatory to the Global Charter initiated by the International Council of Chemical Associations (ICCA). Amended in February 2011, our corporate directives ensure that the principles of the charter are integrated into our management principles and corporate strategy. We once again raised our sustainability profile during the reporting period by signing up to the U.N. Global Compact, the world's largest and fastest growing corporate social responsibility initiative.

Our Corporate Compliance Guideline is a code of legal compliance and responsible conduct that is binding on all LANXESS employees and commits them to act in accordance with the law, apply the principles of Responsible Care® and demonstrate ethical conduct.

Environmental management

Our central management system enables us to steer our activities worldwide in accordance with internal directives and operating procedures as well as strict quality and environmental standards in line with ISO 9001 and ISO 14001.

In 2007, we started integrating all our sites worldwide into a single management system covered by one global matrix certificate. We regularly commission external, independent experts to audit and verify the implementation status of this process. In 2011, the sales office in Moscow, Russia, was included for the first time. By the end of 2011, a total of 81 sites had been integrated into the matrix certificate. For our sites in the United States, we have also received certification to RC 14001.

In addition, we decided in 2010 to introduce a global energy management system based on ISO 50001. We aim to complete implementation in Germany by the end of 2012.

Environment data

We have developed a proprietary electronic system for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. Data for all indicators except the lost time injury frequency rate (LTIFR) are gathered only at those production sites in which the company has a holding of more than 50%. In the year under review, KPMG AG Wirtschaftsprüfungsgesellschaft assessed our data recording processes and system in the course of a business audit. Most of our HSE indicators for 2010 and 2011 were tested with a view to achieving a “reasonable assurance” rating. The certificate can be viewed at www.lanxess.com.

Product responsibility

We expressly support the protection goals of European chemicals policy. During the first registration phase stipulated by the REACH regulation, we submitted the dossiers for all 193 of our substances that are affected to the European Chemicals Agency (ECHA) by the deadline of November 30, 2010. A further 250 substances from our portfolio will be registered during the second phase, which runs until the end of May 2013. To date, these activities are going to schedule. We expect to have to complete a total of some 750 dossiers over all three phases through 2018.

Social commitment

Our not-for-profit activities focus on providing support for science education in schools. To this end, we launched the extensive LANXESS education initiative in 2008 that underscores our clear commitment to Germany as a business location and as a base for the chemical industry. Over the past four years, we have invested around €3.5 million in this initiative. In recognition of its valuable contribution to Germany’s position as a business and industry location, our program was among the winners in 2011 of the country’s “365 Landmarks in the Land of Ideas” contest.

We have also initiated projects focusing particularly on the promotion of science education at almost all LANXESS sites across the globe. In the BRICS countries especially, we are involved in a wide range of projects and initiatives.

LANXESS is one of the world’s leading suppliers of products for the purification and treatment of water. The expertise acquired by our Ion Exchange Resins and Inorganic Pigments business units over the decades enables them to play a key role in solving the global water problem. Using this expertise for charitable purposes is a further focus of our corporate social commitment.

Events after the reporting period

No other events of particular significance took place after December 31, 2011 that could be expected to have a material effect on the cash flows, financial condition and results of operations of the LANXESS Group.

Report on risks and opportunities

Expected changes in business conditions

Expected Growth in GDP

Change vs. prior year in real terms (%)[1]	Gross domestic product		
	2012	2013	2014–2016
Americas	2.0	3.0	3.5
NAFTA	2.0	2.5	3.0
Latin America	3.5	5.0	5.0
EMEA	0.5	2.0	2.5
Germany	0.5	1.0	1.5
Western Europe	(0.5)	1.0	2.0
Central and Eastern Europe	2.5	3.5	4.0
Asia-Pacific	5.0	5.5	5.0
World	**2.5**	**3.0**	**3.5**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight in February 2012

General business conditions We expect the global economy to be volatile overall in 2012. The ongoing problems in the financial sector triggered by the public debt crisis and additional geopolitical tensions in the Middle East and Africa are likely to increase market uncertainty. As a result, there is a growing risk that economic momentum will slow, especially in the industrialized nations. We expect this to be felt especially strongly in Europe, in particular in its peripheral states. The emerging markets, by contrast, are likely to continue growing, despite the first signs that their economic expansion is slowing. Overall, we consider the risk of a global recession to be very low, but still anticipate increased economic volatility.

On account of the higher risks, we expect the world economy to grow by 2.5%, around the same level as in 2011. In all likelihood, the emerging markets will remain the focal point of expansion, but we believe that the Chinese economy will grow more slowly than last year at 7.5%. For India, we predict growth of 7.0%. Among the industrialized economies, we expect Western Europe to be the only region to post an overall negative trend of minus 0.5%, while the expectation for the United States is growth of around 2.0%. In Japan, the economy is expected to recover and expand by 3.0%. We believe that the regional disparities in growth will continue in the years to come.

On account of the fluctuations in the economic environment, we expect volatility in the raw materials markets in 2012. According to forecasts by the International Monetary Fund (IMF), the rate of inflation in raw material prices will decline overall in 2012. Early IMF projections for 2012 put oil prices at or near the same level as at the end of 2011. These forecasts took into account geopolitical risks and the uncertain prospects for economic development. It can be assumed that energy prices will continue to increase in the coming years.

In 2012, we expect the U.S. dollar to weaken slightly from the exchange rate of US$1.29 to the euro on December 31, 2011.

Future performance of the chemical industry On the basis of the macroeconomic environment described above, we predict that the global chemical industry will expand by 3.5% in 2012. The growth of chemical production in the industrialized countries is likely to be below average. Only Japan, supported by the overall recovery of its economy following the disasters in March 2011, is poised to be the exception with projected growth of 3.0%. Chemical production in Europe is expected to be at or near the prior-year level. We expect the chemical industry in North America to post slight growth of around 1.0%. The emerging economies are likely to display above-average growth again, with chemical production in India increasing by 8.0% and in China by 7.5%. We forecast expansion of 3.5% for the chemical industry in Latin America and in Central/Eastern Europe.

Increasing capacities in the growth regions will raise the pressure on the traditional industrialized nations – which are additionally suffering from relatively weak domestic demand. For this reason we expect production in these countries to grow at a slower pace than the global average.

Expected Growth in Chemical Production

Change vs. prior year in real terms (%)[1]	Chemical production		
	2012	2013	2014–2016
Americas	1.5	2.0	3.0
NAFTA	1.0	1.5	2.5
Latin America	3.5	4.5	4.5
EMEA	1.0	2.5	2.5
Germany	0.0	1.0	1.0
Western Europe	0.0	2.0	2.0
Central and Eastern Europe	3.5	4.0	4.0
Asia-Pacific	7.0	7.5	6.5
World	**3.5**	**4.5**	**4.5**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight in February 2012

Future evolution of selling markets In 2012, we expect the selling markets that are most important to LANXESS to trend in line with the global economy.

According to our forecasts, the tire industry is expected to expand by 2.5% overall. High growth rates are anticipated for Brazil (7.0%), China (8.0%) and India (12.0%). In Europe, we believe production will return to a normal growth trend following the recent catch-up phase. However, it could decline by 2.5% in total given the outlook for the automotive industry. In North America, tire production is expected to be at or near the previous year's level.

Growth in the automotive industry is predicted to remain at a high 7.5%. North America and Asia are likely to drive this development. We anticipate an increase of 8.0% in production in North America, but that remains well below pre-crisis levels. We expect considerable growth of 18.0% in Japan as well, but this would be attributable to the recovery effect described earlier. For the Indian market, we forecast production expansion of a robust 14.5%. In Europe, Central and Eastern Europe are likely to show positive growth of 3.5%, but we believe production in Western Europe will decline by 6.5%.

The growth drivers in agrochemicals – high demand and the associated high prices for agricultural products – will remain in place, yielding expansion of 3.0% by our estimates. In Asia, growth in China and India will stay stable, at 3.0% and 4.0%, respectively. Steady growth is also expected in South America and in Central/Eastern Europe, where we predict expansion of 4.5% and 3.0%, respectively.

Still impacted by the debt crisis, Western Europe's construction industry may very well bottom out in 2012. We expect a slight decrease of 1.0% for the region. In North America, we project a modest increase of 2.0% for 2012. Asia is likely to remain the industry's global engine with Japan posting 9.0% growth on rebuilding efforts, while construction in China is expected to advance 9.5%.

Expected Evolution of Major User Industries

Change vs. prior year in real terms (%)[1]	Tires			Automotive			Agrochemicals			Construction		
	2012	2013	2014 – 2016	2012	2013	2014 – 2016	2012	2013	2014 – 2016	2012	2013	2014 – 2016
Americas	(0.5)	1.5	1.5	8.0	7.5	3.5	3.5	2.0	2.0	3.0	9.0	8.0
NAFTA	(2.0)	(0.5)	(0.5)	8.0	6.5	3.5	2.5	1.0	1.5	2.0	9.0	8.5
Latin America	4.5	7.5	5.5	8.0	9.0	4.0	4.5	3.5	3.5	5.5	7.0	5.5
EMEA	2.0	3.0	2.5	0.0	6.0	5.5	1.5	2.5	3.0	0.5	2.0	2.5
Germany	(3.5)	(4.5)	(2.5)	(4.0)	(0.5)	3.5	(1.0)	1.5	2.5	0.5	0.5	1.0
Western Europe	(2.5)	(0.5)	(0.5)	(6.5)	1.0	5.0	0.0	2.0	2.5	(1.0)	1.0	1.5
Central and Eastern Europe	6.0	6.5	4.5	3.5	17.0	6.0	3.0	3.0	3.5	4.0	4.0	5.0
Asia-Pacific	4.0	7.5	7.5	11.0	10.5	7.0	3.5	5.5	6.0	8.0	6.5	5.5
World	**2.5**	**5.0**	**5.5**	**7.5**	**8.5**	**6.0**	**3.0**	**3.5**	**4.5**	**4.0**	**5.5**	**5.0**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight, LMC and other sources in February 2012

Risk report

Opportunity and risk management system Our success is significantly dependent on identifying the opportunities and risks in our business activities and on actively managing them. Effective risk management is a core element in safeguarding the company's existence for the long term and ensuring its successful future development. Risks and opportunities are understood as negative or positive deviations from planned results.

Our management activities are based both on internal organizational workflows, which are managed by way of control and monitoring mechanisms, and on early warning systems that are used to closely observe changes in external conditions and systematically implement the appropriate measures. This approach applies equally to risks and opportunities.

Like all methods intended for dealing with business risk, this system does not offer absolute protection. However, it does serve to prevent business risks from having a material impact on the company with a sufficient degree of certainty.

Structural basis Our opportunity and risk management is based on clearly defined business processes, the precise assignment of responsibilities throughout the Group, and reporting systems that ensure the timely provision of the information required for decision-making to the Board of Management or other management levels. The principles are set forth in a Group directive. Our management system is based on an integration concept, i.e. the early identification of opportunities and risks is an integral part of the management system and not the object of a separate organizational structure.

The risk management system comprises many different elements that are embedded in the overall structural and process organization. The management of opportunities and risks is a primary duty of the heads of all business units, as well as of those people in Group companies who hold process and project responsibility. It is incorporated into business processes primarily through the company's organizational structure, its planning, reporting and communication systems, and a set of detailed management policies and technical standards. Various committees and other bodies discuss and monitor our opportunities and risks.

Roles of key organizational units At LANXESS, the business units each conduct their own operations, for which they have global profit responsibility. Group functions and service companies support the business units by providing financial, legal, technical and other centralized services. Complementing this global alignment of the business units and group functions, the country organizations ensure the required proximity to the markets and the necessary organizational infrastructure.

In line with this division of duties, we have assigned responsibility, i.e. defined the risk owners, for the following:

- identification and analysis of risks and opportunities,
- risk prevention (measures taken to avoid, minimize or diversify risk),
- risk monitoring (e.g. on the basis of performance indicators and, perhaps also, early warning indicators),
- risk mitigation (measures to minimize damage upon occurrence of a risk event) and
- communication of the key risks and opportunities to the management committees of the business units and group functions.

The Corporate Controlling Group Function is responsible for collecting and aggregating key information across the Group at the following intervals:

- three times per year during the intrayear forecasting process
- one time per year as part of the budget and planning process for the subsequent year and the medium-term forecast horizon

The reported opportunities and risks are collected in a central database and regularly analyzed for the Board of Management and Supervisory Board. This ensures that when new risks and opportunities arise or when existing ones change substantially, the necessary information can be communicated in a timely manner all the way to the Board of Management and therefore also be specifically integrated into the general management of the company.

The reporting threshold for opportunities and risks is an effect of €1 million on the Group's net income or EBITDA, taking into account a minimum probability of occurrence. This low reporting threshold guarantees that the information gathered about opportunities and risks is comprehensive and that the collection of information is not just limited to material risks or risks that could jeopardize the future of the company as a going concern. The Corporate Controlling Group Function centrally determines the top opportunities and risks only after the information has been gathered. The threshold for material risks has been defined at €10 million for the Group.

The Corporate Development Group Function systematically analyzes and measures significant and strategic opportunities and risks with the goal of ensuring that the Group is pursuing the correct long-term strategy.

Transactions particularly for the transfer of financial but also operating risk (hedging transactions or insurance) are managed centrally by the Treasury Group Function. This is explained in more detail in the "Risks of future development" section.

Due to the highly integrated nature of our general business processes, we have specialized committees composed of representatives of the business units and group functions who deal with issues concerning the Group's risks and opportunities. This enables us to react quickly and flexibly to changing situations and their influence on the company.

Significance of the Group-wide planning process Corporate planning is a core element of our opportunity and risk management. Opportunities and risks with a likelihood of occurrence greater than the specified minimum probability flow directly into the planning process. Key budget values are calculated and those risks and opportunities considered relatively likely to materialize are presented as worst-case/best-case scenarios. The processes for corporate planning and intrayear forecasting as well as the corresponding analyses and suggestions for action are steered by the Corporate Controlling Group Function, which works closely in this regard with the business units. Certain Board of Management meetings are dedicated to discussing and adopting corporate planning outcomes, including the associated opportunities and risks. We monitor the annual budget in any given fiscal year by regularly updating our expectations for business development.

There is also provision for immediate internal reporting on specific risk issues such as significant corporate compliance violations. In 2011, there was no cause for immediate reporting of this kind.

Compliance as an integral component Risk management also includes preventing illegal conduct by our employees. To this end, we obtain extensive legal advice concerning business transactions and obligate employees by means of our compliance code to observe the law and to act responsibly. A Compliance Committee promotes and monitors adherence to our compliance guidelines. Its work is supported by compliance officers who have been appointed for each country in which we have a subsidiary. The Compliance Committee is chaired by a compliance officer, who reports directly and regularly to the Board of Management.

Accounting aspects of the internal control and risk management system The aspects of the internal control and risk management system relating to the accounting process include the principles, procedures and measures required to ensure the effectiveness, efficiency and propriety of the company's accounting, and compliance with applicable legal regulations. To this end, clear organizational, control and monitoring structures have been established. The distinctive features of the chemical industry and the risk management tools used regularly by LANXESS in this regard are taken into account. In addition to the accounting process in its narrower sense, this also includes the aforementioned structured budget and forecasting process, and extensive contract management. However, the effectiveness and reliability of the internal control and risk management system can be restricted by discretionary decisions, criminal acts, faulty controls or other circumstances. Thus, even if the system components used are applied Group-wide, the correct and timely recording of accounting issues cannot be guaranteed with full assurance.

The Accounting Group Function, which reports to the CFO, is responsible for the accounting process and therefore for preparing the consolidated financial statements of the LANXESS Group and the single-entity financial statements of the companies. Consolidated interim financial statements are prepared each quarter. The condensed consolidated half-yearly financial statements are reviewed, while the consolidated annual financial statements are subjected to a full audit by the auditor of the Group's financial statements. The foundation for uniform and IFRS-compliant consolidated financial reporting at LANXESS is the Group Financial Statements Guideline. This governs the way the provisions of the International Financial Reporting Standards (IFRS) applicable to the Group are applied by the subsidiaries as reporting entities. Moreover, the guideline also defines charts of accounts that are binding throughout the Group. On the IT side, the guideline is supplemented by a uniform, Group-wide delivery and consolidation system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access.

By controlling and monitoring LANXESS's group accounting processes, we ensure that generally accepted accounting practices in line with the applicable laws and standards, particularly the IFRS, are applied and guarantee the reliability of our financial reporting. The accounting-related internal control system we use is based on generally accepted standards (COSO model). There were no material changes to this system during the period under review. Corresponding standards also apply to the single-entity financial statements of the subsidiaries.

Preparation of the consolidated financial statements is based on a very detailed process that includes specifying a financial statement calendar containing deadlines for the delivery of certain data. A further component is the regular review of the correctness and completeness of the scope of consolidation. The principle of the segregation of duties as expressed in structured authorization and approval procedures and the dual-control principle as well as continual plausibility testing on data is applied end-to-end throughout the preparation and consolidation process.

For the consolidated financial statements, all subsidiaries subject to reporting requirements transmit their Group reporting data using the above-mentioned consolidation system. Validation rules integrated into the system ensure that the data reported by the subsidiaries are consistent at the time of delivery. The ultimate responsibility for ensuring the correctness of the reported data content lies with the accounting departments of the subsidiaries. The Corporate Accounting Department within the Accounting Group Function conducts more detailed testing of the correctness of the data content. To this end, the department evaluates standardized reports in which the companies explain material facts relevant to financial reporting. After the process-based controls have been applied, Group consolidation including currency translation is carried out in the same system, without additional interfaces, utilizing both automated and manual procedures. The correctness of the automated consolidation steps and of the master data necessary for this purpose is reviewed regularly. Consolidation information that must be entered manually is posted separately, documented to the extent required and verified downstream. This is supplemented by validation rules that are integrated into the system.

Regular coordination with other financial group functions, particularly the Treasury, Tax and Controlling group functions, assists the financial reporting process. A continual exchange of information with the operating business units and other group functions makes it possible for the Accounting Group Function to identify and deal with issues arising outside of accounting processes. These include litigation risks, projections for impairment testing and special contractual agreements with suppliers or customers. In addition, third-party service providers are consulted on special issues, particularly relating to the valuation of pensions and other post-employment benefits.

Monitoring of risk management and the internal control system Within the Group, the Internal Auditing Group Function is tasked with overseeing whether the internal control and monitoring system is functioning properly and whether organizational safeguards are being observed. The planning of audits (selection of audit subjects) and audit methods applied by this group function are correspondingly aligned with risks. To assess the effectiveness of the ICS, an annual self-assessment is also carried out in major Group companies, operating units and group functions. In addition, the early warning system is evaluated by the auditor as part of the audit of the annual financial statements. The Supervisory Board also exercises control functions, including regular monitoring of the efficiency of the management systems described above by the full Supervisory Board and by its Audit Committee. The Audit Committee reviews reports about the Compliance Committee's activities and findings, the work of the Internal Auditing Group Function, and the status of the risk management and internal control system.

Risks of future development The main sources of risk are shown in the table below:

Main Sources of Risk

Macroeconomic	Regional differences in performance
	Long-term exchange-rate parities
	Demographic trends
Strategic	Corporate strategy
	Investments
	Information technology
	Human resources
Operational	Sales markets
	Plant operations
	Environmental risks
	Procurement markets
	Financial risks
Regulatory	Legal aspects
	Regulatory measures
	Taxes

Regional differences in economic trends LANXESS is inherently exposed to the general economic and political opportunities and risks of the countries and regions in which the LANXESS Group operates. Regional differences in economic performance and the associated demand trends can affect the Group's pricing and sales potential in its various geographical markets, with corresponding effects on its earnings. We address these issues with our broad regional presence and by expanding our profile in selected growth regions. This approach is discussed in further detail in the "Strategy" section of this Management Report.

Long-term exchange rate trends Shifts in exchange rate parities can affect sales revenues as reported in the Group's currency and the gross profit margins on sales as they relate to the production costs of products, depending on the country of production. In addition to the hedging we perform as described in the "Financial risks" section, we also make a point of expanding our production sites in the key growth regions in order to build a natural hedge position by matching production and sales in the regional markets.

Demographic trends LANXESS takes an active approach to managing the risk of demographic trends as well. To ensure continued access to a highly skilled workforce, we launched a comprehensive package of measures known as XCare in 2009, starting in Germany. Interdisciplinary working groups are cooperating closely with employee representatives at LANXESS to develop innovative concepts to preempt and actively address shifts resulting from demographic change – ranging from increasing the number of trainee positions to measures allowing older employees to enjoy a longer working life. The successive introduction of a long-term worktime account is also part of these efforts. This will enable employees in Germany to flexibly tailor their transition to retirement by building up credit from various time and income components over an extended period. Another area of activity is health. The goal is to increase productivity, while continuing to reduce the risk of lost workdays. Measures aimed at prevention and reintegration have been successfully expanded. In 2011, we also worked closely with our employee representatives to reach agreement on a multi-stage concept that will make it easier for employees to care for family members while continuing their jobs. One feature of the concept is individually agreed part-time working for caregivers.

Corporate strategy risks We are consistently pursuing the strategic optimization of the enterprise. Our efforts include ongoing efficiency enhancement, strengthening of core businesses, active portfolio management, and proactive participation in industry consolidation through partnerships, divestments and acquisitions.

The success of the decisions associated with these efforts is naturally subject to forecasting risk in respect of predicting future (market) developments and making assumptions about the feasibility of planned measures. For example, the entry into or exit from a business segment could be based on profitability or growth expectations that prove to be unrealistic over time. We mitigate this risk by carefully and systematically analyzing the information that is relevant to decision-making. During this process, the business units affected and the Board of Management receive support from departments with the requisite expertise and, if necessary, from external consultants.

When gathering information about potential M&A candidates, it is possible that certain facts required to assess a candidate's future performance or to determine the purchase price are not available or are not correctly interpreted. We reduce this risk by conducting well-structured due diligence analyses and, where possible, by concluding appropriate agreements with the sellers. Insufficient integration of acquired companies or businesses can result in expected developments not materializing. For this reason, we have processes in place with which full integration of acquired businesses is assured.

Investment risks The preparatory work for investments that exceed a specified significance threshold is the responsibility of the relevant business units. After review by an Investment Committee set up for this purpose, the information is presented to the Board of Management for a decision. By following this procedure, we ensure that investments are in line with our corporate strategy and satisfy our profitability and security requirements.

IT risks Our IT systems support our business activities worldwide, including the essential processes from receiving an order to receiving payment and from placing an order to paying a vendor. It is important in this regard to give the relevant parties correct and meaningful information at an appropriate time. To accomplish this, we invest in expanding and improving the software, hardware and networks we use worldwide, which also enhances integration and facilitates the use of uniform system platforms. The inherent risk with IT is that networks will fail or that systems and their data will be compromised or destroyed because of operating and programming errors or external factors. This can cause serious business interruptions. To mitigate this risk, LANXESS has increased its investment in suitable data protection systems and mirror databases designed to prevent the loss of data. Methods for safeguarding against malicious software attacks, access restriction and authorization systems along with other security and monitoring tools are used to ensure data integrity, the trouble-free operation of software and user-oriented data security. The management of IT risks complies with recognized standards. Additionally, we have reduced our reliance on critical suppliers.

HR policy risks Our activities depend on our employees. The risk of industrial actions in some countries resulting from disputes in connection with negotiations concerning future collective pay agreements or associated with restructuring measures cannot be ruled out. We counter this risk by fostering open communication with our employees and their representatives in a culture of active labor relations. QUEST, our training, deployment and job management center, is part of these efforts. Formed in 2009 and firmly anchored in our German organizations, this internal job placement unit enables us to redeploy surplus headcount and keep expertise within the company.

Our employees' expert knowledge of internal processes and issues relating to their areas of specialization is a critical factor in the efficiency of our business operations. We take various approaches to mitigate the risk of losing this expertise and to increase our employees' loyalty to the company, including attractive compensation models, challenging jobs and international career options. Additionally, we use personnel conferences and development centers as a means of identifying particularly well-qualified employees for subsequent appointment to key functions and management positions. This allows us to further develop the expertise already available within the company and avoid the loss of expertise. One indicator of our success so far in limiting the loss of know-how is the low employee fluctuation rates in all regions. Overall, we estimate as low the risk of our business being impaired by a loss of knowledge.

To further increase productivity at LANXESS, we developed and launched the International LANXESS Sales Academy (ILSA) for our global sales organization within the context of our strategic growth program.

Thus far, there has not been a major shortage of labor in our global markets. However, in the interests of a forward-thinking, sustainable human resources policy, we considerably strengthened our cooperations with research institutes, colleges and universities in Germany and other important target markets in 2011. We were also able to position the company as an attractive employer through participation at numerous events around the world. Active involvement in education plays an important role in our efforts, as demonstrated by our cooperation with the not-for-profit Teach First organization. Through this collaboration, we hope to access additional channels for recruiting qualified personnel. For more detailed information, please see the "Employees" and "Corporate Responsibility" sections.

Risks in sales markets The volatility and cyclicality that are typical of the global chemical and polymer markets and their dependence on developments in customer industries harbor risks to LANXESS's business. In addition to being subject to these demand-side market risks, LANXESS's risk profile is influenced, and its earnings power can be impaired, by structural changes in markets, such as the entry of new suppliers, the migration of customers to countries with lower costs, and product substitution or market consolidation trends in some sectors. We counter such trends by systematically managing costs and by taking comprehensive measures designed to achieve a sharper focus and arrive at a product portfolio with which we can operate successfully for the long term.

Risks in plant operations A lack of plant availability and disruptions of plant and process safety can make it impossible for us to meet production targets and adequately satisfy existing demand, resulting in a loss of marginal income. We use a comprehensive range of measures to counter this scenario. These include regular compliance checks, the preparation of risk assessments and systematic training of employees to improve standards and safety.

Environmental risks from production processes Although LANXESS applies high technical and safety standards to the construction, operation and maintenance of production facilities, interruptions in operations, including those due to external factors, such as natural disasters or terrorism, cannot be ruled out. These can lead to explosions, the release of materials hazardous to health, or accidents in which people, property or the environment are harmed. In addition to systematically monitoring compliance with quality standards in order to avoid such stoppages and accidents, we are also insured against the resulting damage to the extent usual in the industry.

LANXESS was and is responsible for numerous sites at which chemicals have been produced for periods that in some cases exceed 140 years. This responsibility also extends to waste disposal facilities. The possibility cannot be ruled out that pollution occurred during this time that has not been discovered to date. We are committed to the Responsible Care initiative and actively pursue environmental management. This includes constant monitoring and testing of the soil, groundwater and air. We have set up sufficient provisions within the scope permitted by law for necessary containment or remediation measures in areas with identified contamination.

LANXESS's product portfolio includes substances that are classified as hazardous to health. In order to prevent possible harm to health, we systematically test the properties of our products and draw our customers' attention to the risks associated with their use. We also carry product liability insurance that is customary in our industry.

Risks in procurement markets On the procurement side, the principal risk lies in the volatility of raw material and energy prices. If the price of the materials we use increases, our production costs increase. If the price of the materials we use decreases, write-downs may have to be recognized on inventories. We mitigate this risk by following a sensible inventory and procurement policy. Most of the company's raw material needs are met by long-term supply contracts that have price escalation clauses, and many agreements with customers also contain price escalation clauses. We also hedge this risk in some cases via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks (see also "Financial risks"). Detailed information is contained in the section headed "Raw material price risks" under Note [35], "Financial instruments," to the Consolidated Financial Statements. To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, we pursue an appropriate inventory strategy and line up alternative sources of supply. We also face increases in our personnel expenses because of future wage increases. Such an increase in the cost of human resources can be just as detrimental to earnings as increases in raw material prices, as described above, but in the case of personnel we cannot hedge the risk in futures markets or pass it on to the customer. In order to cushion the impact of such negative developments on our cost base, we pursue a market-oriented pricing policy that is in line with the premium nature of our products. Additionally, we are constantly looking for ways to use our resources more efficiently so that we can offset higher costs by raising productivity.

Financial risks The Treasury Group Function centrally manages financial risks. The chief financial risks are:

Financial Risks

Price risks	Liquidity and refinancing risks	Default risks	Investment risks
Interest	Availability of cash	Banks	Investments in pension assets
Currencies	Access to multi- and bilateral capital markets	Customers	
Raw materials			
Energy			

Price risks are managed using derivative financial instruments within approved limits for hedging. We ensure our access to the capital markets and our solvency through a conservative financing policy and a target capital structure that is largely based on the ratio systems used by leading rating agencies. We mitigate default risks by setting sensible credit limits. The Pension Committee, which is made up of the CFO and representatives from the Treasury, Accounting and Human Resources group functions, limits investment risk by making decisions about the allocation of the pension fund's investments, insofar as LANXESS is able to exercise its influence in this regard.

Detailed information about our financial risks and how we manage them is contained in Note [35], "Financial instruments," to the Consolidated Financial Statements.

Legal risks Companies in the LANXESS Group are parties to various litigations. The outcome of individual proceedings cannot be predicted with assurance due to the uncertainties always associated with legal disputes. To the extent necessary in light of the known circumstances in each case, we have set up risk provisions for the event of an unfavorable outcome of such proceedings. Taking into account existing provisions and insurance, as well as agreements reached with third parties in respect of liability risks arising from legal disputes, it is currently estimated that none of these proceedings will materially affect our future financial condition or earnings.

In our reporting in previous years, we referred to heightened risks relating to certain antitrust proceedings brought by regulatory authorities or civil courts in the United States, Canada and Europe concerning certain products of the former Rubber Business Group, which was transferred to the LANXESS Group in the course of the spin-off from Bayer AG. LANXESS AG and Bayer AG agreed on specific rules governing their respective share of the liabilities in connection with these proceedings. The rules provide that LANXESS will bear 30% and Bayer AG 70% of such liabilities. LANXESS's total liability was limited to an amount that has now been exhausted by the payments which have since been made. In addition to this maximum amount, it is liable for the reimbursement of income tax payable as a result of limited tax deductibility and the proportionate costs of external legal counsel, which are also split between LANXESS and Bayer at a ratio of 30:70.

Additional information on legal risks can be found in Note [14], "Other current and non-current provisions," to the Consolidated Financial Statements.

Risks from regulatory measures Possible tightening of safety, quality and environmental regulations or standards can lead to additional costs and liability risks. Particularly noteworthy in this regard is the implementation of the E.U. Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). In addition to direct costs that could arise due to additional measures necessary to comply with these standards, market structures could change to our disadvantage as a result of a shift by suppliers and customers to regions outside Europe.

Tax risks Tax matters are subject to a degree of uncertainty in terms of their assessment by the tax authorities in Germany and other countries. Even if we believe that all circumstances have been reported correctly and in compliance with the law, the possibility cannot be ruled out that the tax authorities may come to a different conclusion in individual cases.

Summary of LANXESS's overall risk exposure Our risk exposure decreased in the reporting year due to the recovery of the economic environment compared to the previous year. Nonetheless, all planning is subject to a certain degree of forecasting risk, which could necessitate flexible adjustments to rapidly changing business conditions. This is particularly true in view of the fact that planning and forecasts in general have become somewhat less reliable due to the drastic changes observed recently in our global procurement and customer markets.

Because of the management flexibility we have already demonstrated in prior years and our improved financial structures, we are confident that we can successfully master the risks that are materializing.

Based on an overall evaluation of risk management information, the Board of Management at the present time cannot identify any sufficiently likely risks or risk combinations that would jeopardize the continued existence of LANXESS.

Opportunity report

Strategic opportunities LANXESS's strategic alignment proved to be successful in fiscal 2011. We systematically aligned our product portfolio to those markets that promise continued growth in the future. The BRICS countries – especially Brazil, China and India – will retain a central role in this regard.

In the future too, we will be positioning ourselves as a flexible, market-facing premium supplier at the core of the chemical industry that is applying its great innovative capability to generate measurable added value for its customers.

Our medium-term corporate objective is to increase our key controlling parameter, EBITDA pre exceptionals, to €1.4 billion in 2015. Based on our earnings in 2011, the investment projects already under way are expected to make a sustained contribution to increasing EBITDA pre exceptionals to around €1.3 billion. We aim to pursue our goal on the basis of organic growth and selective acquisitions, with the focus on organic growth.

The composition of our product portfolio, our regional focus, acquisitions, targeted research and development, and a variety of strategic initiatives will be instrumental in helping us achieve this objective.

Product portfolio aligned to four global megatrends With its extensive product portfolio, LANXESS has a presence in all key customer industries. Our broad diversification of this portfolio makes us independent of any one product or process. In that regard, no product or process innovations are expected in 2012 that would individually have a significant influence on the LANXESS Group's performance. In spite of this, there are product segments in our portfolio that we are focusing on strengthening with optimized production processes and methods, continual innovation, capacity expansion measures, new production facilities or acquisitions. We are aligning these to four of the most important global megatrends:

Mobility: The increasing demand for vehicles, especially in the emerging economies, and the need to improve the environmental compatibility of mobility throughout the world are providing the key impulses for growth in the tire and automotive sectors, both of which are important user industries for LANXESS. At European and international level, legislation is being implemented to improve quality standards by requiring the classification of vehicle tires on the basis of their rolling resistance, grip, noise emissions and mileage. In Europe, for example, the new law on tire labeling will enter into force in November 2012. The desirable ratings can only be achieved using high-performance rubbers. In automotive engineering, it is above all the increasing efforts to achieve substantial weight reductions using high-performance plastics that are providing us with opportunities for growth.

Agriculture: The demand for agricultural products driven by the growing world population and the associated urgent need to improve efficiency in agriculture are crucial issues for our customers in the chemical and agrochemical industries in particular. Our products will help increase future agricultural yields and protect crops.

Urbanization: Urban expansion and the emergence of new megacities can be observed especially in the fast-growing newly industrialized nations such as Brazil, China and India. The need for new buildings and an efficient infrastructure is correspondingly large. Moreover, demand for better consumer goods and a higher standard of living is evolving with the growing middle class in these countries. This trend is benefiting our customers in the construction and consumer goods industries in particular.

Water: Given the steady rise in water consumption because of ongoing population growth, escalating environmental pollution and industrial requirements, the demand for clean water will far exceed the current supply in around 20 years. With our innovative solutions for purifying and treating drinking water, wastewater and industrial process water, we are therefore serving a high-growth niche market. Again, the most important growth regions for water products are Asia-Pacific – especially India and China – and Latin America with Brazil.

Sustainable expansion in the BRICS countries In recent years, we have substantially strengthened our business activities in Asia, Central and Eastern Europe and Latin America and will continue to expand our market position there. Our growing presence in these key economic regions will enable us to participate in their dynamic economic development. Last year, we laid the foundation for further growth by making new and selective investments in Brazil, India, China and Singapore in particular.

An overview of our ongoing investment projects in the BRICS countries is given in the "Operational opportunities" section of this report on risks and opportunities.

Strengthening the Group through acquisitions We are not planning to make any fundamental changes to our corporate structure and business policy in the coming years. However, strengthening our segments through selective acquisitions will remain a fixed element of our strategy.

Focused research and development activities We intend for own customer- and market-oriented innovations to continue playing a large role in generating organic growth and cementing our competitive positions as a premium supplier. Process and product innovations will remain the focus of our research and development activities.

The importance of research and development is also reflected in the fact that our R&D budget for fiscal 2012 exceeds the 2011 budget by nearly 40%. Roughly 20% of our research and development projects started in 2011 are scheduled to reach the market or technical implementation stages by the end of 2012.

Operational opportunities Unlocking and exploiting operational opportunities is an important aspect of LANXESS's entrepreneurial activities. We are making selective investments that enable us to exploit the opportunity to systematically drive forward our future organic growth and sustainably strengthen our position in the global growth markets. The focus is on capital expenditure projects which generate organic growth. In the paragraphs below the projects are described. By also investing in external growth, LANXESS is advancing the future development of its segments. Significant projects in this area are described below.

Performance Polymers segment In recent years, LANXESS laid the foundations for this segment's future growth with selective investments in existing, profitable businesses and we continued this policy in the year under review.

In the Butyl Rubber business unit, construction of our new butyl rubber facility in Singapore, which was started in May 2010, is proceeding according to schedule. With an annual capacity of up to 100,000 tons, the new facility is expected to start production in the first quarter of 2013. This new capacity will enable us to meet the steady medium- and long-term growth in demand for butyl rubber for tires, particularly from the BRICS countries. Costing some €400 million, this is the largest single investment project in the history of LANXESS.

In addition, we expanded the capacity of the Butyl Rubber business unit in Zwijndrecht, Belgium, by approximately 14,000 tons per year. We finished this expansion in the fourth quarter of last year, ahead of the originally scheduled completion date of mid-2012. The total investment was €20 million.

We expect these two investments in the Butyl Rubber business unit to contribute around €330 million to annual sales.

In the Performance Butadiene Rubbers business unit, LANXESS is planning to build a new production facility for high-performance neodymium polybutadiene rubber (Nd-PBR), also in Singapore. Investment in the new plant on Jurong Island will total around €200 million. The facility, which is due to come on stream in the first half of 2015, will be the largest of its kind in the world, with an annual capacity of 140,000 tons. Construction is scheduled to begin in September 2012.

In the Performance Butadiene Rubbers business unit, we are also adding about 35,000 tons to annual capacities for Nd-PBR at our sites in Dormagen, Germany, and Cabo, Brazil. The additional expansion of 15,000 tons per year in Orange, United States, was successfully completed in 2011. The total investment in these projects is about €20 million. We expect to generate additional annual sales of around €70 million from these expanded capacities.

Together with Taiwan-based TSRC Corporation, the Technical Rubber Products business unit is building a new facility for technical rubber (NBR) in Nantong, China. With an annual capacity of around 30,000 tons, this facility is due to come on stream in the first half of 2012. It will serve the automotive industry in particular and enable us to benefit from the mobility megatrend in one of the most important growth markets. The two companies are jointly investing a total of around €36 million (equivalent to around US$50 million) in the new facility.

Additionally, our Technical Rubber Products business unit is boosting production capacities for some of its special elastomers like EVM in Dormagen, Germany, and adding 40% to capacities for hydrogenated acrylonitrile butadiene rubber (HNBR) at the sites in Leverkusen, Germany, and Orange, United States. A high-performance synthetic rubber, HNBR is marketed under the brand name Therban®. The expansion projects in Germany and the United States have already begun. The work in Leverkusen is expected to be finished in April 2012, while the measures in Orange are scheduled for completion in December 2012.

We were quick to respond to the increase in demand for products from the Semi-Crystalline Products business unit – due mainly to the trend toward lightweight construction in vehicle production – by investing in the expansion of our capacities in the BRICS countries and building up our presence in these important growth regions. After completing the expansion at our production facility for high-tech plastics in Wuxi, China, in 2011, which has raised production by around 20,000 tons per year to a total of approximately 60,000 tons, we are building additional new plants for the production of high-tech plastics in Jhagadia, India; Gastonia, United States; and Porto Feliz, Brazil. The new facilities in the United States and India will be commissioned in 2012. The start-up of production in Brazil is set for 2013. All the new facilities will have an initial annual capacity of about 20,000 tons.

The Semi-Crystalline Products business unit successfully completed the expansion of its production capacities for caprolactam and KA oil in Antwerp, Belgium, in 2011. Caprolactam is an important precursor in the manufacture of our high-tech plastics. This investment will secure our backward integration, giving us a competitive edge in this market.

Advanced Intermediates segment LANXESS is making investments in the Advanced Intermediates segment to strengthen its ability to benefit from the agriculture megatrend, but also to participate in other megatrends.

The Advanced Industrial Intermediates business unit commissioned a new formalin production facility at the Krefeld-Uerdingen site at the end of 2011, which means it is no longer dependent on buying in this feedstock. This will also generate substantial cost advantages. Formalin, which is used in the production of trimethylolpropane, can be found in many products for the automotive, furniture and construction industries. The new plant has an annual capacity of about 150,000 tons.

Another highlight for our Advanced Industrial Intermediates business unit last year was the start of construction on an enlargement of our menthol plant at the Krefeld-Uerdingen site. Given the significant global demand for menthol, we plan to double this plant's capacity. The project is expected to be completed in the first half of 2012.

Performance Chemicals segment LANXESS is also making selective investments in the Performance Chemicals segment, primarily with the goal of participating in the growth generated by the water and urbanization megatrends.

Last year, we completed important projects for the Ion Exchange Resins business unit, whose ion exchange resins are used to purify and treat water, and will press ahead with ongoing projects this year.

At our Bitterfeld site, for example, we inaugurated a new plant for innovative water treatment technology. Membrane technology complements the filtration process using ion exchange resins. On the basis of this technology, which is new for LANXESS, we will be accessing an application with an estimated global market volume of around €1 billion. Following a successful pilot and development phase, membrane filtration technology will be available to the market in the course of this year. The total investment in the new plant comes to around €30 million.

In the Leather business unit we began construction of a new leather chemicals facility in Changzhou, China. This plant will have an annual capacity of up to 50,000 tons and is scheduled to start up in the first half of 2013, producing LANXESS's premium leather chemicals for the growing Chinese market. These chemicals are used for various applications like leather tanning, dyeing and finishing. The investment volume for the new plant totals around €30 million.

Expected results of operations LANXESS has defined clear medium-term targets for future earnings performance. We aim to increase the Group's key controlling parameter, EBITDA pre exceptionals, to €1.4 billion in fiscal 2015.

Given the heightened macroeconomic uncertainty related to the European financial crisis, our ability to make concrete earnings projections for the current year is limited. However, we believe that our key earnings parameter, EBITDA pre exceptionals, will continue to increase in the coming years and that achievement of our medium-term EBITDA target of €1.4 billion is realistic.

For the Performance Polymers segment, we expect the solid demand for tires to continue in 2012. Europe's new tire labeling law, which enters into force in November 2012, will support this trend. Thanks to the early completion of expansion projects at our butyl rubber facility in Zwijndrecht, Belgium, we will have additional capacities from the beginning of 2012 to meet this demand. We will support this segment's growth with the completion of other expansion projects as described in this Group Management Report. In our Technical Rubber Products business unit, we will continue to benefit this year from the successful integration of the Keltan EPDM business we acquired in May 2011. Because of the ongoing trend to substantially reduce vehicle weight, we see further growth opportunities for our high-tech plastics. Looking at raw material cost trends, we expect moderate increases in raw material prices in the first half of the year, which we will offset by raising the prices of our products.

In the Advanced Intermediates segment, we expect good demand overall for our products for agrochemicals in 2012. As mentioned, we will be realigning our portfolio for the pharmaceutical industry this year.

In the Performance Chemicals segment, we believe demand from the construction industry will rebound on the whole, following the weak trend that dominated the second half of last year. We anticipate continued stable demand from the automotive industry for the Rubber Chemicals and Rhein Chemie business units. In this respect, the Rhein Chemie business unit will also benefit from the acquisition of the Darmex group. In the Ion Exchange Resins business unit, the focus of our activities for the water megatrend, we stand to benefit this year from the strong demand for ion exchangers and the market launch of our membrane technology.

Expected cost development Despite the increasingly difficult economic conditions we may face, LANXESS expects its business to continue to develop favorably in 2012 and is not planning any further extensive cost-cutting programs for 2012 or 2013 at this time. In the course of the last few years, against the backdrop of the global economic and financial crisis, we have further flexibilized our cost base and, if necessary, are able to adapt our costs to the economic environment at an early stage.

We believe that our cost base will be higher in 2012 than in 2011, mainly as a result of the pending collective bargaining agreement and the associated increase in salaries.

On the whole, we expect volatility in raw material prices in 2012. As in previous years, we will seek to pass on rising costs to the market by raising our product prices. Since some raw material prices are extremely volatile, we are very limited in our ability to make a medium-term forecast for our raw material costs. However, we are generally assuming that the trend toward higher procurement costs, particularly for petrochemical raw materials, could continue beyond 2012. We also anticipate sustained increases in energy prices in the coming years.

We project depreciation and amortization of between €330 and €350 million in fiscal 2012.

Possible exchange rate fluctuations may also impact earnings. We have already entered into hedging transactions to ward off the effects of such developments in the current year as well as 2013.

We estimate that the effective tax rate for the LANXESS Group in 2012 will be around 22.0%, which would be a slight reduction on last year's rate of 22.6%.

Expected financial condition

Liquidity situation LANXESS will continue to pursue a forward-looking and conservative financial policy in the future. With more than €2.3 billion in cash and undrawn credit lines, as described in the section on our financial condition, we have a very good liquidity and financing position which will enable us to continue funding our growth strategy.

Capital expenditures We will continue to pursue our selective investment and growth strategy in fiscal 2012. Around 70% of cash outflows for capital expenditures will relate to the expansion of existing plants or the construction of new production facilities. The remaining 30% will be used for the maintenance of existing LANXESS production facilities.

We are currently projecting cash outflows for capital expenditures of about €600 million for 2012. Some €100 million of this amount will be attributable to the investment in our new butyl rubber plant in Singapore. In the second half of 2012, we will be starting construction of the new facility for high-performance Nd-PBR, also in Singapore. The investment volume in 2012 for this project will be about €35 million.

Financing measures The financing for the planned capital expenditures and the expected dividend payment is ensured by future cash flows, available liquidity and existing lines of credit. LANXESS is in a strong position due to the consistent realignment implemented in recent years, the investment in new and more efficient production processes and the long-term nature of its financing. On account of the extensive measures we have adopted to date to improve our financial position, there is no significant need for refinancing this year. This also applies to the Euro Benchmark Bond that we issued in 2005 and will redeem later this year for €402 million. In addition, LANXESS will continue its efforts to secure long-term funding as part of a conservative financing policy by further diversifying its financing sources and implementing forward-looking financing measures.

Dividend policy LANXESS will continue to follow a consistent dividend policy in principle. As in the past, future dividend proposals will take into account the business performance of the relevant fiscal year, the Group's financing goals and development trends in the new fiscal year.

Summary of Group's projected performance

In recent years, the LANXESS Group has successfully positioned itself and its product portfolio in key customer industries and established itself in the world's growth regions. It will strengthen this position further in the coming years.

We have set a clear medium-term earnings target for future performance. We aim to raise the Group's key controlling parameter, EBITDA pre exceptionals, to €1.4 billion in fiscal 2015. In order to achieve this objective, we have defined clear growth opportunities arising from the four megatrends of mobility, urbanization, water supply and agriculture, and adapted our strategic alignment accordingly.

The investments in future organic growth that we have already successfully completed and those we have initiated will contribute substantially to the earnings target we have defined. Moreover, we will generate additional growth from recent acquisitions, our successful price-before-volume strategy, the focus on premium products, and product and process innovations.

There are certain factors that can influence LANXESS's future business performance. The principal company-specific factors include the development of raw material and energy costs. We expect these costs to be largely volatile in 2012 and are preparing for the possibility that this trend may continue thereafter. As in previous years, we will seek to pass on rising costs to the market by raising our product prices.

We expect the U.S. dollar, the key currency for LANXESS's business, to weaken slightly from the exchange rate of US$1.29 to the euro on December 31, 2011.

Overall, LANXESS has started 2012 optimistically. We envisage a solid business performance in our three segments this year, despite growing economic uncertainty and more cautious customer behavior. Our key customer industries will also continue to develop positively, though with regional variations. We are extremely well-positioned in all our segments worldwide to benefit from this growth again this year.

Against this backdrop, we are confident overall for 2012 and the following year. We therefore remain well on our way to achieving our medium-term target EBITDA pre exceptionals of €1.4 billion in fiscal 2015.

Corporate Governance

In this section, the Board of Management reports – also on behalf of the Supervisory Board – on corporate governance at LANXESS pursuant to Section 3.10 of the German Corporate Governance Code. This section also contains the corporate governance statement pursuant to Section 289a of the German Commercial Code and the compensation report.

Corporate governance statement

Declaration by the Board of Management and the Supervisory Board of LANXESS AG pursuant to Section 161 of the German Stock Corporation Act regarding the German Corporate Governance Code

The Board of Management and Supervisory Board of LANXESS AG are committed to the principles of transparent and responsible corporate governance and control. They place high value on the standards of good corporate governance. The Board of Management and Supervisory Board have issued the following joint declaration pursuant to Section 161 of the German Stock Corporation Act:

"Since the issuance of the last declaration of compliance in March 2011, LANXESS AG has complied with, and will continue to comply with, the recommendations of the Government Commission on the German Corporate Governance Code as amended on May 26, 2010, which was published on July 2, 2010 by the Federal Ministry of Justice in the official portion of the electronic version of the Federal Gazette, with the following exceptions:

1. Section 4.2.3, Paragraph 4, Sentence 1
   In concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his contract without serious cause, including fringe benefits, do not exceed the value of two years' compensation (severance pay cap) and compensate no more than the remaining term of the contract.

   The employment contracts for Board of Management members limit payments to a Board of Management member on premature termination of his contract without serious cause, including fringe benefits, to two years' compensation, except in the event of a change of control. However, they do not contain the additional limitation that no more than the remaining term of the contract shall be compensated. The Supervisory Board does not consider it appropriate to base the absolute amount of any severance payment on the date of termination.

2. Section 5.4.5, Sentence 2
   Members of the Management Board of a listed company shall not accept more than a total of three Supervisory Board mandates in non-group listed companies or in the supervisory bodies of companies with comparable requirements.

   Supervisory Board member Robert J. Koehler, Chairman of the Board of Management of SGL Carbon SE, is a member of the supervisory boards of three listed companies outside the SGL Group and holds one supervisory board mandate in a non-listed company with comparable requirements. However, we do not believe that this detracts from Mr. Koehler's ability to diligently perform his duties as a member of the LANXESS AG Supervisory Board.

In addition to its recommendations, the Code also contains a number of suggestions for efficient, responsible corporate governance, compliance with which is not required to be disclosed under the statutory provisions. LANXESS currently complies with these suggestions as well, with only a few exceptions.

In accordance with Section 3.10 Sentence 3 of the German Corporate Governance Code, the Board of Management and the Supervisory Board therefore voluntarily issue the following declaration:

Since the issuance of the last declaration of compliance in March 2011, LANXESS AG has complied with, and will continue to comply with, the suggestions of the Government Commission on the German Corporate Governance Code as amended on May 26, 2010, which was published on July 2, 2010 by the Federal Ministry of Justice in the official portion of the electronic version of the Federal Gazette, with the following exceptions:

1. Section 2.3.3, Sentence 3, 2nd Half-Sentence
   The Management Board shall arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions; this representative should also be reachable during the General Meeting.

   The representatives appointed by LANXESS AG to exercise stockholders' voting rights in accordance with instructions can be reached at the Stockholders' Meeting until the voting is held. Stockholders not attending the meeting can reach the representatives up to the previous evening.

2. Section 2.3.4
   The company should make it possible for stockholders to follow the General Meeting using modern communication media (e.g. Internet).

The speech by the Chairman of the Board of Management to the Stockholders' Meeting is broadcast on the Internet. Continued broadcasting of the proceedings thereafter, particularly of contributions made by stockholders, could be seen as a violation of the stockholders' rights to privacy. For this reason, LANXESS does not plan to broadcast the further proceedings."

Shareholders can download the declaration of compliance from the company's website at any time.

Management practices above and beyond the legal requirements

LANXESS views compliance with laws and ethical principles as the basis of sustainable corporate governance. Our employees' integrity and awareness of their responsibilities are key factors in the success of our company. Compliance with laws, social responsibility, sustainable environmental protection, and occupational, plant and product safety are an essential part of our corporate culture. The Code for Legal Compliance and Corporate Responsibility at LANXESS, which is applicable throughout the Group, specifies minimum standards and gives employees advice and guidance on complying with these standards. This code can be viewed on our website at http://www.lanxess.com under the menu item About LANXESS/Values & Visions.

An effective compliance management system has been established to implement the compliance code. Components of this system are a compliance organization that is integrated into the overall LANXESS Group organization, risk identification and assessment, a compliance program (comprising directives, hotlines, training, knowledge sharing, compliance reporting and guidance on responding to observed breaches of compliance), and measures for monitoring the overall compliance situation within the LANXESS Group. The objective is to prevent breaches of compliance and to create and foster a culture of compliance. LANXESS does not tolerate breaches of compliance and enforces observance of the provisions of its compliance code.

As an international specialty chemicals enterprise, LANXESS bears a large degree of responsibility toward people and the environment. Our entrepreneurial activities reflect this sense of responsibility. Safety, environmental protection, social responsibility, quality and economic efficiency are all key corporate goals at LANXESS. The company's objective is sustainable, forward-looking development which meets the demands of economics, ecology and society in equal measure. The concept of Responsible Care® is firmly anchored in the LANXESS organization, requiring all employees to act responsibly when dealing with people, the environment and capital. An overview of the implementation of corporate responsibility at LANXESS can be downloaded from the Sustainability pages of our website (http://www.lanxess.com). Additionally, LANXESS joined the United Nations Global Compact initiative in July 2011 and has supported and consistently applied the Responsible Care® Global Charter adopted by the International Council of Chemical Associations (ICCA) since 2006. Additional information can be found on our website (http://www.lanxess.com) under Sustainability/Responsibility.

Work of the Board of Management and Supervisory Board

LANXESS AG is a company established under the laws of Germany. One of the fundamental principles of German stock corporation law is the dual management system with the governing bodies of management board and supervisory board. This system is characterized by a clear separation between the management board as the body that manages a company and the supervisory board as the body that advises and oversees management. Concurrent membership on both boards is strictly prohibited. The management board and the supervisory board work closely together in a relationship of mutual trust for the benefit of the company.

The management board is appointed to manage and represent the company. It is responsible for conducting business in the company's interests with the goal of creating sustainable value. The principal tasks of the management board include defining the company's goals and strategic alignment, managing and overseeing the operating units, human resources policy, arranging the company's financing, and establishing an effective risk management system. The Board of Management of LANXESS AG currently comprises four members, with the Chairman coordinating the work of the Board of Management. As a rule, Board of Management decisions are adopted with a simple majority. In the event of a tie, the Chairman has the casting vote. Resolutions of the Board of Management are generally passed at regularly held meetings.

The rules of procedure for the Board of Management that are enacted by the Supervisory Board contain further regulations concerning the form of cooperation within the Board of Management, the allocation of duties and the matters requiring resolution by the full Board of Management. In deciding the composition of the Board of Management, the Supervisory Board gives consideration to professional suitability, leadership qualities and diversity.

The Supervisory Board's role is to advise the Board of Management in its management of the company and to monitor its conduct of the business. Its responsibilities also include appointing the members of the Board of Management as well as reviewing the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. The Supervisory Board reaches its decisions with a majority of the votes cast unless a different majority is stipulated by law. In the event of a tie, the Chairman of the Supervisory Board has two votes in a second ballot on the resolution, even if this also results in a tie. The German Codetermination Act contains special requirements concerning resolutions. The Chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and represents the concerns of the body externally. Supervisory Board resolutions are usually adopted at regularly held meetings.

The Board of Management reports to the Supervisory Board on a timely and comprehensive basis about the progress of business and the situation of the Group, including potential risks and relevant issues relating to corporate planning. The Supervisory Board has laid down the Board of Management's notification and reporting requirements in detail in its rules of procedure for the Board of Management. The Chairman of the Board of Management regularly exchanges information with the Chairman of the Supervisory Board. Certain transactions and measures of major or long-term importance require the Supervisory Board's approval. Measures requiring approval include, but are not limited to: adoption of the corporate planning; the acquisition, sale or encumbrance of real property, shareholdings or other assets; borrowings and certain other types of financial transactions. Thresholds have been set for some of these transactions.

Composition of the Supervisory Board

The company's Supervisory Board is composed of equal numbers of stockholder representatives and employee representatives in accordance with the provisions of the German Codetermination Act of 1976. The stockholder representatives are elected by the Annual Stockholders' Meeting, whereas the employee representatives are elected in accordance with the provisions of the Codetermination Act and its electoral regulations. Supervisory Board members normally serve for a five-year term.

The composition of the Supervisory Board changed during fiscal 2011. Employee representative Wolfgang Blossey stepped down from the Supervisory Board effective May 31, 2011 for professional reasons. The Local Court of Cologne appointed Thomas Meiers, District Secretary of the German Mining, Chemical and Energy Industrial Union, Cologne, to serve as an employee representative on the Supervisory Board of LANXESS AG with effect from June 1, 2011. Gisela Seidel, Axel Berndt, Dr. Rudolf Fauss, Ulrich Freese, Thomas Meiers and Hans-Jürgen Schicker serve as the employee representatives on the Supervisory Board. The Annual Stockholders' Meeting of LANXESS AG held on May 28, 2010, elected Dr. Friedrich Janssen, Robert J. Koehler, Rainer Laufs, Dr. Ulrich Middelmann, Dr. Rolf Stomberg and Theo H. Walthie as the stockholder representatives to the company's Supervisory Board. The Chairman of the Supervisory Board is Dr. Rolf Stomberg. The Vice Chairman is Ulrich Freese.

Goals for the composition of the Supervisory Board

Section 5.4.1 Sentence 5 of the German Corporate Governance Code states that the concrete objectives of the Supervisory Board regarding its composition and the status of the implementation of these objectives are to be published in the Corporate Governance Report

The members of the Supervisory Board of LANXESS AG possess the necessary expertise, skills and professional experience to perform their duties. The members of the Supervisory Board autonomously undertake the necessary training required for their tasks and are supported in their efforts by the company. In making nominations, the Supervisory Board applies only legally permissible and fair selection criteria, acts in the company's best interests, and gives consideration to the nominated candidates' integrity, commitment and independence.

All current members of the Supervisory Board are independent. There are no material conflicts of interest, and no former member of the Board of Management of LANXESS AG is a member of the Supervisory Board. An age threshold for members of the Supervisory Board was specified in the rules of procedure of the Supervisory Board when the company was established. The rules of procedure have been amended and now state that members of the Supervisory Board should not serve past the end of the first Annual Stockholders' Meeting following their seventy-fifth birthday.

In general, the Supervisory Board should be guided by the principles of diversity in its composition. On the basis of their various personal and professional backgrounds, the members of the Supervisory Board contribute a broad spectrum of experience and skills. The global reach of LANXESS AG has been reflected in the composition of the Supervisory Board thus far and will remain a factor in selecting candidates to be proposed to the Annual Stockholders' Meeting for election to the Supervisory Board. In many cases, the experience and skills of the members of the Supervisory Board have been acquired while working abroad for a long period or in an international field. One member of the Supervisory Board is not a German citizen. Other members of the Supervisory Board have professional knowledge of the chemical industry and other sectors that are important for the company's business.

With the election of stockholder and employee representatives in fiscal 2010, the composition of the Supervisory Board is essentially fixed for the current term ending in 2015. One of the twelve members currently serving on the LANXESS AG Supervisory Board is a woman. With a view to ensuring appropriate representation of women, the number of women on the Supervisory Board is to be increased. The Supervisory Board aims to have at least three women members of the Supervisory Board from the start of the next term. Stockholder and employee representatives to the Supervisory Board view it as their joint responsibility to ensure the appropriate representation of women. They aim to work together in fulfilling this responsibility. Future nominations to the relevant bodies of candidates for membership of the Supervisory Board should support the attainment of this goal. In setting this goal, the Supervisory Board is assuming that it will be able to identify women candidates with the requisite professional and personal qualifications for election.

Composition and work of the Supervisory Board committees

The Supervisory Board has a Presidial Committee, an Audit Committee, a Committee pursuant to Section 27 (3) of the German Codetermination Act and a Nominations Committee formed from among its members.

The Presidial Committee discusses key issues and prepares the meetings and resolutions of the Supervisory Board. It makes decisions on transactions requiring approval that are already included in the company's annual planning. The Presidial Committee may also resolve on the exercise of participation rights pursuant to Section 32 of the German Codetermination Act and on transactions requiring approval that cannot be deferred. It consults regularly about long-term succession planning for the Board of Management. Furthermore, the Committee also prepares the personnel decisions to be made by the Supervisory Board and resolutions of the full Supervisory Board regarding the compensation of the members of the Board of Management. In place of the full Supervisory Board, the Presidial Committee resolves on the conclusion and amendment of employment contracts with the members of the Board of Management and all other contractual matters not pertaining to compensation. The members of the Presidial Committee are Dr. Stomberg (Chairman), Mr. Freese, Ms. Seidel, Mr. Schicker, Mr. Koehler and Dr. Middelmann.

The Audit Committee supports the Supervisory Board in overseeing the conduct of the business and deals with matters relating to the supervision of accounting, the effectiveness of the internal control system, the risk management system and the internal auditing system as well as auditing, including the independence of the auditor and the work additionally performed by the auditor. It prepares the Supervisory Board's resolutions concerning the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group and recommends an auditor whom the Supervisory Board then proposes to the Annual Stockholders' Meeting for appointment. The Chairman of the Audit Committee is an independent financial expert and has specialist knowledge and experience in the field of accounting acquired through his professional activities. The members of the Audit Committee are Dr. Janssen (Chairman), Mr. Berndt, Dr. Fauss, Mr. Meiers, Mr. Laufs and Mr. Walthie.

The Committee pursuant to Section 27 (3) of the German Codetermination Act performs the tasks described in Section 31 (3) of the German Codetermination Act. The members of this committee are Dr. Stomberg (Chairman), Mr. Freese, Mr. Schicker and Dr. Middelmann.

The Nominations Committee solely comprises stockholder representatives and proposes candidates for the Supervisory Board to nominate for election as new members of the Supervisory Board by the Annual Stockholders' Meeting. The members of this committee are Dr. Stomberg (Chairman), Dr. Janssen and Dr. Middelmann.

The respective committee chairmen report regularly to the Supervisory Board on the work of the committees.

Stockholders and stockholders' meetings

The stockholders of LANXESS AG exercise their rights at the Annual Stockholders' Meeting, where they can vote on the resolutions submitted. The Annual Stockholders' Meeting resolves on all matters reserved for its decision by law, with binding effect on the stockholders and the company. Each share confers one vote.

The items resolved on by the Annual Stockholders' Meeting include appropriation of the balance sheet profit, ratification of the actions taken by the members of the Board of Management and the Supervisory Board, appointment of the auditors and election of the stockholder representatives to the Supervisory Board. The Annual Stockholders' Meeting also resolves on amendments to the articles of association, measures affecting the company's capital and the approval of intercompany agreements. Each year there is an Annual Stockholders' Meeting at which the Board of Management and Supervisory Board give an account of the last fiscal year. The German Stock Corporation Act requires the convening of an Extraordinary Stockholders' Meeting in certain situations.

All stockholders who register in time and prove their eligibility to attend the Annual Stockholders' Meeting and exercise their voting rights shall be allowed to participate in the Annual Stockholders' Meeting. Stockholders may exercise their voting rights at the Annual Stockholders' Meeting in person, through a proxy of their own choosing or through a company-nominated proxy who acts according to their instructions.

Compensation report

The compensation report describes the structure of the compensation system and the level of compensation for the members of the Board of Management and the Supervisory Board. It complies with legal requirements and with the recommendations of the German Corporate Governance Code. It is a part of the Group Management Report of LANXESS AG.

Compensation of the Board of Management

The structure of the compensation system and the level of compensation for the members of the Board of Management are determined by the Supervisory Board. The appropriateness of the compensation is regularly reviewed. The criteria for determining the appropriateness of the compensation for an individual Board of Management member include, in particular, his duties, his personal performance, and the economic situation and sustainable growth of the LANXESS Group. Consideration is also given to the company's overall compensation structure and to compensation at comparable companies. The compensation structure is also designed to be competitive in the international market for highly qualified executives and provide the motivation to successfully work toward sustainable corporate development.

Back in 2010, a new contractual basis was established for the work of the Board of Management that takes into account and implements the provisions of the German Law on the Appropriateness of Management Board Compensation and the German Corporate Governance Code. The 2010 Annual Stockholders' Meeting of LANXESS AG resolved to approve the compensation system that was introduced with these new contracts. This compensation system was also applied in concluding the service contract with Dr. Bernhard Düttmann, who was appointed to the Board of Management effective April 1, 2011.

In 2011, in addition to the annual base salary, the compensation of the members of the Board of Management included three variable components aligned with LANXESS's annual performance and, particularly, with its corporate success over a number of years. A cap has been defined for each of the variable compensation components. The compensation mix of 31% annual base salary and 69% variable compensation components is strongly aligned with the company's performance and long-term value creation.

Compensation Mix for Members of the Board of Management

%	
Annual base salary	31
Annual Performance Payment	36
Long-Term Incentive Plan/Long-Term Stock Performance Plan	19
Long-Term Performance Bonus	14
	100

The individual compensation components are as follows:

The fixed compensation comprises the annual base salary and remuneration in kind, the latter consisting mainly of the tax value of perquisites such as the use of a company car. The annual base salary of the members of the Board of Management is market-oriented and in line with that paid at other comparable companies. The aggregate amount of the fixed compensation came to €2,747 thousand in fiscal 2011.

The annual performance-based component, known as the Annual Performance Payment (APP), is based on corporate business targets and other conditions, such as the attainment of certain Group EBITDA targets, which are defined by the Supervisory Board before the beginning of the respective fiscal year. The APP is equivalent to 115% of the annual base salary in the case of 100% target attainment, with the maximum payment limited to 150% of this variable compensation component. Compensation from the performance-based APP in 2011 totaled €3,951 thousand. Actual payments in 2012 may differ from this amount, which was calculated in advance.

The following table shows details of the annual compensation paid to individual members of the Board of Management of LANXESS AG:

Annual Compensation of the Board of Management

€ '000	Fixed compensation	Variable compensation[1]	**Total**
Dr. Axel C. Heitmann	943	1,423	2,366
Dr. Werner Breuers	547	862	1,409
Dr. Bernhard Düttmann (effective April 1, 2011)	569[2]	646	1,215
Dr. Rainier van Roessel	538	862	1,400
Matthias Zachert (until March 31, 2011)	150	158	308
	2,747	**3,951**	**6,698**

1) Payment in 2012; in the case of Mr. Zachert, settlement at the end of his service in 2011
2) Including one-time payments

In March 2011, on account of the company's exceptional performance in fiscal 2010, the Supervisory Board approved the payment of a special bonus to Dr. Heitmann, Dr. Breuers and Dr. van Roessel equal to 20% of APP target income. This bonus amounted to €190 thousand for Dr. Heitmann and €109 thousand each for Dr. Breuers and Dr. van Roessel. Mr. Zachert received a total of €1,320 thousand in connection with the end of his service on the Board of Management, part of which was in settlement of his entitlement to variable compensation components.

One element of long-term compensation is the Long-Term Incentive Plan (LTIP), which was succeeded in 2010 by the Long-Term Stock Performance Plan (LTSP). This compensation component is based on the performance of LANXESS stock. The LTIP and LTSP respond to the call by legislators for a stronger focus on long-term company performance. The LTIP is divided into three three-year tranches. For the first program, which was for the period from 2005 to 2007 and ended in 2011, it comprised the Stock Performance Plan (SP) and the Economic Value Plan (EVP), while for the period from 2008 to 2010 it consisted only of the SP. This is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals℠.

Participation in the LTIP required a prior personal investment each year in LANXESS shares to a value of 13% of the annual base salary. Under each plan, these shares were subject to a five-year lock-up period. First payments under the LTIP were made after three years, provided defined conditions had been satisfied. In the event of 100% target attainment by the SP and EVP for 2005 to 2007, the payment per tranche was 43.3% of the individual target income, which is the annual base salary plus the APP assuming 100% target attainment. For 2008 to 2010, 100% target attainment by the SP brings a payment per tranche of 50% of the individual target income.

Because the LTIP expired in 2010, the Supervisory Board approved a new plan for the years 2010 through 2013. The LTSP is divided into four four-year tranches and is also based on the performance of LANXESS stock against the Dow Jones STOXX 600 Chemicals[SM] reference index. Compared to the previous LTIP, the possible payment per tranche under the new plan has been reduced from 50% to 30% of the individual target income, assuming 100% target attainment. The condition for participation in the LTSP is a prior personal investment each year in LANXESS shares to a value of 5% of the annual base salary. The shares are subject to an average five-year lock-up period.

For more information, particularly regarding the valuation parameters applied, please see Note [14] to the Financial Statements.

The personnel expenses incurred in fiscal 2011 for the SP entitlements granted amount to €816 thousand for Dr. Heitmann, €559 thousand each for Dr. Breuers and Dr. van Roessel, and €20 thousand for Dr. Düttmann. These personnel expenses are theoretical amounts and are not to be equated with the actual gains realized when the entitlements are exercised in the future. The entitlements granted to Mr. Zachert lapsed when he stepped down from the Board of Management. This resulted in income of €1,020 thousand.

Also in the interests of long-term corporate performance, a Long-Term Performance Bonus (LTPB) is a further variable compensation component which rewards target attainment only after two successive fiscal years. It was first pledged to the members of the Board of Management in 2010. The basis for calculating the LTPB is the individual APP target attainment for the fiscal years in question. The exact amount of the LTPB results from the average individual APP target attainment for the two fiscal years. Assuming an average APP target attainment of 100%, the LTPB amounts to 45% of the annual base salary. The first payments could be made in spring 2012 on the basis of fiscal 2010 and 2011. Actual payments in 2012 may differ from this amount, which was calculated in advance.

The following table provides additional information about the long-term compensation paid:

Long-Term Compensation of the Board of Management

	SP rights granted in 2011 (exercisable from 2015)		LTPB[1]
	Number of rights	Fair values € '000	€ '000
Dr. Axel C. Heitmann	532,125	266	556
Dr. Werner Breuers	306,375	153	336
Dr. Bernhard Düttmann (effective April 1, 2011)	322,500	161	126
Dr. Rainier van Roessel	306,375	153	336
Matthias Zachert (until March 31, 2011)	354,750	177	0
	1,822,125	**910**	**1,354**

1) Payment in 2012 and 2013, respectively

On termination of their service contracts, the members of the Board of Management receive benefits under the company pension plan. These benefits are paid when the beneficiary reaches age 60 or if the beneficiary is permanently unable to work. They are paid to surviving dependents in the event of the beneficiary's death.

The pension plan for the members of the Board of Management is a defined contribution plan stipulating a basic contribution of 25% of annual base salary. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP. Effective January 1, 2011, the members of the Board of Management may increase the amount they pay themselves from deferred compensation to up to 25% of the APP. The company makes a contribution equal to 25% of the APP. From the date of entitlement, up to 30% of the accumulated capital – including the interest thereon – may be converted to a pension benefit. There are claims arising from provisions in place before 2006 that are granted as vested rights. If the service contract ends before the beneficiary reaches the age of 60, the company pays certain additional benefits up to a defined ceiling.

LANXESS has established provisions for the future claims of Board of Management members. The total service cost recognized in the 2011 annual financial statements for this purpose was €918 thousand. The present value of the obligations for the members of the Board of Management serving as of December 31, 2011 was €13,166 thousand. The past service cost resulting from the plan changes that became effective on January 1, 2011 totaled €860 thousand.

The service cost for pension entitlements earned in 2011 and the present value of the obligations, including vested rights, as of December 31, 2011 amounted, respectively, to €184 thousand and €8,148 thousand for Dr. Heitmann, €156 thousand and €1,314 thousand for Dr. Breuers, €68 thousand and €3,232 thousand for Dr. van Roessel, €413 thousand and €472 thousand for Dr. Düttmann, and €97 thousand and €2,040 thousand for Mr. Zachert. The past service cost resulting from plan changes was €767 thousand for Dr. Heitmann, €520 thousand for Dr. van Roessel and minus €427 thousand for Mr. Zachert.

Obligations to former members of the Board of Management, including Mr. Zachert, who stepped down during the year under review, totaled €9,478 thousand as of December 31, 2011.

Payments of €1,799 thousand were made to former members of the Board of Management. These include the payments made to Mr. Zachert in connection with the end of his service in 2011.

In fiscal 2011, the members of the Board of Management received indemnification should their service contracts be terminated for defined reasons at the instigation of the company or in the event of a material change of control over the company. The terms depended on the respective circumstances and, regardless of the remaining term of the service contract, included severance payments amounting to up to two times the annual base salary or, in the event of a change of control, three times the annual base salary, plus the APP and LTPB assuming 100% target achievement.

No additional benefits have been pledged to any member of the Board of Management in the event of termination of their service. In 2011, no member of the Board of Management received benefits or assurances of benefits from third parties in respect of their duties as members of the Board of Management.

No loans were granted to members of the Board of Management in fiscal 2011.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by Section 12 of the company's articles of association. From fiscal 2011, it was changed in respect of the fixed remuneration and attendance allowance following a resolution of the Annual Stockholders' Meeting held on May 18, 2011. The members of the Supervisory Board of LANXESS AG now receive fixed compensation of €80 thousand per year. The Chairman of the Supervisory Board receives three times, and the Vice Chairman one and a half times, this amount. Serving as the chair or a member of Supervisory Board committees is compensated separately in accordance with the German Corporate Governance Code. Supervisory Board members who belong to a committee receive one half of the fixed compensation amount in addition. The chair of the Audit Committee receives a further half. Supervisory Board members who chair a committee other than the Audit Committee receive a further quarter. However, no member may receive in total more than three times the fixed compensation amount.

Supervisory Board members are reimbursed for their expenses in addition and also receive an attendance allowance of €1.5 thousand for each Supervisory Board meeting and each committee meeting they attend, with the exception of meetings of the Committee formed pursuant to Section 27 (3) of the German Codetermination Act and meetings of the Nominations Committee. With respect to their membership on the supervisory boards of LANXESS Group companies, the members of the Supervisory Board were remunerated only for their service on the Supervisory Board of LANXESS Deutschland GmbH in the amount of €5 thousand each.

The Supervisory Board members also receive a long-term incentive based on the company's performance during the standard term of an individual's membership on the Supervisory Board (five years). Unlike the fixed compensation component, this variable compensation component is not paid every year, but only once at the end of the standard term of office. If a Supervisory Board member serves a shorter term, the amount is prorated.

Payment of the variable compensation depends on how LANXESS's stock performs relative to the Dow Jones STOXX 600 Chemicals℠ index during a member's five-year term. The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected are each compared to the respective average for the 90 trading days prior to the Annual Stockholders' Meeting at the conclusion of which the members' terms end. The variable compensation is only payable if the stock has outperformed the benchmark index. The exact amount of the variable compensation depends on the extent to which the stock price outperformed the benchmark index in the preceding five years. If LANXESS stock has outperformed the Dow Jones STOXX 600 Chemicals℠ by up to 10 percentage points, the variable compensation amounts to €50 thousand for this five-year period; if it has outperformed the index by between 10 and 20 percentage points, €100 thousand is paid, and if the degree of outperformance is greater than this, the compensation is €150 thousand.

No variable compensation was paid in fiscal 2011.

The expected compensation payable for the term of office that began with the conclusion of the Annual Stockholders' Meeting on May 28, 2010 and runs until the conclusion of the Annual Stockholders' Meeting that resolves to ratify the Supervisory Board members' actions for fiscal 2014 was valued at a total of €1,500 thousand (previous year: €1,500 thousand) at December 31, 2011 and reported as a provision.

None of the members of the Supervisory Board received benefits for services provided individually during the reporting period. No loans or advances were granted to members of the Supervisory Board during the reporting year.

The following table breaks down the compensation received by each member of the Supervisory Board for their work on the Supervisory Board in fiscal 2011:

Compensation of the Supervisory Board in the 2011 Fiscal Year[1]

€	**Fixed compensation** LANXESS AG	**Compensation as committee member** LANXESS AG	**Attendance allowance**	**Fixed compensation** LANXESS Deutschland GmbH	**Total**
Dr. Rolf Stomberg, Chairman	240,000	0	21,000	5,000	266,000
Ulrich Freese, Vice Chairman	120,000	40,000	21,000	5,000	186,000
Axel Berndt	80,000	40,000	18,000	5,000	143,000
Wolfgang Blossey (until May 31, 2011)	33,333	16,667	7,500	2,083	59,583
Dr. Rudolf Fauss	80,000	40,000	18,000	5,000	143,000
Dr. Friedrich Janssen	80,000	80,000	18,000	5,000	183,000
Robert J. Koehler	80,000	40,000	21,000	5,000	146,000
Rainer Laufs	80,000	40,000	18,000	5,000	143,000
Thomas Meiers (effective June 1, 2011)	46,667	23,333	7,500	2,917	80,417
Dr. Ulrich Middelmann	80,000	40,000	21,000	5,000	146,000
Hans-Jürgen Schicker	80,000	40,000	21,000	5,000	146,000
Gisela Seidel	80,000	40,000	21,000	5,000	146,000
Theo H. Walthie	80,000	40,000	18,000	5,000	143,000
	1,160,000	**480,000**	**231,000**	**60,000**	**1,931,000**

1) Figures exclude value-added tax

Directors' dealings

Pursuant to Section 15a (1) of the German Securities Trading Act (WpHG), the trading of securities by certain parties, including members of a management board or supervisory board, must be reported if the total sum of the transactions undertaken in any given calendar year equals or exceeds €5,000. Individuals who are closely related to these parties (e.g. spouses, registered partners and first-degree relatives) are also subject to this reporting requirement. LANXESS AG publishes reportable securities transactions.

The table below shows the total number of LANXESS shares held by members of the Board of Management and Supervisory Board as of February 29, 2012:

Function	**Name**	**Total number**
Chairman of the Board of Management	Dr. Axel C. Heitmann	23,220
Board of Management member	Dr. Werner Breuers	10,880
Board of Management member	Dr. Bernhard Düttmann	1,150
Board of Management member	Dr. Rainier van Roessel	16,500
Chairman of the Supervisory Board	Dr. Rolf Stomberg	800
Supervisory Board member	Dr. Rudolf Fauss	335
Supervisory Board member	Theo H. Walthie	2,000

The total number of shares of LANXESS AG held by members of the Board of Management and Supervisory Board as of February 29, 2012 was less than 1% of all shares issued by the company.

Offices held by Board of Management members (as of December 31, 2011)

Member of the Board of Management	External offices	Offices within the LANXESS Group
Dr. Axel C. Heitmann	• Member of the Presidium of the German Chemical Industry Association (VCI) • Member of the Asia-Pacific Committee of German Business (APA) • Member of the Board of Trustees of Konvent für Deutschland e.V. • Member of the Board of Trustees of the North Rhine-Westphalia chapter of Stifterverband für die Deutsche Wissenschaft • Member of the Advisory Board of Goethe-Institut e.V. • Member of the Association of Friends of Philharmonie KölnMusik e.V.	• Chairman of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd.
Dr. Werner Breuers	• Member of the Supervisory Board of Currenta Geschäftsführungs-GmbH • Member of the Board of Trustees of the VCI's Chemical Industry Fund • Member of the Board of Trustees of the DWI of RWTH Aachen University • Member of the German Committee on Eastern European Economic Relations • Member of the Advisory Board of the Association for Chemistry & Economics (VCW)	• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Supervisory Board of Saltigo GmbH • Chairman of the Supervisory Board of Aliseca GmbH • Chairman of the Board of Directors of LANXESS K.K. • Chairman of the Board of Directors of LANXESS International S.A. • Chairman of the Board of Directors of LANXESS Butyl Pte. Ltd.
Dr. Bernhard Düttmann	• Member of the Supervisory Board of Gesellschaft für Kommunikation SE (GfK), Nuremberg • Member of the Board of Directors of Deutsches Aktieninstitut (DAI) • Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU)	• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Corp.
Dr. Rainier van Roessel	• Member of the Board of the VCI Regional Association in North Rhine-Westphalia • Member of the VCI Trade Policy Committee • Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP)	• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS S.A. de C.V. • Executive member of the Board of Administration of LANXESS N.V. • Chairman of the Supervisory Board of Rhein Chemie Rheinau GmbH • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. • Chairman of the Board of Directors of Holding Hispania S.L. • Chairman of the Board of Directors of LANXESS Chemicals S.L. • Chairman of the Board of Directors of LANXESS Corp. • Chairman of the Board of Directors of LANXESS Pte. Ltd. • Chairman of the Governing Board of LANXESS Srl. • Member of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd. • Chairman of the Board of Directors of LANXESS India Private Ltd.
Matthias Zachert (stepped down from the Board of Management effective March 31, 2011)	• Member of the Board of Directors of Deutsches Aktieninstitut (DAI) [1)] • Member of the Advisory Board of Institut für Unternehmensplanung (IUP) [1)] • Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU) [1)]	

1) The offices listed for Mr. Zachert are those he held as of the date he stepped down.

LANXESS AG Supervisory Board

a) Members of the Supervisory Board

Dr. Rolf Stomberg (Chairman)

- Former Chief Executive of the Shipping, Refining and Marketing Division of The British Petroleum Co. p.l.c., London, U.K.
- Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, U.K.

Further offices:
- LANXESS Deutschland GmbH, Leverkusen* (Chairman)
- Biesterfeld AG, Hamburg*
- HOYER GmbH, Hamburg
- KEMNA Bau Andreae GmbH & Co. KG, Pinneberg
- Smith & Nephew plc, London, U.K.
- OAO Severstal, Cherepovets, Russia
- Ruspetro plc, London, U.K.

Ulrich Freese (Vice Chairman)

- Vice Chairman of the German Mining, Chemical and Energy Industrial Union, Hannover

Further offices:
- LANXESS Deutschland GmbH, Leverkusen*
- Vattenfall Europe Mining AG, Cottbus*
- Vattenfall Europe Generation AG, Cottbus*
- Vattenfall Europa AG, Berlin*
- 50Hertz Transmission GmbH, Berlin*
- DMT GmbH, Essen*
- Evonik Wohnen GmbH, Essen
- Evonik Immobilien GmbH, Essen
- GSB – Gesellschaft zur Sicherung von Bergmannswohnungen mbH, Essen
- GSG Wohnungsbau Braunkohle GmbH, Cologne

* Statutory supervisory boards

Axel Berndt
Member of the Works Council at the Leverkusen site
Further offices: • LANXESS Deutschland GmbH, Leverkusen* • Aliseca GmbH, Leverkusen*

Dr. Rudolf Fauss
• Head of Central Functions in the HR Services Germany Group Function • Chairman of the LANXESS AG Group Managerial Employees' Committee • Chairman of the LANXESS Managerial Employees' Committee
Further offices: • LANXESS Deutschland GmbH, Leverkusen*

Dr. Friedrich Janssen
Former member of the Board of Management of E.ON Ruhrgas AG, Essen
Further offices: • LANXESS Deutschland GmbH, Leverkusen* • National-Bank AG, Essen* • E.ON Avacon AG, Helmstedt* • E.ON Energy Trading SE, Düsseldorf* • E.ON Hanse AG, Quickborn* • E.ON Ruhrgas AG, Essen* • Stadtwerke Göttingen AG, Göttingen* • HDI-Gerling Sach Serviceholding AG, Hannover • Thüga Assekuranz Services München Versicherungsmakler GmbH, Munich • Hoberg & Driesch GmbH, Düsseldorf

Robert J. Koehler
Chairman of the Board of Management of SGL Carbon SE, Wiesbaden
Further offices: • LANXESS Deutschland GmbH, Leverkusen* • Heidelberger Druckmaschinen AG, Heidelberg* (Chairman) • Klöckner & Co. SE, Duisburg* • Demag Cranes AG, Düsseldorf* (until September 23, 2011) • Benteler International AG, Salzburg, Austria (Chairman) • SGL Carbon S.p.A., Lainate, Milan, Italy • SGL Carbon SDN BHD, Banting, Malaysia • SGL Carbon S.A., La Coruña, Spain

Rainer Laufs
• Self-employed consultant • Former Chairman of the Management Board of Deutsche Shell AG, Hamburg
Further offices: • LANXESS Deutschland GmbH, Leverkusen* • WCM Beteiligungs- und Grundbesitz AG, Frankfurt am Main* (Chairman) • Petrotec AG, Düsseldorf* (Chairman) • Avancos Technicas Services GmbH, Hamburg (until November 22, 2011) • BorsodChem Zrt., Kazincbarcika, Hungary (until January 31, 2011)

Thomas Meiers
District Secretary of the German Mining, Chemical and Energy Industrial Union, Cologne
Further offices: • LANXESS Deutschland GmbH, Leverkusen* • INEOS Deutschland Holding GmbH, Cologne* • INEOS Köln GmbH, Cologne* • Sasol Germany GmbH, Hamburg* (until November 30, 2011)

Dr. Ulrich Middelmann
Former Vice Chairman of the Executive Board of ThyssenKrupp AG, Duisburg/Essen
Further offices: • LANXESS Deutschland GmbH, Leverkusen* • Deutsche Telekom AG, Bonn* • Commerzbank AG, Frankfurt am Main* • ThyssenKrupp Steel Europe AG, Duisburg* (until December 31, 2011) • ThyssenKrupp Materials International GmbH, Essen* (until December 31, 2011) • Hoberg & Driesch GmbH, Düsseldorf

Hans-Jürgen Schicker
Chairman of the Works Council at the Uerdingen site
Further offices: • LANXESS Deutschland GmbH, Leverkusen*

Gisela Seidel
Chairman of the Works Council at the Dormagen site
Further offices: • LANXESS Deutschland GmbH, Leverkusen*

Theo H. Walthie
Self-employed consultant
Further offices: • LANXESS Deutschland GmbH, Leverkusen*

The information about offices held refers to memberships of other supervisory boards and comparable supervisory bodies of companies in Germany and abroad (as of December 31, 2011).

b) Members of the Supervisory Board who stepped down in fiscal 2011

Wolfgang Blossey (member until May 31, 2011)
District Secretary of the German Mining, Chemical and Energy Industrial Union, Hannover
Further offices: • INEOS Deutschland GmbH, Cologne* • INEOS Köln GmbH, Cologne*

The information about offices held refers to memberships of other supervisory boards and comparable supervisory bodies of companies in Germany and abroad as of the effective date of resignation.

* Statutory supervisory boards

Report of the Supervisory Board

Dear Stockholders,

2011 marked another very successful year for LANXESS. The company achieved new sales and earnings records. Once more, the course set in prior years proved to be the right one. The company successfully implemented its strategy of focusing on sustainable growth and consistently targeting global growth markets. The Supervisory Board would like to thank the Board of Management and all Group employees for their dedication and excellent work.

In 2011, as in previous years, the Supervisory Board duly and fully performed the tasks and duties incumbent upon it under the law and the articles of association. It advised the Board of Management regularly on the management of the company and monitored its work.

The Supervisory Board was directly involved in all decisions of fundamental importance for the company. The Board of Management informed us regularly and without delay in detailed written and oral reports about business performance, the situation of the Group, including the risk situation, strategic development and current issues. On the basis of these reports, we discussed significant business transactions in detail. We thoroughly examined the reports and the resolutions proposed by the Board of Management and discussed them at length in meetings of the full Supervisory Board and its committees. If the law, articles of association or other provisions required the Supervisory Board to approve the actions of the Board of Management, we discussed these actions and adopted resolutions on them.

The Chairman of the Supervisory Board, the Chairman of the Board of Management and the other members of the Board of Management were in regular contact outside of the Supervisory Board's meetings. We regularly discussed the present state and future development of the company as well as material events.

Focus of deliberations by the Supervisory Board

The Supervisory Board met a total of eight times in fiscal 2011.

We regularly discussed the sales and earnings performance of the company and its segments, as well as the financial condition. Additionally, the Board of Management kept us updated about the overall state of the economy, the situation in the chemical industry, the performance of LANXESS stock, and investment and acquisition plans. Other important issues addressed by the Supervisory Board are presented below.

We examined the purchase of the material protection business of Syngenta AG at a special meeting in February 2011. After detailed review and discussion, the Supervisory Board approved the acquisition.

The Supervisory Board held another special meeting in February 2011 at which it unanimously resolved to terminate Mr. Matthias Zachert's service on the Board of Management effective March 31, 2011, in line with Mr. Zachert's own request. At the same time, the Supervisory Board resolved to appoint Dr. Bernhard Düttmann to serve on the Board of Management of LANXESS AG for a three-year term starting April 1, 2011. The Supervisory Board thanked Mr. Zachert for his outstanding work and important contributions to the company's successful growth.

The focus of the Supervisory Board meeting held in March was the review of the annual financial statements and consolidated financial statements for fiscal 2010, the proposal for use of the distributable profit, and preparation of the motions for resolution by the Annual Stockholders' Meeting. The Supervisory Board also dealt at length with issues relating to corporate governance. The Board of Management reported on the status of environmental protection and safety in the company. With regard to human resources issues, the Supervisory Board adopted the necessary resolutions concerning the attainment of performance targets for variable compensation components and the granting of a performance bonus to the members of the Board of Management. Lastly, an adjustment was made to the base salaries of Dr. Werner Breuers and Dr. Rainier van Roessel.

At the meeting in May, the Supervisory Board approved the placement of a €500 million Euro Benchmark Bond under the existing Debt Issuance Program. In addition, the Board of Management reported on the company's current innovation projects.

At a second meeting in May, we approved the conclusion of a building lease in connection with the relocation of company headquarters to Cologne.

At the August meeting, a considerable amount of time was devoted to personnel issues. The Supervisory Board resolved to extend Dr. Axel C. Heitmann's appointment as a member and Chairman of the Board of Management by an additional five years starting July 1, 2012. We also adopted resolutions concerning the adjustment of pension entitlements for the members of the Board of Management and adjusted Dr. Heitmann's base salary. Additionally, the Board of Management gave us a detailed report on the company's energy concept and on compliance management. Lastly, the Supervisory Board amended its rules of procedure. As well as making changes to the wording, the age limit for members of the Supervisory Board was raised from 72 to 75.

At the meeting in November, the Board of Management's report included an overview of recruiting at LANXESS.

At its December meeting, the Supervisory Board reviewed in full and reached a decision on the corporate planning for 2012 as proposed by the Board of Management. It also discussed the company's strategic alignment and capital expenditure policy. The Board of Management reported to us on the internal control, risk management and auditing systems. Lastly, we defined the targets for the Board of Management's variable compensation components for fiscal 2012.

All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The Supervisory Board's meetings in 2011 were attended by all members, with the exception of two meetings at which one of the twelve members was absent. All committee meetings were attended by all members. The stockholder representatives and employee representatives to the Supervisory Board worked together in a spirit of trust. They regularly held separate meetings at which they prepared the meetings of the full Supervisory Board.

Work of the committees

The Supervisory Board has four committees. The membership of these committees is shown on page 123. The committees are tasked with preparing the topics and resolutions to be discussed at meetings of the full Supervisory Board. They also, at times, exercise decision-making powers conferred on them by the Supervisory Board.

The Audit Committee met four times during the year. It dealt in particular with the annual financial statements and management report of LANXESS AG for fiscal 2010, the consolidated financial statements and Group management report for fiscal 2010, the interim reports issued during fiscal 2011, and the condensed consolidated financial statements and interim management report included in the 2011 half-year financial report. It also extensively reviewed the risk management and internal control systems. Other topics discussed were the significant findings by the internal audit department, corporate governance, compliance, accounting-related topics and the determination of the principal areas of focus for the audit of the 2011 financial statements. The external auditor attended all of the Audit Committee's meetings and reported on the auditing activities.

The Presidial Committee convened six times during 2011 to prepare the meetings of the Supervisory Board and to discuss personnel issues. A chief focus of its deliberations was the preparation of the personnel decisions to be reached by the full Supervisory Board.

The Committee formed pursuant to Section 27 (3) of the German Codetermination Act and the Nominations Committee did not convene in fiscal 2011.

The chairmen of the committees each reported on the meetings and the work of the committees at the meetings of the full Supervisory Board.

Corporate governance and declaration of compliance

The Supervisory Board discussed the further development of the German Corporate Governance Code (the Code) in the year under review. In connection with the Code's recommendations, we extensively reviewed and defined goals for the composition of the Supervisory Board. We also discussed the outcome of the efficiency review of the Supervisory Board's activities. No conflicts of interest on the part of Supervisory Board members became known last year.

Stockholders can download the joint declaration of compliance by the Board of Management and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act from the company's website at any time. As expressed in the declaration, LANXESS AG complies with the Code's recommendations and suggestions except in a few justified cases. More information is contained in the corporate governance statement, which can be found in the section on corporate governance on page 120 of this Annual Report.

Financial Statements of LANXESS AG and Consolidated Financial Statements of the LANXESS Group

The financial statements and management report of LANXESS AG for the 2011 fiscal year, which were prepared by the Board of Management in accordance with the rules of the German Commercial Code, as well as the consolidated financial statements and Group management report for fiscal 2011, which were prepared by LANXESS AG in accordance with the International Financial Reporting Standards (IFRS), were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the auditor appointed by the Annual Stockholders' Meeting and engaged by the Supervisory Board. The auditor issued an unqualified opinion in each case.

The Supervisory Board satisfied itself of the independence of the auditor and the persons acting on the auditor's behalf.

The audit reports and the documents relating to the financial statements were discussed with the Board of Management and the auditor at the Audit Committee meeting held on March 8, 2012. They were also discussed in detail on the basis of the required documents and notes at the Supervisory Board's financial statements meeting held on March 20, 2012. The responsible auditor was present for the discussions concerning the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. He reported on the material results of the audits. He was also available to the Audit Committee and full Supervisory Board to provide additional information.

Based on the recommendation of the Audit Committee as well as on its own review and in-depth discussions about the financial statements and management report of LANXESS AG, the consolidated financial statements of the LANXESS Group and the Group management report and the proposal for appropriation of the profit, the Supervisory Board endorsed the auditor's conclusions and had no objections to raise. The Supervisory Board has approved the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, which were prepared by the Board of Management. The financial statements of LANXESS AG, thus, have been adopted. We endorsed the Board of Management's proposal for use of the distributable profit after close examination and extensive deliberations that carefully weighed the best interests of the company and the stockholders.

Composition of the Supervisory Board

The composition of the Supervisory Board also changed during fiscal 2011. Employee representative Wolfgang Blossey stepped down from the Supervisory Board effective May 31, 2011 for professional reasons. We thank Mr. Blossey for his commitment and trustful cooperation. The Local Court of Cologne appointed Thomas Meiers, District Secretary of the German Mining, Chemical and Energy Industrial Union, to serve as an employee representative on the Supervisory Board of LANXESS AG with effect from June 1, 2011. Mr. Meiers was selected by the Supervisory Board to be a member of the Audit Committee.

Leverkusen, March 20, 2012

The Supervisory Board

Dr. Rolf Stomberg
Chairman

Consolidated Financial Statements

Statement of Financial Position
LANXESS Group

€ million	Note	Dec. 31, 2010	Dec. 31, 2011
ASSETS			
Intangible assets	(1)	226	373
Property, plant and equipment	(2)	2,131	2,679
Investments accounted for using the equity method	(3)	13	12
Investments in other affiliated companies	(4)	8	19
Non-current derivative assets	(5)	3	8
Other non-current financial assets	(6)	74	82
Deferred taxes	(28)	170	196
Other non-current assets	(7)	113	120
Non-current assets		**2,738**	**3,489**
Inventories	(8)	1,094	1,386
Trade receivables	(9)	942	1,146
Cash and cash equivalents		160	178
Near-cash assets	(10)	364	350
Current derivative assets	(5)	19	8
Other current financial assets	(6)	58	27
Current income tax receivables		69	64
Other current assets	(11)	222	230
Current assets		**2,928**	**3,389**
Total assets		**5,666**	**6,878**
EQUITY AND LIABILITIES			
Capital stock and capital reserves		889	889
Other reserves		699	943
Net income		379	506
Other equity components		(221)	(280)
Equity attributable to non-controlling interests		15	16
Equity	(12)	**1,761**	**2,074**
Provisions for pensions and other post-employment benefits	(13)	605	679
Other non-current provisions	(14)	351	331
Non-current derivative liabilities	(5)	11	13
Other non-current financial liabilities	(15)	1,302	1,465
Non-current income tax liabilities	(16)	50	63
Other non-current liabilities	(17)	95	89
Deferred taxes	(28)	40	75
Non-current liabilities		**2,454**	**2,715**
Other current provisions	(14)	422	446
Trade payables	(18)	664	766
Current derivative liabilities	(5)	23	40
Other current financial liabilities	(15)	176	633
Current income tax liabilities	(16)	34	49
Other current liabilities	(17)	132	155
Current liabilities		**1,451**	**2,089**
Total equity and liabilities		**5,666**	**6,878**

Income Statement
LANXESS Group

€ million	Note	2010	2011
Sales	(20)	**7,120**	**8,775**
Cost of sales	(21)	(5,381)	(6,765)
Gross profit		**1,739**	**2,010**
Selling expenses	(22)	(646)	(732)
Research and development expenses	(23)	(116)	(144)
General administration expenses	(24)	(298)	(325)
Other operating income	(25)	189	179
Other operating expenses	(26)	(261)	(212)
Operating result (EBIT)		**607**	**776**
Income from investments accounted for using the equity method		16	7
Interest income		10	11
Interest expense		(93)	(104)
Other financial income and expense		(47)	(35)
Financial result	(27)	**(114)**	**(121)**
Income before income taxes		**493**	**655**
Income taxes	(28)	(112)	(148)
Income after income taxes		**381**	**507**
of which attributable to non-controlling interests		2	1
of which attributable to LANXESS AG stockholders (net income)		379	506
Earnings per share (undiluted/diluted) (€)	(29)	**4.56**	**6.08**

Statement of Comprehensive Income
LANXESS Group

€ million	2010	2011
Income after income taxes	**381**	**507**
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements for defined-benefit plans	(130)	(94)
Exchange differences on translation of operations outside the eurozone	125	(33)
Financial instruments	(41)	(38)
Other comprehensive income (net of income tax) attributable to companies accounted for using the equity method	(26)	(11)
Income taxes on other comprehensive income	49	40
Other comprehensive income, net of income tax	**(23)**	**(136)**
Total comprehensive income	**358**	**371**
of which attributable to non-controlling interests	2	1
of which attributable to LANXESS AG stockholders	356	370

Statement of Changes in Equity
LANXESS Group

€ million	Capital stock	Capital reserves	Other reserves	Net income	Other equity components: Currency translation adjustment	Other equity components: Financial instruments	Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
Dec. 31, 2009	**83**	**806**	**818**	**40**	**(340)**	**25**	**1,432**	**13**	**1,445**
Allocations to retained earnings			40	(40)			0		0
Dividend payments			(42)				(42)	0	(42)
Total comprehensive income			(117)	379	125	(31)	356	2	358
Income after income taxes				*379*			*379*	*2*	*381*
Other comprehensive income, net of income tax			*(117)*		*125*	*(31)*	*(23)*	*0*	*(23)*
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements for defined-benefit plans			*(130)*				*(130)*		*(130)*
Exchange differences on translation of operations outside the eurozone					*125*		*125*	*0*	*125*
Financial instruments						*(41)*	*(41)*		*(41)*
Other comprehensive income (net of income tax) attributable to companies accounted for using the equity method			*(26)*				*(26)*		*(26)*
Income taxes on other comprehensive income			*39*			*10*	*49*		*49*
Dec. 31, 2010	**83**	**806**	**699**	**379**	**(215)**	**(6)**	**1,746**	**15**	**1,761**
Allocations to retained earnings			379	(379)			0		0
Dividend payments			(58)				(58)	0	(58)
Total comprehensive income			(77)	506	(33)	(26)	370	1	371
Income after income taxes				*506*			*506*	*1*	*507*
Other comprehensive income, net of income tax			*(77)*		*(33)*	*(26)*	*(136)*	*0*	*(136)*
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements for defined-benefit plans			*(94)*				*(94)*		*(94)*
Exchange differences on translation of operations outside the eurozone					*(33)*		*(33)*	*0*	*(33)*
Financial instruments						*(38)*	*(38)*		*(38)*
Other comprehensive income (net of income tax) attributable to companies accounted for using the equity method			*(11)*				*(11)*		*(11)*
Income taxes on other comprehensive income			*28*			*12*	*40*		*40*
Dec. 31, 2011	**83**	**806**	**943**	**506**	**(248)**	**(32)**	**2,058**	**16**	**2,074**

Statement of Cash Flows
LANXESS Group

€ million	Note	2010	2011
Income before income taxes		**493**	**655**
Depreciation and amortization		283	325
Gains on disposals of intangible assets and property, plant and equipment		0	(2)
Income from investments accounted for using the equity method		(16)	(7)
Financial losses		83	98
Income taxes paid		(114)	(95)
Changes in inventories		(205)	(178)
Changes in trade receivables		(176)	(148)
Changes in trade payables		161	70
Changes in other assets and liabilities		(4)	(16)
Net cash provided by operating activities before external financing of pension obligations (CTA)		**505**	**702**
Cash outflows for external financing of pension obligations (CTA)		(75)	(30)
Net cash provided by operating activities	(36)	**430**	**672**
Cash outflows for purchases of intangible assets, property, plant and equipment		(501)	(679)
Cash inflows from financial assets		107	24
Cash outflows for the acquisition of subsidiaries, less acquired cash and cash equivalents and net of subsequent purchase price adjustments		0	(285)
Cash inflows from sales of intangible assets, property, plant and equipment		3	7
Interest and dividends received		16	10
Net cash used in investing activities	(36)	**(375)**	**(923)**
Proceeds from borrowings		170	655
Repayments of borrowings		(251)	(221)
Interest paid and other financial disbursements		(91)	(100)
Dividend payments		(42)	(58)
Net cash provided by (used in) financing activities	(36)	**(214)**	**276**
Change in cash and cash equivalents from business activities		**(159)**	**25**
Cash and cash equivalents as of January 1		313	160
Exchange differences and other changes in cash and cash equivalents		6	(7)
Cash and cash equivalents as of December 31	(36)	**160**	**178**

2010 figures restated

Notes to the Consolidated Financial Statements

General information

LANXESS AG is entered as a stock corporation in the Commercial Register of the Cologne District Court under HRB 53652. Its registered office is at Kaiser-Wilhelm-Allee 40, 51369 Leverkusen, Germany.

The annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, to which the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have issued unqualified auditor's reports, are published in the electronic version of the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements of the LANXESS Group for fiscal 2011 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on February 28, 2012. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether or not it approves them.

Structure and components of the consolidated financial statements

The consolidated financial statements comprise the statement of financial position, the income statement and statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, which include the segment information.

The consolidated financial statements of the LANXESS Group were prepared in euros (€). Amounts are stated in millions of euros (€ million) except where otherwise indicated. Assets and liabilities are classified in the statement of financial position as current or non-current. Further details of their maturities are provided below in certain cases.

The consolidated financial statements were prepared on the basis of historical acquisition, generation, construction or production costs of the assets. Where different valuation principles are prescribed, these are used. They are explained in the section on accounting policies and valuation principles.

The income statement was prepared using the cost-of-sales method.

The fiscal year for these consolidated financial statements is the calendar year.

Financial reporting standards and interpretations applied

The consolidated financial statements of the LANXESS Group as of December 31, 2011 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (E.U.) and the corresponding interpretations, together with the additional requirements of Section 315 a Paragraph 1 of the German Commercial Code (HGB).

Application of the following accounting standards and interpretations became mandatory starting in 2011. However, they currently have no impact, or no material impact, on the LANXESS Group:

- IAS 32: Classification of Rights Issues – Amendments to IAS 32
- IFRIC 14: Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments
- IFRS 1 and IFRS 7: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters – Amendments to IFRS 1 and IFRS 7
- Various IASs and IFRSs: Improvements to IFRSs (2010)

The amended version of IAS 24 (Related Party Disclosures) published in November 2009 was already applied by the LANXESS Group as of December 31, 2010. It had no impact on the consolidated financial statements.

New standards and interpretations issued but not yet mandatory

In 2011 the LANXESS Group did not yet apply certain further accounting standards and interpretations that had already been issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee but were not mandatory for that year. The application of these standards and interpretations is in some cases contingent upon their adoption by the E.U. It is therefore possible that the dates for mandatory application may ultimately be later than indicated below.

In November 2009 the IASB published IFRS 9. The new requirements this standard introduced for classifying and measuring financial assets were supplemented in October 2010 by requirements for the measurement of financial liabilities and the derecognition of financial instruments. The new standard represents the first of three phases in the complete replacement of IAS 39. If adopted by the E.U., IFRS 9 is to be applied for annual periods beginning on or after January 1, 2015. The LANXESS Group is currently evaluating the impact the application of IFRS 9 will have on its financial position and results of operations.

In May 2011 the IASB published three new standards – IFRS 10, IFRS 11 and IFRS 12 – and two revised standards – IAS 27 and IAS 28 – on accounting for participating interests in other entities. If adopted by the E.U., these new and revised standards are to applied for the first time for fiscal years beginning on or after January 1, 2013. Earlier application is permissible provided that this is stated in the notes to the financial statements and all of the standards are early applied at the same time. An entity may, however, early provide some of the disclosures on interests in other entities required by IFRS 12 without being compelled to apply the other new or revised standards. The LANXESS Group is currently evaluating the impact the application of these standards will have on its financial position and results of operations.

In June 2011 the IASB issued a revised version of IAS 19. This addresses the recognition and measurement of expense for defined-benefit plans and termination benefits. It also results in altered disclosures on employee benefits. If adopted by the E.U., the amended version of IAS 19 is to be applied for annual periods beginning on or after January 1, 2013. The LANXESS Group is currently evaluating the impact the application of this revised standard will have on its financial position and results of operations.

The following accounting standards and interpretations currently have no impact, or no material impact, on the LANXESS Group.

Standard/Interpretation		Date of publication	Mandatory for LANXESS as of fiscal year	Adoption by the E.U.
IFRS 7	Disclosures – Transfers of Financial Assets – Amendments to IFRS 7	Oct. 7, 2010	2012	yes
IAS 12	Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12	Dec. 20, 2010	2012	no
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1	Dec. 20, 2010	–	no
IFRS 13	Fair Value Measurement	May 12, 2011	2013	no
IAS 1	Presentation of Items of Other Comprehensive Income – Amendments to IAS 1	June 16, 2011	2013	no
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Oct. 19, 2011	2013	no
IFRS 7 and IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 and IAS 32	Dec. 16, 2011	2013/2014	no

Presentation changes and restatement of prior-year figures

To harmonize the presentation of pension payments, cash outflows to LANXESS Pension Trust e.V., Leverkusen, Germany, for external financing of pension obligations (contractual trust arrangement, CTA) are included in cash flows from operating rather than investing activities starting in 2011. To enhance transparency, a subtotal "Net cash provided by operating activities before external financing of pension obligations (CTA)" has been inserted into the presentation of cash flows from operating activities. The prior-year figures are restated accordingly.

In the segment reporting, restatements of prior-year figures were necessitated by an inter-segment transfer of activities. Further details are given in Note [37]. No further prior-year figures have been restated.

Consolidation methods

The financial statements of the consolidated companies were prepared using uniform accounting policies and valuation principles.

If the fiscal year of a consolidated company does not end on December 31, interim financial statements are prepared for the purpose of consolidation.

Intra-Group profits, losses, sales, income, expenses, receivables and payables are eliminated.

Scope of consolidation

The consolidated financial statements of the LANXESS Group include LANXESS AG and all subsidiaries under the direct or indirect control of LANXESS AG. Control exists if LANXESS AG holds more than half of the voting rights in a company or is otherwise able to govern the company's financial and operating policies in order to obtain benefits from its activities. A company is consolidated as of the date from which LANXESS AG is able to exercise control (acquisition date) and deconsolidated when this is no longer the case.

Investments in entities in which the LANXESS Group exerts a significant influence, generally through an ownership interest between 20% and 50%, are accounted for using the equity method.

Entities that in aggregate are immaterial to the Group's financial position and results of operations are not consolidated, but included in the consolidated financial statements at cost of acquisition.

Changes in the scope of consolidation are stated in the section headed "Companies consolidated," which also contains a list of companies.

Fully consolidated companies

Business combinations are accounted for using the acquisition method. The cost of a business combination is stated as the aggregate of the fair values, at the date of acquisition, of the assets transferred, liabilities incurred or assumed, and any equity instruments issued in exchange for control of the acquiree. It also contains the fair value of assets and liabilities resulting from contingent consideration contracts.

For the first-time consolidation, the assets, liabilities and contingent liabilities identified in the course of the acquisition are measured at fair value as of the acquisition date.

For each business combination, there is an option to include any shares not acquired either at their fair value or at the pro-rata share of the fair value of the acquiree's net assets. They are reported in the statement of financial position as equity attributable to non-controlling interests.

Acquisition-related costs – except those incurred to issue debt or equity securities – are recognized in profit or loss.

Goodwill is measured as of the acquisition date as the excess of the consideration transferred, the amount of any non-controlling interests and the fair value of any previously held equity interest over the fair value of the net assets acquired. Negative goodwill is immediately recognized in profit or loss after the purchase price allocation has been re-examined.

Investments accounted for using the equity method

The cost of acquisition of an entity accounted for using the equity method (associate) is adjusted annually by the percentage of any change in its equity corresponding to LANXESS's percentage interest in the entity. Differences arising from the first-time accounting for investments using the equity method are determined according to the same principles as for consolidated subsidiaries. Any goodwill is included in the carrying amount of the associate.

Joint ventures are also included in the consolidated financial statements using the equity method. Proportionate consolidation is not used.

Currency translation

In the financial statements of the individual consolidated companies that form the basis for the consolidated financial statements of the LANXESS Group, all foreign currency receivables and payables are translated at closing rates, irrespective of whether they are hedged. Forward contracts serving as economic hedges against fluctuations in exchange rates are reflected at fair value.

The financial statements of each foreign entity are valued on the basis of the currency of the primary economic environment in which the entity operates (functional currency concept). By far the majority of foreign companies are financially, economically and organizationally autonomous and their functional currencies are therefore the local currencies. The assets and liabilities of these companies are translated at closing rates, while income and expense items are translated at average rates for the year.

Goodwill arising on the acquisition of a foreign entity is recorded in the currency of the acquired entity and translated at the closing rate, irrespective of the date on which it arose.

Since equity (excluding income and expenses recognized directly in other comprehensive income) is translated at historical rates, the differences arising on translation at closing rates are shown separately in other comprehensive income as exchange differences on translation of operations outside the eurozone.

If a company is deconsolidated, the relevant exchange differences are reversed and recognized in profit or loss.

The exchange rates for major currencies against the euro changed as follows:

Exchange Rates

€ 1		Closing rate, Dec. 31		Average rate	
		2010	2011	2010	2011
Argentina	ARS	5.31	5.57	5.19	5.75
Brazil	BRL	2.23	2.43	2.33	2.33
China	CNY	8.82	8.16	8.98	9.00
United Kingdom	GBP	0.86	0.84	0.86	0.87
India	INR	59.74	68.60	60.58	64.86
Japan	JPY	108.65	100.20	116.38	110.99
Canada	CAD	1.33	1.32	1.37	1.38
Singapore	SGD	1.71	1.68	1.81	1.75
South Africa	ZAR	8.86	10.48	9.70	10.10
United States	USD	1.34	1.29	1.33	1.39

Accounting policies and valuation principles

The accounting policies and valuation principles are the same as those used in the previous fiscal year and have been consistently applied. This does not apply to changes arising from new or amended accounting standards or intepretations that became mandatory for the first time in fiscal 2011 (see section headed "Presentation changes and restatement of prior-year figures").

Intangible assets

Acquired intangible assets with a definite useful life are recognized at cost and amortized over their respective useful lives using the straight-line method. The amortization period for software, concessions, industrial property rights, similar rights and assets and licenses to such rights and assets varies from 3 years to 20 years. Amortization for 2011 has been allocated to the respective functional areas. Any further loss of value is recognized by means of an impairment charge. Impairment losses are reversed in the following year if the reasons for them no longer exist, provided that this does not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been recognized if the impairment losses had not been recognized or their current recoverable value. The lower of these two amounts is recognized. Intangible assets with indefinite useful lives and goodwill are not amortized. They are tested for impairment annually, or more often if events or a change in circumstances indicate a possible impairment. Any impairment losses are recognized in other operating expenses. Impairment losses on goodwill are not reversed.

The costs incurred for in-house software development at the application development stage are capitalized and amortized over the expected useful life of the software from the date it is placed in service.

Emissions allowances are recognized at cost. Allowances allocated free of charge by the German Emissions Trading Authority (Deutsche Emissionshandelsstelle, DEHSt) or comparable authorities in other European countries are capitalized at a value of zero.

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or construction less depreciation for wear and tear. LANXESS does not use the revaluation model. Impairment losses are recognized for any reduction in value that goes beyond normal depreciation. In compliance with IAS 36, impairment losses are measured by comparing the carrying amounts with the discounted cash flows expected to be generated by the assets in the future. Where it is not possible to allocate future cash flows to specific assets, the impairment loss is assessed on the basis of the discounted cash flows for the cash-generating unit to which the asset belongs. Impairment losses are reversed if the reasons for previous years' impairment charges no longer apply, provided that this does not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been recognized if the impairment charge had not been taken or their current recoverable value.

The cost of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation and impairments of assets used in construction. It also includes the shares of expenses for company pension plans and discretionary employee benefits that are attributable to construction.

Where an obligation exists to decommission or dismantle assets at the end of their useful life or to restore a site to its original condition, the present value of the obligation is capitalized along with the cost of acquisition or construction and a provision in the same amount is recognized.

If the construction phase of property, plant or equipment extends over a long period, the directly attributable borrowing costs incurred up to the date of completion are capitalized as part of the cost of acquisition or construction.

Expenses for current maintenance and repairs are recognized directly in profit or loss. Subsequent acquisition or construction costs are capitalized if they will result in future economic benefits and can be reliably determined.

Expenses for general overhauls of major large-scale plants are recognized separately at the cost of the overhaul as part of the related assets and depreciated over the period between one general overhaul and the next using the straight-line method.

Where assets comprise material components with different purposes, different properties, or different useful lives, the components are capitalized individually and depreciated over their useful lives.

When property, plant or equipment is sold, the difference between the net proceeds and the carrying amount is recognized as a gain or loss in other operating income or expenses.

Assets are depreciated by the straight-line method based on the following useful lives, which are applied uniformly throughout the Group:

Useful Lives

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	6 to 12 years
Laboratory and research facilities	3 to 5 years
Storage tanks and pipelines	10 to 20 years
Vehicles	5 to 8 years
Computer equipment	3 to 5 years
Furniture and fixtures	4 to 10 years

Leasing

In accordance with IAS 17, leased assets where substantially all risks and rewards incidental to ownership are transferred (finance leases) are capitalized at the lower of their fair value and the present value of the minimum lease payments at the date of addition. They are depreciated over their useful lives. If subsequent transfer of title to the leased asset is uncertain, it is depreciated over the shorter of its estimated useful life and the lease term.

The future lease payments are recorded as financial liabilities. Liabilities under finance leases are recognized at the fair value of the leased asset at the inception of the lease or the present value of the minimum lease payments, whichever is lower. Thereafter the minimum lease payments are divided into financing costs and the portion representing repayment of the principal. In the case of leasing contracts that do not include the transfer of substantially all risks and rewards incidental to ownership (operating leases), the lessee recognizes the lease payments as current expenses.

Property, plant and equipment also includes assets that LANXESS leases or rents out to third parties under agreements other than finance leases. However, if the lessee is to be regarded as the economic owner of the assets, a receivable is recognized in the amount of the discounted future lease or rental payments.

Leasing arrangements may be embedded in other contracts. Where IFRS stipulates separation of the embedded leasing arrangement, the components of the contract are recognized and measured separately.

Financial instruments

Financial instruments are contracts that give rise simultaneously to a financial asset for one party and a financial liability or equity instrument for another. These include primary financial instruments, such as trade receivables or payables and financial assets or liabilities, as well as derivative financial instruments, which are used to hedge risks arising from changes in currency exchange rates, raw material prices or interest rates.

Financial instruments are recognized as soon as the LANXESS Group becomes the contracting party to them. Financial assets are derecognized when the contractual rights to receive payments from them expire or the financial assets are transferred together with all substantial opportunities and risks. Financial liabilities are derecognized when the contractual obligations are met or canceled, or when they expire.

In the case of regular-way purchases and sales, the settlement date is the relevant date for first-time recognition or derecognition of financial assets in the financial statements.

Trade receivables and other financial receivables are initially recognized at fair value and subsequently accounted for at amortized cost using the effective interest method. Write-downs for amounts unlikely to be recovered are recognized via impairment accounts.

Investments in affiliated companies and the equity instruments included in non-current assets are classified as “available-for-sale” financial assets and recognized at fair value, except where their fair value cannot be reliably determined, in which case they are recognized at cost. Where objective evidence exists that such assets may be impaired, an impairment loss is recognized on the basis of an impairment test.

Investments in companies accounted for using the equity method are recognized at the amounts corresponding to LANXESS’s share in their equity in accordance with IAS 28 or IAS 31.

Financial assets held for trading are recognized at fair value. Any gain or loss arising from subsequent measurement is reflected in the income statement.

All other primary financial assets are classified as “available-for-sale” and recognized at fair value except if they are allocable to loans and receivables. Any gain or loss resulting from subsequent measurement, with the exception of write-downs and translation gains and losses, is recognized in other comprehensive income until the financial asset is derecognized.

LANXESS does not utilize the option of designating non-derivative financial assets or liabilities at fair value through profit or loss upon initial recognition.

Derivative financial instruments and hedging transactions

The LANXESS Group recognizes derivative financial instruments as assets or liabilities at their fair value on the closing date. Gains and losses resulting from changes in fair value are recognized in profit or loss. Where foreign currency derivatives or forward commodity contracts used to hedge future cash flows from pending business or forecasted transactions qualify for hedge accounting under the relevant financial reporting standard, changes in the value of such instruments are recognized separately in other comprehensive income until the underlying transactions are realized. The amounts recognized here are subsequently reclassified to other operating income or production costs, as appropriate, when the hedged transaction is recognized in profit or loss. Any portion of the change in value of such derivatives deemed to be ineffective with regard to the hedged risk is recognized directly in profit or loss. Changes in the fair value of interest rate derivatives used to hedge long-term liabilities with variable interest rates – provided such derivatives qualify for hedge accounting – are recognized in other comprehensive income and subsequently reclassified to profit or loss as interest income/expense at the same time as the income from the hedged transaction is recognized in profit or loss.

Contracts concluded for the purpose of receiving or delivering non-financial items based on expected purchases, sales or utilization and held for this purpose are recognized not as financial derivatives but as pending transactions. If the contracts contain embedded derivatives, the derivatives are accounted for separately from the host contract, provided that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.

Determination of fair value

The principal methods and assumptions used in measuring the fair value of financial instruments are outlined below:

Trade receivables, other receivables and cash and cash equivalents are generally due within one year. Their carrying amount is therefore their fair value. Receivables due in more than one year are discounted using current interest rates to determine their fair value.

The fair value of securities is determined from their market price on the closing date, disregarding transaction costs.

The fair value of loans is calculated from discounted future interest payments and capital repayment amounts.

The bonds are traded in an active, liquid market. Their fair values are the prices determined and published by the market.

The fair value of trade payables and other primary financial liabilities due within one year is their carrying amount. That of all other liabilities is determined by discounting them to present value where feasible.

The fair values of receivables and liabilities relating to finance leases are the present values of the net lease payments calculated using the market rate for comparable lease agreements.

Most of the derivative financial instruments used by LANXESS are traded in an active, liquid market. The fair values of forward exchange contracts are derived from their trading or listed prices using the "forward method." Currency options are valued using an asset pricing model based on the Black & Scholes model. The fair values of forward commodity contracts are also derived from their trading or listed prices using the "forward method." Where no market price is available, values are determined using recognized capital market pricing methods.

Inventories

Inventories encompass assets held for sale in the ordinary course of business (finished goods and merchandise), assets in the process of being manufactured for sale (work in process) and assets consumed during the production process (raw materials and supplies). They are valued by the weighted-average method and recognized at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business less the estimated remaining production costs and selling expenses.

The cost of production comprises the direct cost of materials, direct manufacturing expenses and appropriate allocations of fixed and variable material and manufacturing overheads at normal capacity utilization, where these are attributable to production.

It also includes expenses for company pension plans, corporate welfare facilities and discretionary employee benefits that can be allocated to production. Administrative costs are included where they are attributable to production.

Borrowing costs incurred in the course of production are not included in the acquisition or production cost of inventories as the products are not manufactured using long-term production processes.

Given the production and distribution sequences characteristic of the LANXESS Group, work in process and finished goods are grouped together.

Cash and cash equivalents

Cash and cash equivalents comprise checks, cash and balances with banks. Securities with maturities of up to three months from the date of acquisition are recognized in cash and cash equivalents in view of their high liquidity.

Non-current assets and liabilities held for sale

Material assets are recognized as held for sale if they can be sold in their current condition and a sale is highly probable. Such assets may be individual non-current assets, groups of assets (disposal groups) or complete business entities. A disposal group may also include liabilities if these are to be divested together with the assets as part of the transaction.

Assets classified as held for sale are no longer depreciated. They are recognized at the lower of fair value less costs to sell and the carrying amount.

Provisions

Provisions are recognized and measured in accordance with IAS 37 and, where appropriate, IAS 19 and IFRS 2, using the best estimates of the amounts of the respective obligations. Non-current portions of material provisions due in more than one year are discounted to present value if the extent and timing of the obligation can be assessed with reasonable certainty. Where the projected obligation alters as the time of performance approaches (interest effect), the related expense is recognized in other financial expense.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the effect is recognized in the income or expense item(s) in which the provision was originally recorded.

Provisions for pensions and other post-employment benefits are established for defined-benefit pension plans. The provision is measured according to the actuarial present value of the obligation, calculated using the projected unit credit method. This takes into account not only the known pensions and pension entitlements as of the closing date, but also expected future salary and benefit increases. Actuarial gains and losses and adjustments resulting from the asset ceiling and from minimum funding requirements for defined-benefit plans are recognized in full in other comprehensive income in the period in which they occur. They are not reclassified to profit or loss in a subsequent period.

Personnel-related provisions mainly include those for annual bonus payments, payments under multi-year compensation programs and other personnel costs. Reimbursements to be received from the German government under the phased early retirement program are recorded as receivables and recognized in the income statement as soon as the criteria for such reimbursements are fulfilled.

The share-based compensation program provides for cash settlement. Provisions are established for the obligations entered into under such programs on the basis of the proportionate fair value of the rights allocated to employees. The fair value is determined using the Monte Carlo method, in which future returns are simulated and the expected payment is calculated from the value of the rights based on a two-dimensional standard distribution of returns. The fair value of the rights is reflected in a pro-rata provision during the vesting period.

The LANXESS Group also records provisions for current or pending legal proceedings where the resulting expenses can be reasonably estimated. These provisions include all estimated fees and legal costs and the cost of potential settlements. The amounts of such provisions are based upon information and cost estimates provided by the Group's legal advisers. The provisions are regularly reviewed together with the Group's legal advisers and adjusted if necessary.

Contingent liabilities

Contingent liabilities are potential obligations to third parties or existing commitments, the extent of which cannot be reasonably estimated or which are unlikely to lead to an outflow of resources. They are not recognized in the statement of financial position unless they have been entered into in connection with a business combination.

Liabilities

Current liabilities are recognized at repayment or redemption amounts. Non-current liabilities are recognized at amortized cost. Financial liabilities that do not constitute either the hedged item or the hedging instrument in a permissible hedge accounting relationship are carried at amortized cost, calculated using the effective interest method.

Subsidies received from third parties for the acquisition or construction of property, plant and equipment are reflected in other liabilities and released to the income statement over the underlying period or expected useful life of the assets to which they relate.

Sales and other revenues

Revenues are recognized as soon as delivery has been made or the service rendered and are reported net of sales taxes and deductions. This is normally the case when the significant risks and benefits associated with ownership of the goods pass to the purchaser. It must also be sufficiently probable that the economic benefits will be obtained and the costs incurred must be reliably determinable.

Allocations to provisions for rebates to customers are recognized in the period in which the respective revenues are legally recognized. Revenues such as license fees, rental income, interest income or dividends that are attributable to a subsequent fiscal year are accrued.

The LANXESS Group does not have long-term production orders. Accordingly, the percentage-of-completion method is not applied to determine when revenues are realized.

Research and development expenses

According to IAS 38, research costs cannot be capitalized, whereas development costs must be capitalized if, and only if, specific narrowly defined conditions are fulfilled. Development costs must be capitalized if it is sufficiently certain that future economic benefits to the company will cover not only the usual production, selling and administrative costs but also the development costs themselves. However, since the development and optimization of products and processes frequently involves uncertainties, the conditions for capitalization of the development are generally not met.

Income taxes

This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Income taxes are computed on the basis of local tax rates.

Income tax liabilities and provisions for income taxes comprise liabilities pertaining to 2011and any liabilities from previous years.

In accordance with IAS 12, deferred taxes are calculated for temporary differences between the carrying amounts of assets or liabilities in the statement of financial position and the tax base and for differences arising from consolidation measures or realizable tax loss carryforwards. Deferred taxes are calculated at the rates which – on the basis of the statutory regulations in force, or already enacted in relation to future periods, as of the closing date – are expected to apply in the individual countries at the time of realization.

The carrying amount of deferred tax assets is reviewed at each closing date and only the amount likely to be realizable due to future taxable income is recognized. Deferred tax assets from loss carryforwards are recognized if it is probable that the carryforwards can be utilized.

Deferred tax assets and liabilities are netted if they relate to income taxes levied by the same tax authorities.

Statement of cash flows

The statement of cash flows shows how cash inflows and outflows during the year affected the cash and cash equivalents of the LANXESS Group. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7. The liquidity reported in the statement of cash flows comprises cash and cash equivalents.

The cash flow from operating activities is calculated using the indirect method. This involves eliminating the translation effects and the effects of changes in the scope of consolidation from the changes recognized in the items on the statement of financial position. Therefore, the cash flows calculated by the indirect method cannot be directly derived from the statement of financial position.

Disbursements for the acquisition of property, plant and equipment are included in the cash flows for investing activities after deducting any third-party subsidies. Investments involving finance leases, along with capitalized borrowing costs, are not included. Comparison therefore should not be made between these items and the capital expenditures shown in the schedule of changes in property, plant and equipment.

Payments relating to operating leases are included in cash flows from operating activities. Disbursements made under finance leases where LANXESS is the lessee are recognized as cash outflows for financing activities, while cash inflows under finance leases where LANXESS is the lessor are recognized as cash inflows from investing activities.

Cash outflows relating to the financing of pension obligations are allocated to cash flows for operating activities.

Purchase prices paid or received in connection with acquisitions or divestments of subsidiaries or other business entities are included in the investing cash flow after deducting cash and cash equivalents acquired or divested.

Interest and dividends received are also included in investing cash flow, while interest and dividends paid are reflected in financing cash flow.

Global impairment testing procedure

In the LANXESS Group, the impairment testing of non-current assets starts with an analysis to determine whether impairment losses need to be recognized or previously recognized impairment losses reversed. If there are indications that this is the case, the residual carrying amount of each cash-generating unit is compared to its recoverable amount. In the LANXESS Group these impairments tests are performed at least once a year.

Cash-generating units to which goodwill is allocated are tested annually for impairment – or more frequently if events or changes in circumstances indicate a possible impairment. The residual carrying amount of each cash-generating unit, including the goodwill allocated to it, is compared to its recoverable amount.

The LANXESS Group defines its business units as the cash-generating units. However, if there is reason to suspect impairment of non-current assets below business-unit level, impairment testing is also performed at this level and impairment losses recognized in the income statement where necessary.

The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized. The fair value less costs to sell is the best estimate of the price that would be obtained by selling the cash-generating unit to a third party at the time of valuation less the estimated selling costs. The value in use is defined as the present value of future cash flows based on the continuing use of the asset and its retirement at the end of its useful life. The first step in an impairment test is to determine the fair value less costs to sell. If this is less than the carrying amount of the cash-generating unit, the value in use is then determined.

The recoverable amount is calculated from a forecast of future cash flows based on the LANXESS Group's current long-term planning. This planning is based on the latest approved five-year plan, which is in turn built on past experience and the Board of Management's estimates of expected market conditions, including assumptions regarding future raw material prices, cost of sales, selling expenses, research and development expenses, general administration expenses and exchange rates. The present value of future cash flows is calculated by discounting them using a weighted capital cost factor. The capital cost factor is derived according to IAS 36 from capital market models, taking into account the capital structure and business risks specific to the chemical industry.

If the impairment test shows a strategic business unit to be impaired, an impairment loss is first recognized for any goodwill assigned to it. Any remaining impairment amount is allocated among the other non-current assets of the strategic business unit in proportion to their net carrying amounts at the closing date.

Impairment losses are fully recognized in the income statement under other operating expenses and reflected in the segment reporting in the expenses of the respective segments.

The results of the global impairment tests in fiscal 2011 are outlined in the following section.

Estimation uncertainties and exercise of discretion

The preparation of consolidated financial statements in accordance with IFRS entails the selection of accounting policies and valuation principles and the use of forward-looking assumptions and estimates that may affect the valuation of assets and liabilities, income and expenses and contingent liabilities.

All assumptions and estimates used in the consolidated financial statements are based on management's expectations. Information that could alter these estimates is reviewed continually and may result in adjustments to the carrying amounts of the respective assets and liabilities.

Assumptions and estimates that could materially impact the valuation of the LANXESS Group's assets and liabilities are explained below.

The LANXESS Group tests its cash-generating units for impairment at least once a year by determining the respective recoverable amount (for further information see the section headed "Global impairment testing procedure and impact"). The test is based on forecasts of future cash flows, derived from reasonable assumptions representing the management's best assessment of the economic circumstances at the time of the impairment test. Management's expectations of future cash flows therefore indirectly affect the valuation of assets and goodwill.

The assumptions and estimates used for the impairment test conducted on assets in fiscal 2011 could differ from the actual values in subsequent periods, necessitating subsequent valuation adjustments. The impairment test was based on a discount rate after taxes of 7.4% (2010: 8.0%), without using growth rates to extrapolate the last year of the forecasting period.

The testing of the cash-generating units did not reveal any indication of possible asset impairment or of the need for impairment loss reversals.

The principal goodwill items were tested for impairment on the basis of fair value less costs to sell. As of the annual impairment testing date, the goodwill from previous years was tested for impairment after adjusting for currency translation effects. This included, in particular, the goodwill of €105 million in the Performance Butadiene Rubbers business unit recognized in connection with the acquisition of Petroflex in 2008.

The goodwill of €45 million acquired in fiscal 2011 was tested for impairment as of the closing date for the consolidated financial statements. The impairment test included goodwill that arose in the Technical Rubber Products business unit from the acquisition of the elastomers business of Royal DSM N.V., Netherlands, in the Rhein Chemie business unit from the acquisition of the Darmex group, Argentina, in the Material Protection Products business unit from the acquisition of the materials protection business of Syngenta AG, Switzerland, and in the Functional Chemicals business unit from the acquisition of Unitex Chemical Corporation, United States (see the section headed "Companies consolidated").

Neither a one percentage point increase in the discount rate nor a 10% reduction in expected future cash flows would have led to the recognition of an impairment loss on these goodwill items.

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, timing, the underlying discount rate and the absolute level of risk. The LANXESS Group performed sensitivity analyses on all provisions existing as of December 31, 2011 as required by the IFRS. These involved calculating the impact of variations in the parameters used, especially the probability of occurrence, discount rate and absolute level of risk. The outcome of these sensitivity analyses shows that variations in the assumptions described above would not have a material impact on the level of other provisions reported in the consolidated financial statements of the LANXESS Group. For further information on the sensitivity analyses relating to provisions for pension and other post-employment benefits, see Note [13].

Defined-benefit pension plans also necessitate actuarial computations and valuations. The section on provisions for pension and other post-employment benefits contains information on the assumptions on which the actuarial calculations and estimates were based (see Note [13]).

There is also a degree of uncertainty surrounding the assessment of certain tax situations by the tax authorities. Although the LANXESS Group believes it has presented all tax-relevant information correctly and in compliance with the law, it is possible that the tax authorities may occasionally reach different conclusions.

Other significant estimates are used to assess the useful lives of intangible assets and property, plant and equipment, the probability of collecting receivables and other assets, the valuation of inventories and the ability to realize tax claims and deferred tax assets recognized for temporary differences and tax loss carryforwards. The first-time consolidation of business operations also involves estimation uncertainties and the exercise of discretion in determining the fair values of the acquired assets and assumed liabilities.

Up to the time these consolidated financial statements were prepared, no circumstances had become known that would necessitate a major change in such estimates.

Companies consolidated

The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG and all domestic and foreign affiliates.

	EMEA (excluding Germany)	Germany	North America	Latin America	Asia-Pacific	Total
Fully consolidated companies (incl. parent company)						
Jan. 1, 2011	19	13	6	5	16	59
Additions	2		3	4	1	10
Subtractions			(1)	(1)		(2)
Mergers			(1)	(1)	(1)	(3)
Changes in scope of consolidation	(1)			(1)	1	(1)
Dec. 31, 2011	**20**	**13**	**7**	**6**	**17**	**63**
Companies accounted for using the equity method						
Jan. 1, 2011		1			2	3
Dec. 31, 2011	**0**	**1**	**0**	**0**	**2**	**3**
Non-consolidated companies						
Jan. 1, 2011	2	2	1	2	1	8
Additions	2					2
Subtractions						0
Changes in scope of consolidation	1			1	(1)	1
Dec. 31, 2011	**5**	**2**	**1**	**3**	**0**	**11**
Total						
Jan. 1, 2011	21	16	7	7	19	70
Additions	4		3	4	1	12
Subtractions			(1)	(1)		(2)
Mergers			(1)	(1)	(1)	(3)
Changes in scope of consolidation	0			0	0	0
Dec. 31, 2011	**25**	**16**	**8**	**9**	**19**	**77**

Non-consolidated companies are accounted for at cost. These companies are immaterial to the Group's financial position and results of operations, since together they account for less than 0.1% of Group sales and less than 0.1% of equity.

On May 2, 2011 LANXESS completed the acquisition of the elastomers business of Royal DSM N.V., Netherlands. This transaction comprised the acquisition of all the shares of DSM Elastomers Europe B.V., Heerlen, Netherlands, and its affiliates, and all the shares of DSM Elastômeros Brasil Ltda., Triunfo, Brazil, and selected assets and liabilities. The companies were consolidated as of this date. The acquisition was funded from existing liquidity of the LANXESS Group. The elastomers business acquired from DSM produces the Keltan brand of ethylene propylene diene monomer (EPDM) rubber at sites in the Netherlands and Brazil. The business supplements the EPDM activities of the Technical Rubber Products business unit in the Performance Polymers segment.

Between the date of acquisition and year-end 2011, the business contributed €389 million to LANXESS Group sales and €44 million to earnings. Its earnings contribution was affected by the remeasurements made for purposes of the purchase price allocation. If the business had been acquired with effect from January 1, 2011, it would have contributed roughly €150 million more to Group sales and some €20 million more to earnings.

The acquisition was accounted for as a business combination pursuant to IFRS 3. Thus, in allocating the purchase price, the acquiree's identifiable assets, liabilities and contingent liabilities were included at fair value. The remaining difference of €12 million represents the goodwill acquired on the acquisition. The following table shows a breakdown of the purchase price allocation and its impact on the statement of financial position of the LANXESS Group.

Additions from Acquisition of Keltan EPDM Business

€ million	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	4	58	62
Property, plant and equipment	121	45	166
Other assets	195	16	211
Total assets	**320**	**119**	**439**
Non-current liabilities	1	24	25
Current liabilities	207	0	207
Total liabilities	**208**	**24**	**232**
Net acquired assets (excluding goodwill)	**112**	**95**	**207**
Acquisition costs			**219**
Acquired goodwill			**12**

The purchase price allocation is provisional and was carried out with the aid of reports from external experts and in light of the information available at and immediately after the acquisition date. According to IFRS, the purchase price allocation is subject to adjustment within one year after the acquisition date to reflect new information and findings.

The goodwill resulting from the acquisition of the elastomers business reflects, in particular, marketing and cost synergies arising from the improved capacity utilization, especially at the production site in Brazil, the expansion of LANXESS's product mix in the EPDM business and additional sales opportunities to existing and new customers, particularly in South America. The acquisition thus represents a further step in LANXESS's long-term growth strategy in the area of ethylene propylene rubbers.

Effective January 11, 2011, LANXESS acquired all the shares of the Darmex group, which was assigned to the Rhein Chemie business unit in the Performance Chemicals segment. This acquisition has given the business unit access to bladder technology and is in line with its strategy of growing the business in the emerging markets.

On April 13, 2011, the LANXESS Group acquired the material protection business of Syngenta AG, Basel, Switzerland. This transaction mainly comprised selected intangible assets. This acquisition expands the range of biocides offered by the Material Protection Products business unit in the Performance Chemicals segment for the protection of building materials. A further acquisition by this business unit was the purchase of all the shares of Verichem Inc., Pittsburgh, United States. This acquisition closed on November 9, 2011. As well as extending LANXESS's product portfolio, this transaction strengthens the company's position on the U.S. market for material protection products.

On October 12, 2011, LANXESS acquired all the shares of Unitex Chemical Corporation, Greensboro, United States. This company was assigned to the Functional Chemicals business unit in the Performance Chemicals segment. The acquisition gives LANXESS access to Unitex's flexible production facilities and expands the portfolio of phthalate-free plasticizers.

These businesses were consolidated as of the above acquisition dates.

Since they were acquired, these businesses have contributed a total of €47 million to LANXESS Group sales. Their contribution to Group earnings was negligible due to the continuing effects of the remeasurements made for purposes of the purchase price allocation. If these businesses had been acquired with effect from January 1, 2011, they would have contributed around €30 million more to Group sales and €3 million more to earnings.

The following table shows the impact of the last four acquisitions listed above, none of which individually had a significant impact on the Group assets or liabilities.

Additions from Other Acquisitions

€ million	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	0	54	54
Property, plant and equipment	6	16	22
Other assets	28	2	30
Total assets	**34**	**72**	**106**
Non-current liabilities	0	7	7
Current liabilities	12	0	12
Total liabilities	**12**	**7**	**19**
Net acquired assets (excluding goodwill)	**22**	**65**	**87**
Acquisition costs			**120**
Acquired goodwill			**33**

The goodwill arising from the other acquisitions mainly reflects marketing and cost synergies resulting from improved capacity utilization, especially at the production sites in North and South America, and from the enlargement of LANXESS's product range in the above business units.

Other information on companies consolidated

The following table lists the affiliated companies in accordance with Section 313 Paragraph 2 of the German Commercial Code:

Company Name and Domicile	
%	Interest held
Fully consolidated companies	
Germany	
LANXESS AG, Leverkusen	–
Aliseca GmbH, Leverkusen	100
DuBay Polymer GmbH, Hamm	50
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100
LANXESS Accounting GmbH, Leverkusen	100
LANXESS Buna GmbH, Marl	100
LANXESS Deutschland GmbH, Leverkusen	100
LANXESS Distribution GmbH, Langenfeld	100
LANXESS International Holding GmbH, Leverkusen	100
LXS Dormagen Verwaltungs-GmbH, Dormagen	100
Perlon-Monofil GmbH, Dormagen	100
Rhein Chemie Rheinau GmbH, Mannheim	100
Saltigo GmbH, Langenfeld	100
EMEA (excluding Germany)	
Europigments, S.L., Barcelona, Spain	52
LANXESS (Pty.) Ltd., Modderfontein, South Africa	100
LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia	100
LANXESS Chemicals, S.L., Barcelona, Spain	100
LANXESS CISA (Pty.) Ltd., Newcastle, South Africa	100
LANXESS Elastomères S.A.S., Lillebonne, France	100
LANXESS Elastomers B.V., Heerlen, Netherlands	100
LANXESS Emulsion Rubber S.A.S., La Wantzenau, France	100
LANXESS Finance B.V., Amsterdam, Netherlands	100
LANXESS Holding Hispania, S.L., Barcelona, Spain	100
LANXESS International SA, Granges-Paccot, Switzerland	100
LANXESS Limited, Newbury, U.K.	100
LANXESS Mining (Proprietary) Ltd., Modderfontein, South Africa	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS Rubber N.V., Zwijndrecht, Belgium	100
LANXESS S.A.S., Courbevoie, France	100
LANXESS S.r.l., Milan, Italy	100
OOO LANXESS, Dzerzhinsk, Russia	100
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100
Sybron Chemicals International Holdings Ltd., Newbury, U.K.	100

Company Name and Domicile	
%	Interest held
Fully consolidated companies	
North America	
LANXESS Corporation, Pittsburgh, U.S.A.	100
LANXESS Inc., Sarnia, Canada	100
LANXESS Sybron Chemicals Inc., Birmingham, U.S.A.	100
Rhein Chemie Corporation, Chardon, U.S.A.	100
Sybron Chemical Holdings Inc., Wilmington, U.S.A.	100
Unitex Chemical Corporation, Greensboro, U.S.A.	100
Verichem Inc., Pittsburgh, U.S.A.	100
Latin America	
LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil	100
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
LANXESS S.A., Buenos Aires, Argentina	100
Rhein Chemie Argentina S.A., Buenos Aires, Argentina	100
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100
Asia-Pacific	
LANXESS Elastomers Trading (Shanghai) Co., Ltd., Shanghai, China	100
LANXESS (Changzhou) Co., Ltd., Changzhou, China	100
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100
LANXESS Butyl Pte. Ltd., Singapore	100
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100
LANXESS Hong Kong Limited, Hong Kong, China	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Korea Limited, Seoul, South Korea	100
LANXESS Pte. Ltd., Singapore	100
LANXESS PTY Ltd., Homebush Bay, Australia	100
LANXESS Shanghai Pigments Co., Ltd., Shanghai, China	100
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100
LANXESS Wuxi Chemical Co., Ltd., Wuxi, China	100
Nexachem Trading (Qingdao) Co., Ltd. (formerly: Rhein Chemie LOA (Qingdao) Limited), Qingdao, China	100
Rhein Chemie Japan Ltd., Tokyo, Japan	100
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90

Company Name and Domicile	
%	Interest held
Associates accounted for using the equity method	
Germany	
Currenta GmbH & Co. OHG, Leverkusen	40
Asia-Pacific	
LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China	50
Joint ventures accounted for using the equity method	
Asia-Pacific	
Anhui Tongfeng Shengda Chemical Co., Ltd., Tongling, China	25
Non-consolidated immaterial subsidiaries	
Germany	
LANXESS Middle East GmbH, Leverkusen	100
Vierte LXS GmbH, Leverkusen	100
EMEA (excluding Germany)	
Darchem International Ltd., Havant, U.K.	100
LANXESS Kimya Ticaret Limited Şirketi, Istanbul, Turkey	100
OOO LANXESS Lipetsk, Lipetsk, Russia	100
Rustenburg Chrome Mine Holdings (Pty.) Ltd., Modderfontein, South Africa	74
W. Hawley & Son Ltd., Newbury, U.K.	100
North America	
LANXESS Energy LLC, Wilmington, U.S.A.	100
Latin America	
Comercial Andinas Ltda., Santiago, Chile	100
Petroflex Trading S.A., Montevideo, Uruguay	100
Other non-consolidated immaterial companies	
Latin America	
Hidrax Ltda., Taboão da Serra, Brazil	39

Notes to the statement of financial position

1 Intangible assets

Changes in intangible assets were as follows:

Changes in Intangible Assets in 2010

€ million	Concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets	Acquired goodwill	Advance payments	Total
Cost of acquisition or generation, Dec. 31, 2009	137	128	4	269
Capital expenditures	9		18	27
Disposals	(2)			(2)
Reclassifications	1		(1)	0
Exchange differences	10	14	0	24
Cost of acquisition or generation, Dec. 31, 2010	**155**	**142**	**21**	**318**
Accumulated amortization and impairment losses, Dec. 31, 2009	(68)	(5)	0	(73)
Amortization and impairment losses in 2010	(16)			(16)
of which impairment losses				0
Disposals	1			1
Reclassifications				0
Exchange differences	(4)	0		(4)
Accumulated amortization and impairment losses, Dec. 31, 2010	**(87)**	**(5)**	**0**	**(92)**
Carrying amounts, Dec. 31, 2010	**68**	**137**	**21**	**226**

Changes in Intangible Assets in 2011

€ million	Concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets	Acquired goodwill	Advance payments	Total
Cost of acquisition or generation, Dec. 31, 2010	155	142	21	318
Changes in scope of consolidation/acquisition	116	45		161
Capital expenditures	25		8	33
Disposals	(12)	(10)	0	(22)
Reclassifications	16		(16)	0
Exchange differences	(3)	(9)	1	(11)
Cost of acquisition or generation, Dec. 31, 2011	**297**	**168**	**14**	**479**
Accumulated amortization and impairment losses, Dec. 31, 2010	(87)	(5)	0	(92)
Changes in scope of consolidation				0
Amortization and impairment losses in 2011	(32)	(2)		(34)
of which impairment losses	(2)	(2)		(4)
Disposals	11	6		17
Reclassifications	0			0
Exchange differences	3	0		3
Accumulated amortization and impairment losses, Dec. 31, 2011	**(105)**	**(1)**	**0**	**(106)**
Carrying amounts, Dec. 31, 2011	**192**	**167**	**14**	**373**

2 Property, plant and equipment

Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2010

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction, Dec. 31, 2009	1,188	5,167	195	275	6,825
Capital expenditures	27	104	23	348	502
Disposals	(38)	(81)	(6)	(1)	(126)
Reclassifications	44	162	11	(217)	0
Exchange differences	34	131	8	16	189
Cost of acquisition or construction, Dec. 31, 2010	**1,255**	**5,483**	**231**	**421**	**7,390**
Accumulated depreciation and impairment losses, Dec. 31, 2009	(833)	(4,031)	(152)	0	(5,016)
Depreciation and impairment losses in 2010	(30)	(213)	(24)		(267)
of which impairment losses		(1)			(1)
Disposals	37	80	6		123
Reclassifications					0
Exchange differences	(12)	(83)	(4)		(99)
Accumulated depreciation and impairment losses, Dec. 31, 2010	**(838)**	**(4,247)**	**(174)**	**0**	**(5,259)**
Carrying amounts, Dec. 31, 2010	**417**	**1,236**	**57**	**421**	**2,131**

Changes in Property, Plant and Equipment in 2011

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction, Dec. 31, 2010	1,255	5,483	231	421	7,390
Changes in scope of consolidation/acquisitions	24	157	2	5	188
Capital expenditures	14	112	19	522	667
Disposals	(17)	(132)	(8)	(2)	(159)
Reclassifications	31	169	9	(209)	0
Exchange differences	(5)	(15)	(1)	11	(10)
Cost of acquisition or construction, Dec. 31, 2011	**1,302**	**5,774**	**252**	**748**	**8,076**
Accumulated depreciation and impairment losses, Dec. 31, 2010	(838)	(4,247)	(174)	0	(5,259)
Changes in scope of consolidation					0
Depreciation and impairment losses in 2011	(35)	(234)	(22)		(291)
of which impairment losses	(2)	(7)	0		(9)
Disposals	17	130	8		155
Reclassifications	0	0	0		0
Exchange differences	0	(3)	1		(2)
Accumulated depreciation and impairment losses, Dec. 31, 2011	**(856)**	**(4,354)**	**(187)**	**0**	**(5,397)**
Carrying amounts, Dec. 31, 2011	**446**	**1,420**	**65**	**748**	**2,679**

Capitalized property, plant and equipment includes assets with a total net value of €61 million (2010: €66 million) held under finance leases. The gross carrying amounts of these assets at the closing date totaled €165 million (2010: €163 million). The assets mainly comprise machinery and technical equipment with a carrying amount of €56 million (2010: 58 million) and a cost of acquisition or construction of €151 million (2010: €146 million) and buildings with a carrying amount of €2 million (2010: €7 million) and a cost of acquisition or construction of €10 million (2010: €16 million).

Directly attributable borrowing costs of €12 million (2010: €1 million) were capitalized, based on an average cost of debt of 5.2% (2010: 5.2%) for the Group.

3 Investments accounted for using the equity method

As in the previous year, Currenta GmbH & Co. OHG, Leverkusen, Germany, Anhui Tongfeng Shengda Co., Ltd., Tongling, China, and LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, were accounted for using the equity method.

The following tables show the main items included in the income statement and statement of financial position related to these associates:

Income from Investments Accounted for Using the Equity Method

€ million	2010	2011
Sales	1,182	1,333
Income from investments accounted for using the equity method	16	7

Investments Accounted for Using the Equity Method

€ million	Dec. 31, 2010	Dec. 31, 2011
Assets	900	911
Liabilities	726	739
Equity	**174**	**172**
Adjustment of LANXESS's interest and equity valuation	(161)	(160)
Investments accounted for using the equity method	**13**	**12**

The €1 million (2010: €13 million) decrease in the carrying amount of investments accounted for using the equity method arose from the equity-method income after adjustments for a loss of €11 million (2010: €26 million) recognized in other comprehensive income and the effect of the pro-rata income transfer of €1 million (2010: €8 million). A capital increase at LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, increased the carrying amount of investments accounted for using the equity method by €4 million (2010: €5 million).

4 Investments in other affiliated companies

This item contains interests in other affiliated companies totaling €19 million (2010: €8 million). The increase is primarily due to the acquisition of shares in service companies acquired together with the Keltan EPDM business and the acquisition of further shares in Gevo Inc., Englewood, United States, in connection with its stock market listing.

As of December 31, 2011, the other investments classified as available-for-sale financial assets, apart from the shares in Gevo Inc., comprised unlisted equity instruments. Since the fair values of these instruments at the closing date could not be reliably determined, they were recognized at cost. There are currently no plans to dispose of these investments.

5 Derivative financial instruments

Derivatives with a total fair value of €16 million (2010: €22 million) are capitalized in the consolidated financial statements of the LANXESS Group for fiscal 2011. Instruments with a negative fair value totaling €53 million (2010: €34 million) are recognized as liabilities.

Derivative Financial Instruments

€ million	Dec. 31, 2010		
	Notional amount	Positive fair values	Negative fair values
Forward exchange contracts	1,718	16	(25)
Currency options	153	2	(9)
Forward commodity contracts	19	4	0
Total derivative financial instruments	**1,890**	**22**	**(34)**
of which current	1,465	19	(23)
of which non-current	425	3	(11)

Derivative Financial Instruments

€ million	Dec. 31, 2011		
	Notional amount	Positive fair values	Negative fair values
Forward exchange contracts	2,265	16	(51)
Currency options	0	0	0
Forward commodity contracts	22	0	(2)
Total derivative financial instruments	**2,287**	**16**	**(53)**
of which current	1,827	8	(40)
of which non-current	460	8	(13)

The total notional amount of forward commodity contracts was €22 million (2010: €19 million), including €22 million (2010: €19 million) due within one year. The total notional amount of forward exchange contracts and currency options was €2,265 million (2010: €1,871 million), including €1,805 million (2010: €1,446 million) due within one year.

Cash flow hedges As of December 31, 2011 the unrealized losses recorded in other comprehensive income in 2011 or earlier periods from currency hedging contracts that qualify for hedge accounting amounted to €25 million (2010: €8 million). In fiscal 2011, a gain of €12 million (2010: €15 million) was reclassified from equity to profit or loss due to the realization of the hedged transactions. Currency hedging contracts had a notional amount of €815 million (2010: €932 million). As of December 31, 2011, these had positive fair values of €1 million (2010: €12 million) and negative fair values of €36 million (2010: €24 million). Contracts with a total notional amount of €583 million (2010: €544 million) are due within one year. The hedged cash flows will be realized within the next two years.

The LANXESS Group expects that, of the unrealized losses from currency hedges recognized in other comprehensive income in 2011, €18 million will be reclassifiable from equity to profit or loss in 2012 and €7 million in 2013 (2010: €3 million expected to be reclassifiable in 2011 and €5 million in 2012).

As of December 31, 2011 the unrealized losses recognized in other comprehensive income in 2011 or earlier periods from forward commodity contracts that qualified for hedge accounting amounted to €1 million (2010: €2 million gains). In 2011, a gain of €3 million (2010: €2 million) was reclassified from equity to profit or loss due to the realization of the hedged transactions. Hedges comprised forward commodity contracts with positive fair values of €0 million on December 31, 2011 (2010: €4 million) and negative fair values of €2 million (2010: €0 million). The total notional amount of these hedges was €22 million (2010: €19 million), including €22 million (2010: €19 million) due within one year. The hedged cash flows will be realized within one year.

The LANXESS Group expects that of the unrealized losses from forward commodity contracts recognized in other comprehensive income in 2011 (2010: unrealized gains), €1 million will be reclassifiable from equity to profit or loss in 2012 (2010: €2 million of unrealized gains reclassifiable in 2011).

Information on the maturity structure of derivative assets and liabilities is given in Note [35].

6 Other non-current and current financial assets

Other Financial Assets

€ million	Dec. 31, 2010		
	Non-current	Current	Total
Available-for-sale financial assets	51	1	52
Receivables under finance leases	6	2	8
Other financial receivables	17	55	72
	74	**58**	**132**

Other Financial Assets

€ million	Dec. 31, 2011		
	Non-current	Current	Total
Available-for-sale financial assets	61	1	62
Receivables under finance leases	4	2	6
Other financial receivables	17	24	41
	82	**27**	**109**

The available-for sale non-current financial assets comprise €60 million (2010: €50 million) in bearer securities of an exchange-traded index fund. Accounts receivable of €6 million (2010: €8 million) relate to lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets (finance leases). The other financial receivables mainly comprise fixed-term investments with short fixed-interest periods. Write-downs of other financial assets amounted to €9 million (2010: €10 million).

The leasing receivables are due as follows:

Maturity Structure of Lease Payments

€ million	Dec. 31, 2010		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	7	1	6
	9	**1**	**8**

Maturity Structure of Lease Payments

€ million	Dec. 31, 2011		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	3	1	2
1 to 5 years	4	0	4
	7	**1**	**6**

7 Other non-current assets

Other non-current assets are carried at amortized cost less write-downs. No write-downs were necessary in 2010 or 2011.

Other non-current assets comprised:

Other Non-Current Assets

€ million	Dec. 31, 2010	Dec. 31, 2011
Receivables from pension obligations	81	85
Other receivables	32	35
	113	**120**

The increase in receivables from pension obligations was mainly attributable to an increase in the value of the underlying assets. Other receivables include security deposits.

8 Inventories

The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2010	Dec. 31, 2011
Raw materials and supplies	243	271
Work in process, finished goods and merchandise	851	1,115
	1,094	**1,386**

Inventories of €184 million (2010: €157 million) are reflected at their net realizable value.

Write-downs of inventories were as follows:

Write-Downs of Inventories

€ million	2010	2011
Balance at beginning of year	(79)	(62)
Additions charged as expenses	(18)	(59)
Reversals/utilization	38	20
Exchange differences	(3)	0
Balance at end of year	**(62)**	**(101)**

9 Trade receivables

Trade receivables are stated after write-downs of €13 million (2010: €19 million) for amounts unlikely to be recovered. These write-downs related to gross receivables of €28 million (2010: €25 million).

All trade receivables – totaling €1,146 million (2010: €942 million) – are due within one year. Trade receivables of €6 million (2010: €3 million) related to other affiliated companies and €1,140 million (2010: €939 million) to other customers.

Changes in write-downs of trade receivables were as follows:

Write-Downs of Trade Receivables

€ million	2010	2011
Balance at beginning of year	(22)	(19)
Additions charged as expenses	(4)	(3)
Reversals/utilization	8	8
Exchange differences	(1)	1
Balance at end of year	**(19)**	**(13)**

The maturity structure of past-due trade receivables was as follows:

Maturity Structure of Past-Due Trade Receivables

€ million	Dec. 31, 2010	Dec. 31, 2011
Carrying amount	942	1,146
of which neither impaired nor past due	850	1,033
of which unimpaired but past due by		
up to 30 days	75	85
between 31 and 60 days	7	9
between 61 and 90 days	1	1
more than 90 days	3	3

With regard to trade receivables that were neither impaired nor past due, there were no indications as of the closing date that the respective debtors would not meet their payment obligations.

10 Near-cash assets

The near-cash assets of €350 million (2010: €364 million) comprise units of money market funds that can be sold at any time and are expected to be realized within twelve months after the closing date.

11 Other current assets

Other receivables and other assets totaling €230 million (2010: €222 million) are stated at amortized cost less any write-downs. They principally comprise miscellaneous claims for tax refunds (mainly sales taxes) amounting to €182 million (2010: €109 million) and other advance payments. Write-downs totaled €1 million (2010: €1 million).

12 Equity

Share buyback and retirement The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011, authorized the Board of Management until May 17, 2016 to acquire shares in the company representing up to 10% of the capital stock and to utilize them for any purpose permitted by law. This authorization may also be utilized by subsidiaries of the company or by third parties on behalf of the company or its subsidiaries. At the discretion of the Board of Management, such shares may be acquired either in the market or via a public tender offer. The Board of Management is authorized to use them for any purpose permitted by law. In particular, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interests in companies or in order to conclude mergers. It is also authorized to use them to satisfy conversion rights from convertible or warrant bonds and/or profit-participation rights or income bonds (or a combination of these instruments) issued by the company and to grant holders of convertible or warrant bonds and/or profit-participation rights or income bonds (or a combination of these instruments) issued by the company or its direct and indirect affiliates that grant a conversion or option right or stipulate a conversion or warrant obligation the number of shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights or fulfillment of the conversion or warrant obligation. The stockholders shall not have subscription rights in such cases, except where the shares are retired.

Capital stock The capital stock of LANXESS AG was €83,202,670 and thus unchanged from the previous year. It is divided into 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share.

Authorized capital As of December 31, 2011 the company's authorized capital comprised the following:

Authorized Capital I and II Pursuant to Section 4 Paragraph 2 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 7, 2009 authorized the Board of Management until May 6, 2014, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Further details are given in Section 4 Paragraph 2 of the articles of association.

In addition, pursuant to Section 4 Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 28, 2010 authorized the Board of Management until May 27, 2015, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Further details are given in Section 4 Paragraph 3 of the articles of association.

Conditional capital As of December 31, 2011 the company's conditional capital comprised the following:

Conditional capital The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011, authorized the Board of Management until May 17, 2016, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as "bonds") – either as registered or as bearer bonds – with a total nominal value of up to €2,000,000,000, with or without limited maturity, and to grant option rights to, or impose option obligations on, the holders or creditors of warrant bonds, profit-participation rights with warrants or income bonds with warrants, and/or to grant conversion rights to, or impose conversion obligations on, the holders or creditors of convertible bonds, convertible profit-participation rights or convertible income bonds in respect of bearer shares of the company representing a total pro-rata increase of up to €16,640,543 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4 Paragraph 4 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €16,640,534 (Conditional Capital).

The conditional capital increase shall only be implemented to the extent that the holders or creditors of, or persons obligated to exercise, option or conversion rights pertaining to bonds issued by the company or a dependent company against cash contributions, or issued against cash contributions and guaranteed by the company or a dependent company, on or before May 17, 2016 on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 18, 2011, exercise their option or conversion rights or, where they are obligated to do so, fulfill such obligation, or to the extent that the company elects to grant shares in the company in place of all or part of the cash amount due for payment. The conditional capital increase shall not be implemented if cash compensation is granted or if the company's own shares, shares issued out of authorized capital or shares in another listed company are used to service the option or conversion rights.

When issuing bonds, the Board of Management is authorized, with the approval of the Supervisory Board, to exclude subscription rights in the following cases:

- for residual amounts resulting from the subscription ratio;
- insofar as is necessary to grant to holders of previously issued option or conversion rights or obligations subscription rights to the number of new shares to which they would be entitled to subscribe as stockholders upon exercise of their option or conversion rights or fulfillment of their option or conversion obligations;
- in the case of issuance against cash contributions, if the issue price is not significantly below the theoretical market value of the bonds with option or conversion rights or conversion obligations, as determined using accepted pricing models; if bonds are issued by application of Section 186 Paragraph 3 Sentence 4 of the German Stock Corporation Act, in which case the issued shares may not exceed a total of 10% of the capital stock either at the time this authorization takes effect or at the time it is utilized;
- if profit-participation rights or income bonds without option or conversion rights or conversion obligations are vested with bond-like characteristics.

Capital reserves The capital reserves of LANXESS AG were unchanged from the previous year at €806,195,490.

Other reserves The €244 million increase in other reserves to €943 million was entirely attributable to the increase in retained earnings from €541 million to €785 million.

Retained earnings comprised prior years' undistributed income of companies included in the consolidated financial statements. They also contained actuarial gains and losses along with the effects of the asset ceiling and minimum funding requirements for defined-benefit plans and the associated tax effects.

Non-controlling interests Non-controlling interests comprised the interests held by other stockholders in the equity of DuBay Polymer GmbH, Hamm, Germany; EUROPIGMENTS S.L., Barcelona, Spain; and Rhein Chemie (Qingdao) Co. Ltd., Qingdao, China. The year-on-year change was entirely related to the earnings for 2011.

Capital management The main purpose of capital management in the LANXESS Group is to maintain the long-term viability of the Group's operations and achieve an attractive return on sales and capital compared to the chemical industry average. LANXESS's financial policy defines a second key criterion for capital management, which is to maintain an investment-grade rating. To achieve this goal, the Group has to meet indicators set by the rating agencies. Most of these are derived from the statement of financial position, income statement and cash flow data. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure shown on the statement of financial position, the appropriateness of the company's equity, the distribution of the profit, the amount of the dividend, the financing of capital expenditures and borrowing and the repayment of debt. The articles of association of LANXESS AG do not contain any specific capital requirements.

13 Provisions for pensions and other post-employment benefits

Most employees in the LANXESS Group are entitled to retirement benefits on the basis of statutory regulations or contractual agreements. These are provided through both defined-contribution and defined-benefit plans.

In the case of defined-contribution plans, the company pays contributions into separate pension funds. These contributions are included in the respective functional cost items as expenses for the year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. In 2011 these expenses totaled €38 million (2010: €34 million).

The pension plan financed through the Bayer Pensionskasse is also reflected in the consolidated financial statements as a defined-contribution plan. The above amounts include contributions of €21 million (2010: €21 million) to this pension fund. In 2011 the Bayer Pensionskasse decided to increase future contribution rates to cover its long-term pension obligations. Accordingly, contributions are expected to increase to around €28 million for 2012.

The Bayer Pensionskasse is a legally independent private insurance company and is therefore subject to the German Insurance Supervision Act. The obligation of the plan sponsors is not confined to payment of the contributions for the respective fiscal year. Therefore the Bayer Pensionskasse is a defined-benefit plan sponsored by multiple employers and would normally have to be accounted for proportionately as a defined-benefit plan.

The Bayer Pensionskasse is financed not on the principle of coverage for individual benefit entitlements, but on the actuarial equivalence principle, based on totals for the whole plan. This means that the sum of existing plan assets and the present value of future contributions must be at least equal to the present value of the future benefits payable under the plan. The LANXESS Group is therefore exposed to the actuarial risks of the other plan sponsors of the Bayer Pensionskasse and thus has no consistent or reliable basis for allocating the benefit obligation, plan assets and costs to account for the Bayer Pensionskasse as a defined-benefit plan in accordance with IAS 19. There is no information available on over- or underfunding that could be used to estimate any impact on future contributions. The Bayer Pensionskasse is therefore accounted for as a defined-contribution plan and not as a defined-benefit plan.

The Bayer Pensionskasse assumes any pension adjustments in accordance with Section 16 of the German Occupational Pensions Improvement Act (BetrAVG) insofar as the necessary funds are made available to it. Pension adjustments not expected to be assumed by the Bayer Pensionskasse are accounted for by LANXESS as a separate defined-benefit plan.

Pension plans based on statutory regulations mainly comprise an obligation to pay a lump sum when employment ends. The amount depends principally on years of service and final salary.

Pension plans based on contractual agreements generally comprise lifelong benefits payable in the event of death or disability or when the employee reaches a certain age. Benefits are normally based on employees' salaries and years of service.

Alongside retirement benefits, pension and other post-employment benefit obligations include the obligation of Group companies in the Americas to reimburse healthcare costs to retirees.

Benefit entitlements are financed either internally through provisions or externally through legally independent pension funds. The pension commitments in Germany are partly covered by the LANXESS Pension Trust e.V., Leverkusen, Germany (CTA).

The provisions for pensions and other post-employment benefits recognized in the statement of financial position reflect the present value of the defined-benefit obligation at year end, taking into account expected future benefit increases, less the year-end fair value of external plan assets adjusted for unrecognized past service cost, unrealizable plan assets and minimum funding requirements. The defined-benefit obligation is measured regularly – at least every three years – by an independent actuary using the projected unit credit method. Comprehensive actuarial valuations are generally undertaken annually for all major pension plans. The discount rates used to compute present value normally correspond to the yields on high-quality corporate bonds with the same maturities.

Total expenses for defined-benefit plans in 2011 amounted to €47 million (2010: €38 million). Expenses for pension payments, and the effect of plan curtailments, settlements and divestments totaling €38 million (2010: €33 million), are recognized in the operating result. The interest cost pertaining to pension entitlements earned in prior years and the expected return on plan assets totaled €9 million (2010: €5 million). This amount was reflected in the financial result.

The costs for the plans comprise the following:

Costs for Defined-Benefit Plans

€ million	Pension obligations		Other post-employment benefit obligations	
	2010	2011	2010	2011
Current service cost	18	22	12	7
Past service cost	0	1	0	0
Interest cost	84	89	7	7
Expected return on plan assets	(86)	(87)	0	0
Plan curtailments, settlements and divestments	3	8	0	0
	19	**33**	**19**	**14**

The reconciliation of the defined-benefit obligation to the net amounts of assets and provisions recognized in the statement of financial position is as follows:

Reconciliation to Net Recognized Liability as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2010	2011	2010	2011
Defined benefit obligation (funded)	1,279	1,347	7	6
External plan assets	(1,105)	(1,156)	(3)	(4)
Underfunding	**174**	**191**	**4**	**2**
Defined benefit obligation (unfunded)	140	187	118	120
Unrecognized past service cost	(1)	(1)	1	0
Effects of asset ceiling and minimum funding requirements	88	95	–	–
Net recognized liability	**401**	**472**	**123**	**122**
Amounts recognized in the statement of financial position				
Receivables from pension obligations	(81)	(85)	–	–
Provisions for pensions and other post-employment benefits	482	557	123	122
Net recognized liability	**401**	**472**	**123**	**122**

The net recognized liability is reflected in the following items in the statement of financial position:

Net Recognized Liability as of Dec. 31

€ million	2010	2011
Provisions for pensions and other post-employment benefits	605	679
Other non-current assets	(81)	(85)
Net recognized liability	**524**	**594**

The defined-benefit obligation and plan assets changed as follows in 2011:

Change in Defined-Benefit Obligation as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2010	2011	2010	2011
Defined-benefit obligation				
Benefit obligation at beginning of year	1,117	1,419	114	125
Current service cost	18	22	12	7
Past service cost	0	1	–	–
Interest cost	84	89	7	7
Employee contributions	2	2	–	–
Plan settlements	(6)	(34)	–	–
Actuarial gains/losses	188	137	2	1
Benefits paid	(67)	(74)	(17)	(13)
Acquisitions/divestments	0	0	–	–
Plan curtailments	0	0	0	0
Exchange differences	83	(28)	7	(1)
Benefit obligation at end of year	**1,419**	**1,534**	**125**	**126**

Change in Plan Assets as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2010	2011	2010	2011
Fair value of plan assets				
Plan assets at beginning of year	876	1,105	3	3
Expected return on plan assets	86	87	0	0
Actuarial gains/losses	5	52	0	0
Acquisitions/divestments	–	0	–	–
Plan settlements	(9)	(42)	–	–
Employer contributions	96	48	0	1
Employee contributions	2	2	–	–
Benefits paid	(52)	(57)	0	0
Exchange differences	101	(39)	0	0
Plan assets at end of year	**1,105**	**1,156**	**3**	**4**

Employer contributions contain both allocations to externally financed pension obligations where LANXESS is eligible for reimbursement of pension payments and externally financed pension obligations where subsequent pension payments will be made directly out of external pension assets.

Allocations to external financing where LANXESS can claim reimbursement of payments made (CTA) amounted to €30 million (2010: €75 million). Allocations to external financing where subsequent pension payments are made directly out of external pension assets totaled €19 million in 2011 (2010: €21 million).

It is not possible to reliably estimate the employer contributions to defined-benefit plans in the next fiscal year. These depend mainly on future decisions by the company's management and on the regulatory environment in each country.

The following table shows the actuarial gains and losses recognized outside profit or loss as a component of other comprehensive income, the effects of the asset ceiling recognized in other comprehensive income, and the minimum funding requirements:

Amounts Recognized in Other Comprehensive Income

€ million	Pension obligations		Other post-employment benefit obligations	
	2010	2011	2010	2011
Actuarial gains/losses	(183)	(85)	(2)	(1)
Effects of asset ceiling and minimum funding requirements	78	(10)	–	–
	(105)	**(95)**	**(2)**	**(1)**

The accumulated actuarial gains and losses recognized in other comprehensive income at year end 2011 amounted to minus €385 million (2010: minus €302 million).

The actuarial gains and losses are assigned to the following categories:

Categories of Actuarial Gains/Losses as of Dec. 31

€ million	Pension obligations					Other post-employment benefit obligations				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Difference between expected and actual return on plan assets	1	(50)	15	5	52	0	0	0	0	0
Experience adjustments	(23)	(26)	36	(54)	(39)	(3)	0	(2)	4	4
Adjustments for changes in valuation assumptions	95	90	(81)	(134)	(98)	7	6	(6)	(6)	(5)
Net actuarial gain/loss for the year	**73**	**14**	**(30)**	**(183)**	**(85)**	**4**	**6**	**(8)**	**(2)**	**(1)**

Experience adjustments represent changes in benefit obligations arising from differences between actuarial assumptions and actual developments during the year. By contrast, adjustments for changes in valuation assumptions reflect differences in the benefit obligation resulting from differences in the assumptions made at the start and end of the year.

The increase in the adjustments for changes in valuation assumptions is primarily due to the decline in discount rates in the principal countries in which LANXESS has pension obligations.

The actual return on plan assets in 2011 amounted to €139 million (2010: €91 million).

The following weighted parameters were used to calculate benefit expense and obligations:

Assumptions as of Dec. 31

%	Pension obligations		Other post-employment benefit obligations	
	2010	**2011**	**2010**	**2011**
Discount rate	6.7	6.2	6.3	5.7
Expected salary increases	4.0	3.6	4.1	3.8
Expected pension increases	2.1	2.1	–	–
Expected return on plan assets	8.7	7.8	5.8	5.8
Expected increase in the cost of medical care	–	–	8.6	8.4
Expected long-term increase in the cost of medical care	–	–	5.5	5.5

The discount rate is weighted on the basis of the benefit obligation for each pension plan at year end, including all plans in the calculation. By contrast, the weighting of the percentage for the expected return on plan assets only includes pension plans with plan assets. The weighting is based on the plan assets at year end. The weighted valuation assumptions also reflect country-specific differences.

The Heubeck mortality tables 2005 G form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies. Employee turnover rates are estimated on the basis of age and gender.

The discount rate used to calculate the present value of pension and other post-employment benefit obligations is derived from the yield on high-quality corporate bonds with the same maturity. An increase of 0.5 percentage point in the discount rate would reduce pension obligations by €105 million (2010: €90 million) and other post-employment benefit obligations by €6 million (2010: €5 million). A reduction of 0.5 percentage point in the discount rate would have largely the opposite effect.

The long-term cost increase for medical care is expected to take place within about five years.

Assuming all other parameters remain unchanged, a one percentage point increase or decrease in the assumptions relating to the expected long-term increase in medical costs would raise or reduce the present value of the defined-benefit obligation by €9 million (2010: €8 million). The costs for healthcare plans would not materially increase or decrease.

The plan assets now comprise:

Breakdown of Plan Assets as of Dec. 31

% of plan assets	**2010**	**2011**
Fixed-income securities	62.8	58.1
Equity instruments	22.7	25.7
Real estate	2.1	2.0
Other	12.4	14.2
	100.0	**100.0**

The expected return on each category of plan assets was calculated on the basis of generally available and internal capital market reports and forecasts. The expected return on fixed-income securities is based on the maturity of the portfolio and the yields on the closing date. The expected return on equity instruments reflects the long-term return expectations for the underlying equity portfolio.

The table below shows the defined-benefit obligation and plan assets at the end of each year:

Funded Status as of Dec. 31

€ million	**2007**	**2008**	**2009**	**2010**	**2011**
Defined benefit obligation	967	1,049	1,231	1,544	1,660
External plan assets	(491)	(668)	(879)	(1,108)	(1,160)
Underfunding	**476**	**381**	**352**	**436**	**500**

14 Other non-current and current provisions

These compriseː

Other Provisions

€ million	Dec. 31, 2010				Dec. 31, 2011			
	Up to 1 year	1–5 years	Over 5 years	Total	Up to 1 year	1–5 years	Over 5 years	Total
Personnel	151	92	38	281	172	85	30	287
Environmental protection	29	31	68	128	23	34	77	134
Trade-related commitments	97	32	–	129	115	11	–	126
Restructuring	26	23	12	61	23	31	6	60
Miscellaneous	119	43	12	174	113	45	12	170
	422	**221**	**130**	**773**	**446**	**206**	**125**	**777**

Provisions changed as follows in 2011:

Changes in Other Provisions in 2011

€ million	Jan. 1, 2011	Allocations	Interest effect	Utilization	Reversals	Exchange differences	Dec. 31, 2011
Personnel	281	153	4	(137)	(10)	(4)	287
Environmental protection	128	21	4	(11)	(7)	(1)	134
Trade-related commitments	129	65	0	(41)	(26)	(1)	126
Restructuring	61	29	0	(14)	(16)	0	60
Miscellaneous	174	57	4	(35)	(23)	(7)	170
	773	**325**	**12**	**(238)**	**(82)**	**(13)**	**777**

Personnel-related provisions Personnel-related provisions mainly relate to annual performance-related compensation and multi-year compensation programs.

Multi-year compensation programs

Long-Term Incentive Program (LTIP) LANXESS AG offers a long-term incentive program to members of the Management Board and certain other managers. This program provides for cash settlement. Following the granting of rights under two consecutive three-year programs launched in 2005, a new program was introduced in 2010 under which rights are being granted for the years 2010 to 2013. The date of issue of the rights granted and still outstanding and the rights from the outstanding tranches is February 1 each year. Participation in the LTIP is conditional upon each manager making a personal investment in LANXESS stock, depending on his/her base salary.

Whereas the first program comprised a share-based component (Stock Performance Plan 2005–2007) and a non-share-based component (Economic Value Plan), the subsequent programs are entirely share-based (Stock Performance Plan 2008–2010 and Stock Performance Plan 2010–2013).

Stock Performance Plan Awards under the Stock Performance Plan are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals℠ index.

Stock Performance Plan 2005–2007 If LANXESS stock performs in line with this index, a payment of €0.75 per right is made. For each percentage point up to 10% by which the stock outperforms the index, €0.025 is paid in addition. For each percentage point above 10%, €0.05 is paid in addition. The maximum possible payment per right, however, is €1.50.

Members of the Board of Management and senior managers were entitled to take part in the Stock Performance Plan 2005–2007. Eligibility for this plan was contingent upon participation in the Economic Value Plan described below.

Stock Performance Plan 2008–2010 If LANXESS stock outperforms the index, a payment of at least €0.75 per right is made. For each percentage point up to 5% by which the stock outperforms the index, €0.05 is paid in addition. For each percentage point above 5%, €0.06667 is paid in addition. The maximum possible payment per right, however, is €2.00.

Stock Performance Plan 2010–2013 If LANXESS stock outperforms the index, a payment of at least €0.75 per right is made. For each percentage point by which the stock outperforms the index, €0.125 is paid in addition. The maximum possible payment per right, however, is €2.00.

Members of the Board of Management and senior managers are entitled to take part in the Stock Performance Plan 2008–2010 and the Stock Performance Plan 2010–2013.

Obligations arising from the Stock Performance Plan are valued on the basis of the following principal parameters:

Principal Parameters as of Dec. 31

%	2010	2011
Expected share price volatility	40.0	41.0
Expected dividend payment	2.0	2.0
Expected index volatility	20.0	23.0
Correlation between LANXESS stock and the index	70.0	81.0
Risk-free interest rate	0.7	0.4

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals[SM] index in the past two years.

The following table provides information on the tranches outstanding as of December 31, 2011:

LANXESS shares were trading at €40.00 at year end 2011, and the reference index stood at 513.19 points.

The net expense in 2011 totaled €13 million (2010: €40 million). While rights from the 2007 tranche were exercised at an average value of €0.78, the rights from the 2008 tranche were exercised at the maximum value. As of December 31, 2011, a provision of €38 million (2010: €46 million) had been established. Of this amount, the intrinsic value of rights exercisable as of the closing date accounted for €1 million (2010: €1 million).

Economic Value Plan Awards under the Economic Value Plan were dependent on the development of the economic value of the LANXESS Group. The Economic Value Plan ended in 2011 following the disbursement to eligible participants of the provision of €9 million established as of December 31, 2010.

Environmental provisions The Group's activities are subject to extensive legal requirements in the jurisdictions in which it does business. Compliance with environmental laws may require LANXESS to remove or mitigate the effects of the release or disposal of chemical substances at various sites. Under some of these laws, a current or previous site

Stock Performance Plan

	SP Plan 2005–2007	SP Plan 2008–2010			SP Plan 2010–2013	
	Tranche 2007	Tranche 2008	Tranche 2009	Tranche 2010	Tranche 2010	Tranche 2011
Duration	5 years	6 years	6 years	6 years	7 years	7 years
Vesting period	3 years	3 years	3 years	3 years	4 years	4 years
Holding period for personal investment shares	Jan. 31, 2010	Feb. 1, 2013	Feb. 1, 2013	Feb. 1, 2013	Jan. 31, 2017	Jan. 31, 2017
Initial LANXESS share price	€40.79	€24.03	€12.86	€27.28	€27.28	€55.60
Initial Dow Jones STOXX 600 Chemicals[SM] index price	431.50 points	465.97 points	317.39 points	432.44 points	432.44 points	564.17 points
Fair value per right as of December 31, 2010	€1.10	€2.00	€1.98	€1.46	€1.31	–
Fair value per right as of December 31, 2011	€0.04	€2.00	€2.00	€1.20	€1.04	€0.27
Change in number of outstanding rights						
Outstanding rights as of January 1, 2011	1,002,155	10,746,985	11,966,222	13,186,165	12,312,495	0
Rights granted	–	–	–	–	–	12,280,036
Rights exercised	639,950	10,208,485	–	–	–	–
Rights compensated	–	–	243,897	131,897	162,641	122,428
Rights forfeited	–	–	598,333	765,623	1,442,900	451,510
Outstanding rights as of December 31, 2011	**362,205**	**538,500**	**11,123,992**	**12,288,645**	**10,706,954**	**11,706,098**

owner or plant operator may be held liable for the costs of removing hazardous substances from the soil or groundwater on its property or neighboring areas, or rendering them harmless, without regard to whether the owner or operator knew of, or caused the presence of contaminants, and often regardless of whether the practices that resulted in contamination were legal at the time they occurred. As many of LANXESS's production sites have a long history of industrial use, it is not always possible to accurately predict the effects such situations may have on the LANXESS Group in the future.

Since LANXESS is a chemical company, the possibility therefore cannot be excluded that soil or groundwater contamination may have occurred at its locations in the past. Claims in this regard could be brought by government agencies, private organizations or individuals. Such claims would then relate to the remediation of sites or other land that the LANXESS Group acquired from the Bayer Group or from third parties, where materials were produced specifically for third parties under contract manufacturing agreements or where waste from production facilities operated by the LANXESS Group was treated, stored or disposed of.

Potential liabilities exist with respect to various sites under legislation such as the U.S. environment law commonly known as "Superfund." At locations in the U.S., numerous companies, including LANXESS, have been notified that the U.S. authorities or private individuals consider such companies to be potentially responsible parties under Superfund or related laws. At some sites, LANXESS may be the sole responsible party. Remediation measures have already been initiated at most of the sites concerned.

The existing provisions for environmental remediation costs relate primarily to the rehabilitation of contaminated sites, recultivation of landfills, and redevelopment and water protection measures. The provisions for environmental remediation costs are stated at the present value of the expected commitments where environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected to arise from these measures. Costs are estimated based on significant factors such as previous experience in similar cases, environmental assessments, current cost levels and new circumstances affecting costs, our understanding of current environmental laws and regulations, the number of other potentially responsible parties at each site and the identity and financial position of such parties in light of the joint and several nature of the liability, and the remediation methods likely to be employed.

It is difficult to estimate the future costs of environmental protection and remediation because of many uncertainties concerning the legal requirements and the information available about conditions in the various countries and at specific sites. Subject to these factors, but taking into consideration experience gained to date with matters of a similar nature, we believe our provisions to be adequate based upon currently available information. However, the possibility that additional costs could be incurred beyond the amounts accrued cannot be excluded. LANXESS nevertheless estimates that such additional costs, should they occur, would not materially impact the Group's financial position or results of operations.

Trade-related commitments Provisions for trade-related commitments mainly comprise those for rebates, customer discounts, product returns, outstanding invoices, impending losses and onerous contracts.

Provisions for restructuring Of the restructuring provisions existing as of December 31, 2010, a total amount of €14 million was utilized in 2011. €29 million was allocated in 2011 to provisions for further restructuring programs.

Provisions for restructuring totaled €60 million (2010: €61 million) on December 31, 2011. Of this amount, €45 million (2010: €39 million) comprised provisions for severance payments and other personnel expenses and €15 million (2010: €22 million) comprised provisions for demolition and other expenses.

Miscellaneous provisions

Legal risks The LANXESS Group is involved in numerous legal disputes. As an international chemicals group, LANXESS is exposed to administrative or court proceedings in the normal course of business and may be again in the future.

Administrative and court proceedings generally involve complex technical and/or legal issues and are therefore subject to a number of imponderables. The outcomes of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurance and that could materially affect the business operations, revenues, earnings and cash flows of the LANXESS Group.

Sundry provisions The sundry provisions contain provisions for guarantees, product liability, waste management commitments not included in environmental provisions, and provisions for other liabilities.

15 Other non-current and current financial liabilities

The following tables show the structure and maturities of other financial liabilities:

Other Financial Liabilities as of Dec. 31, 2010

€ million	Current	Non-current					
	2011	2012	2013	2014	2015	> 2015	Total
Bonds		401		496		198	**1,095**
Liabilities to banks	124	57	14	13	12	30	**126**
Liabilities under finance leases	11	10	34	6	4	25	**79**
Other primary financial liabilities	41					2	**2**
	176	**468**	**48**	**515**	**16**	**255**	**1,302**

Other Financial Liabilities as of Dec. 31, 2011

€ million	Current	Non-current					
	2012	2013	2014	2015	2016	> 2016	Total
Bonds	401		497		199	496	**1,192**
Liabilities to banks	159	27	35	34	34	61	**191**
Liabilities under finance leases	11	35	7	4	5	22	**73**
Other primary financial liabilities	62		2	3	3	1	**9**
	633	**62**	**541**	**41**	**241**	**580**	**1,465**

The LANXESS Group has placed the following bonds on the capital market:

Bonds

Issuance	Amount € million	Interest rate %	Maturity
June 2005	500	4.125	June 2012
April 2009	500	7.750	April 2014
September 2009	200	5.500	September 2016
May 2011	500	4.125	May 2018

In September 2009, LANXESS partially redeemed the bond issued in June 2005, reducing the outstanding nominal amount to €402 million.

The weighted average interest rate for financial liabilities in the LANXESS Group at year end was 5.3% (2010: 5.9%).

Liabilities under lease agreements are recognized if the leased assets are capitalized under property, plant and equipment as the economic property of the Group (finance leases). Lease payments totaling €100 million (2010: €110 million), including €16 million (2010: €20 million) in interest, are to be made to lessors in future years.

Other primary financial liabilities include accrued interest of €55 million (2010: €41 million) on financial liabilities. Of this amount, €53 million (2010: €40 million) relates to the above-mentioned bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [35].

16 Non-current and current income tax liabilities

The non-current and current income tax liabilities comprise:

Income Tax Liabilities

€ million	Dec. 31, 2010		
	Non-current	Current	Total
Provisions	41	33	74
Payables	9	1	10
	50	**34**	**84**

Income Tax Liabilities

€ million	Dec. 31, 2011		
	Non-current	Current	Total
Provisions	55	43	98
Payables	8	6	14
	63	**49**	**112**

17 Other non-current and current liabilities

The other non-current liabilities totaling €89 million (2010: €95 million) mainly include asset subsidies of €71 million (2010: €79 million) granted by third parties.

The other current liabilities are recognized at settlement cost. They comprise:

Other Current Liabilities

€ million	Dec. 31, 2010	Dec. 31, 2011
Tax liabilities	42	59
Payroll liabilities	21	27
Social security liabilities	20	24
Miscellaneous liabilities	49	45
	132	**155**

Other tax liabilities include not only Group companies' own tax liabilities, but also taxes withheld for payment to the authorities on behalf of third parties.

Social security liabilities include, in particular, social insurance contributions that had not been paid by the closing date.

The miscellaneous liabilities include guarantees, commission payments to customers and reimbursements of expenses. As in the previous year, there were no such liabilities to other affiliated companies.

18 Trade payables

Trade accounts were mainly payable to third parties. As in the previous year, the entire amount totaling €766 million (2010: €664 million) is due within one year.

Trade payables of €35 million (2010: €26 million) related to companies accounted for using the equity method and €731 million (2010: €638 million) to other suppliers.

19 Further information on liabilities

Of the total liabilities, €586 million (2010: €261 million) had maturities of more than five years. The increase from the previous year was mainly due to the issue of the €500 million Benchmark Bond that matures in 2018.

Notes to the income statement

20 Sales

Sales, amounting in 2011 to €8,775 million (2010: €7,120 million), mainly comprise goods sold less discounts and rebates.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [37]).

21 Cost of sales

Cost of Sales

€ million	2010	2011
Expenses for raw materials and merchandise	3,451	4,570
Direct manufacturing and other production costs	1,930	2,195
	5,381	**6,765**

Direct manufacturing costs include those for personnel, depreciation, impairments, energies, and goods and services procured. The other production costs mainly comprise inventory valuation effects and inventory discrepancies.

22 Selling expenses

Selling Expenses

€ million	2010	2011
Marketing costs	375	440
Outward freight charges and other selling expenses	271	292
	646	**732**

The selling expenses mainly comprise those for the internal and external marketing and sales organization, freight charges, warehousing, packaging and the provision of advice to customers.

23 Research and development expenses

The research and development expenses of €144 million (2010: €116 million) mainly include the costs incurred to gain new scientific and technical knowledge, expenses relating to the search for alternative products and production processes, and costs for applying the results of research.

24 General administration expenses

General administration expenses comprise costs not directly related to operational business processes and the costs for the country organizations.

25 Other operating income

Other Operating Income

€ million	2010	2011
Income from non-core business	124	93
Income from the reversal of provisions	24	29
Income from hedging with derivative financial instruments	0	16
Income from reversals of write-downs of receivables and other assets	6	4
Gains from the disposal of non-current assets	1	3
Miscellaneous operating income	34	34
	189	**179**

26 Other operating expenses

Other Operating Expenses

€ million	2010	2011
Expenses for non-core business	108	72
Expenses for allocations to restructuring provisions	11	29
Write-downs of trade receivables and other current assets	4	3
Losses from the disposal of non-current assets	1	1
Expenses for hedging with derivative financial instruments	20	0
Miscellaneous operating expenses	117	107
	261	**212**

Miscellaneous operating expenses include allocations to environmental provisions, expenses for designing and implementing IT projects, and costs incurred for corporate transactions.

27 Financial result

The financial result is comprised as follows:

Financial Result

€ million	2010	2011
Income from investments accounted for using the equity method	**16**	**7**
Interest income	10	11
Interest expense	(93)	(104)
Net interest expense	**(83)**	**(93)**
Interest portion of interest-bearing provisions	(18)	(21)
Net exchange loss	(16)	(4)
Miscellaneous financial expenses	(12)	(9)
Dividends and income from other affiliated companies	(1)	(1)
Other financial income and expense	**(47)**	**(35)**
Financial result	**(114)**	**(121)**

Interest expense mainly includes payments of bond interest. This amount has been adjusted for capitalized borrowing costs of €12 million (2010: €1 million). In compliance with IAS 17, the interest portion of the lease payments under finance leases amounting to €4 million (2010: €5 million) is included in interest expense. Income from investments accounted for using the equity method comprises the €7 million (2010: €16 million) share in the income of Currenta GmbH & Co. OHG, Leverkusen, Germany, that is attributable to LANXESS.

28 Income taxes

This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Income taxes are computed on the basis of local tax rates.

The breakdown of income taxes by origin is as follows:

Income Taxes by Origin

€ million	2010	2011
Current taxes	(60)	(129)
Deferred taxes resulting from		
temporary differences	(37)	13
statutory changes in tax rates	0	(1)
loss carryforwards	(15)	(31)
Income taxes	**(112)**	**(148)**

The actual tax expense for 2011 was €148 million (2010: €112 million). This figure differed by €58 million (2010: €42 million) from the expected tax expense of €206 million (2010: €154 million).

The expected tax expense for the LANXESS Group is calculated by applying an overall tax rate of 31.5% (2010: 31.2%) for the German companies. This comprises a corporation tax rate of 15.0%, plus a solidarity surcharge (5.5% of corporation tax) and trade tax.

The reconciliation of the expected tax result to the actual tax result is as follows:

Reconciliation to Reported Tax Income

€ million	2010	2011
Income before income taxes	493	655
Aggregated income tax rate of LANXESS AG	31.2%	31.5%
Expected tax expense	(154)	(206)
Tax difference due to differences between local tax rates and the hypothetical tax rate	52	75
Reduction in taxes due to		
tax-free income and reduction of tax bases	8	7
utilization of unrecognized loss carryforwards	3	25
Increase in taxes due to non-tax-deductible expenses	(6)	(5)
Other tax effects	(15)	(44)
Actual tax result	**(112)**	**(148)**
Effective tax rate	22.7%	22.6%

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

Deferred Taxes

€ million	Dec. 31, 2010		Dec. 31, 2011	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	8	17	7	40
Property, plant and equipment	4	136	4	146
Inventories	13	3	38	4
Receivables and other assets	5	66	5	39
Pension provisions	83	0	98	0
Other provisions	104	0	110	0
Liabilities	55	5	49	11
Loss carryforwards	85	–	50	–
	357	**227**	**361**	**240**
of which non-current	180	180	159	214
Set-off	(187)	(187)	(165)	(165)
	170	**40**	**196**	**75**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2010	2011
Deferred taxes as of January 1	**125**	**130**
Tax income/expense recognized in the income statement	(52)	(19)
Changes in scope of consolidation	–	(31)
Taxes recognized in other comprehensive income	49	41
Exchange differences	8	0
Deferred taxes as of December 31	**130**	**121**

The deferred income taxes recognized in other comprehensive income comprised €29 million (2010: €39 million) relating to actuarial gains and losses, the impact of the asset ceiling and minimum funding requirements for defined-benefit pension plans, and €12 million (2010: €10 million) relating to financial instruments.

Deferred tax assets of €35 million (2010: €140 million) related to tax jurisdictions in which losses were recorded in 2011 or 2010. In this respect, the LANXESS Group has taken into consideration tax planning calculations and customary and feasible tax strategies.

Based on tax planning calculations and strategies, deferred tax assets of €50 million (2010: €85 million) were recognized on the €164 million (2010: €274 million) in tax loss carryforwards that represent income likely to be realized in the future.

Deferred taxes were not recognized for €206 million (2010: €208 million) of tax loss carryforwards. Of this amount, €195 million (2010: €200 million) can theoretically be utilized over more than five years. Further, deferred tax assets were not recognized in 2011 for tax-deductible temporary differences of €45 million (2010: €34 million). Accordingly, deferred taxes on loss carryforwards of €65 million (2010: €66 million) and deferred tax assets on tax-deductible temporary differences of €15 million (2010: €13 million) were not recognized.

29 Earnings and dividend per share

The calculation of earnings per share for 2011 was based on the weighted average number of shares outstanding (83,202,670 shares), including only earnings from continuing operations and disregarding the effects of accounting changes. Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. Further information on equity instruments that could dilute earnings per share in the future is contained in Note [12].

Earnings per Share

	2010	2011	Change in %
Net income (€ million)	379	506	33.5
Number of outstanding shares (weighted)	83,198.360[1)]	83,202,670	0.0
Earnings per share (undiluted/diluted) (€)	**4.56**	**6.08**	**33.3**

1) The difference between this figure and the capital stock of €83,202,670 in 2010 results from the weighted inclusion of a temporary holding of the company's own shares.

LANXESS AG reported a distributable profit of €115 million for fiscal 2011 (2010: €104 million). The dividend payment made to shareholders of LANXESS AG in 2011 amounted to €0.70 per share (2010: €0.50 per share).

30 Personnel expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2010	2011
Wages and salaries	912	985
Social security contributions	160	174
Retirement benefit expenses	61	77
Social assistance benefits	8	8
	1,141	**1,244**

The increase compared to the previous year is principally due to salary adjustments, higher annual performance-related compensation and acquisitions made in 2011. Personnel expenses do not include the interest portion of personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [27]).

Other information

31 Employees

The average number of employees in the LANXESS Group in 2011 was 15,849 (2010: 14,475). The increase compared to the previous year was mainly due to acquisitions made in 2011 and new hires at one of our sites in South Africa.

Employees by Function

	2010	2011
Production	10,470	11,421
Marketing	1,882	1,976
Administration	1,632	1,757
Research	491	695
	14,475	**15,849**

32 Contingent liabilities and other financial commitments

Contingent liabilities as of December 31, 2011 amounted to €12 million (2010: €4 million). They resulted from guarantees and similar instruments assumed on behalf of third parties. They represent potential future commitments in cases where the occurrence of certain events would create an obligation that was uncertain at the closing date. An obligation to perform under such contingent liabilities arises in the event of delayed settlement or insolvency on the part of the debtor.

As a personally liable partner in Currenta GmbH & Co. OHG, Leverkusen, Germany, LANXESS may be required to inject further capital into this company in the future.

Apart from provisions, liabilities and contingent liabilities, financial commitments also exist under operating leases.

As explained in the section on recognition and valuation principles, operating leases are those which – unlike finance leases – do not transfer substantially all risks and rewards incidental to the ownership of the leased assets to the lessee. In the LANXESS Group, operating leases are mainly used for operational reasons and not as a means of financing.

The minimum non-discounted future payments pertaining to operating leases total €418 million (2010: €235 million). The increase in the amount of these future payments compared to 2010 is mainly due to the construction of the new site in Singapore and the signing of the rental agreement for the Group's new headquarters in Cologne, Germany.

The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2010	Dec. 31, 2011
Up to 1 year	31	39
1 to 2 years	27	41
2 to 3 years	25	39
3 to 4 years	22	35
4 to 5 years	21	29
More than 5 years	109	235
	235	**418**

Payments under operating leases amounted to €39 million in 2011 (2010: €32 million). The year-on-year increase was mainly due to the expansion of the operational business.

Financial commitments resulting from orders already placed under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment total €284 million (2010: €197 million). The increase is principally attributable to the construction of the new site in Singapore and a capital expenditure project at one of our sites in South Africa. Of the respective payments, €211 million are due in 2012, €71 million in 2013 and €2 million in 2014.

Description of the master agreement Under the master agreement that was concluded between Bayer AG and LANXESS AG together with the Spin-Off and Takeover Agreement, Bayer AG and LANXESS AG agreed, among other things, on commitments regarding mutual indemnification for liabilities in line with the respective asset allocation and on special arrangements allocating responsibility to deal with claims in the areas of product liability, environmental contamination and antittrust violations. The master agreement also contains arrangements for the allocation of tax effects relating to the spin-off and to the preceding measures to create the subgroup that was subsequently spun off.

33 Related parties

In the course of its operations, LANXESS sources materials, inventories and services from a large number of business partners around the world. These include companies in which LANXESS AG holds a direct or indirect interest. Transactions with these companies are carried out on an arm's-length basis.

Transactions with companies accounted for in the consolidated financial statements using the equity method and their subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €457 million (2010: €386 million). As a result of these transactions, trade payables of €35 million (2010: €26 million) and trade receivables of €6 million (2010: €3 million) existed as of December 31, 2011. Further payment obligations to these companies under operating leases or under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment are immaterial.

Information on the compensation of the Board of Management and Supervisory Board can be found in the next section.

34 Compensation of the Board of Management and the Supervisory Board

Total compensation of €9,370 thousand (2010: €11,365 thousand) was paid to the members of the Board of Management of LANXESS AG for fiscal 2011, comprising €6,698 thousand (2010: €6,588 thousand) in annual compensation and €2,264 million (2010: €4,613 thousand) in multi-year compensation. In addition to the compensation reported as expense in the consolidated financial statements for 2010, further compensation of €408 thousand for 2010 was disbursed in 2011 (2010: €164 thousand for 2009).

The multi-year compensation includes payments made under the Long-Term Incentive Program (LTIP). 1,822,125 share-based compensation rights were granted in 2011 (2010: 3,999,000). The fair value of these rights at the grant date was €910 thousand (2010: €3,210 thousand). Expenses for the LTIP recognized in the consolidated financial statements amounted to €934 thousand (2010: €8,025 thousand).

Payments of €1,320 thousand (2010: €0 thousand) were made to one member in connection with his leaving the Board of Management during 2011.

In addition, service cost of €918 thousand (2010: €588 thousand) relating to defined-benefit pension plans and past service cost of €860 thousand (2010: €0 thousand) was incurred in 2011 for members of the Board of Management as part of their compensation package. The present value of obligations as of December 31, 2011 was €13,166 thousand (2010: €11,195 thousand).

Payments of €1,799 thousand (2010: €441 thousand) were made to former members of the Board of Management. This figure includes the above payments to one member who left the Board of Management during 2011. The total obligation for former members of the Board of Management was €9,478 thousand as of December 31, 2011 (2010: €6,884 thousand).

The members of the Supervisory Board received total compensation of €1,931 thousand in 2011 (2010: €3,448 thousand). The provisions established for multi-year compensation for Supervisory Board members as of December 31, 2011 amounted to €1,500 thousand (2010: €1,500 thousand).

In addition, the employee representatives on the Supervisory Board who are employees of the LANXESS Group received salaries under their employment contracts. The amounts of these salaries represented appropriate compensation for the employees' functions and tasks within the Group.

The compensation amounts for each member of the Board of Management and the Supervisory Board of LANXESS AG are listed on pages 123ff. in the compensation report, which forms part of the audited Group Management Report.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2011 or 2010.

35 Financial instruments

Primary financial instruments are reflected in the statement of financial position. In compliance with IAS 39, asset instruments are categorized as "loans and receivables," "held at fair value through profit or loss," "held to maturity" or "available for sale" and, accordingly, recognized at cost or fair value. Liability instruments that are neither held for trading nor constitute derivatives are carried at amortized cost.

Risks and risk management The global alignment of the LANXESS Group exposes its business operations, earnings and cash flows to a variety of market risks. Material financial risks to the Group as a whole, such as currency, interest rate, credit, liquidity and commodity price risks, are managed centrally.

These risks could impair the earnings and financial position of the LANXESS Group. The various risk categories and the risk management system for the LANXESS Group are outlined below.

The principles of risk management are defined by the Board of Management. At the regular strategy meetings of the Financial Risk Committee, which are chaired by the Chief Financial Officer, reports on the outcome of financial risk management and on current risks levels are presented and any further action is decided upon. Simulations are performed to assess the impact of market trends. The implementation of the Financial Risk Committee's decisions and ongoing risk management are undertaken centrally by the Group Function Treasury. The aim of financial risk management is to identify and evaluate risks and to manage and limit their effects as appropriate.

Currency risks Since the LANXESS Group undertakes transactions in numerous currencies, it is exposed to the risk of fluctuations in the relative value of these currencies, particularly the U.S. dollar, against the euro.

Currency risks from potential declines in the value of financial instruments due to exchange rate fluctuations (transaction risks) arise mainly when receivables and payables are denominated in a currency other than the company's local currency.

Currency risks relating to operating activities are systematically monitored and analyzed. While the risks relating to changes in the value of receivables and payables denominated in foreign currencies are fully hedged, the scope of hedging for currency risks relating to forecast transactions is subject to regular review. A substantial proportion of contractual and foreseeable currency risks are hedged using derivative financial instruments. Changes in the fair values of these instruments are recognized in the financial result or, in the case of cash flow hedges, in other comprehensive income. Realized income/expense from the effective portion of cash flow hedges are recognized in other operating income/expenses.

Currency risks arising on financial transactions, including interest, are generally fully hedged, mainly through forward exchange contracts.

Since the LANXESS Group concludes derivative contracts for the greater part of its currency risks, it believes that, in the short term, a significant rise or fall in the euro against other major currencies would have no material impact on future cash flows. In the long term, however, these exchange rate fluctuations could adversely affect cash flows should the LANXESS Group not be in a position to absorb them, for example, through the pricing of its products in the respective local currencies.

If the exchange rate for the euro had been 5% higher against all other currencies on the reporting date, this would have had a €19 million (2010: €27 million) effect, mainly on other comprehensive income, which would have improved accordingly. This effect mainly relates to the U.S. dollar. A correspondingly lower rate for the euro would have had basically the opposite effect.

Many companies in the LANXESS Group are based outside the eurozone. Since the Group prepares its consolidated financial statements in euros, the annual financial statements of these subsidiaries are translated into euros for consolidation purposes. Changes in the average exchange rate of a currency from one period to the next can materially affect the translation of both sales and earnings reported in this currency (translation risk). Unlike transaction risk, translation risk has no impact on Group cash flows in the local currency.

The LANXESS Group has material assets, liabilities and businesses outside the eurozone that report in local currencies. The related long-term currency risk is estimated and evaluated on a regular basis. In view of the risks involved in such cases, however, foreign currency hedging transactions are only concluded if consideration is being given to withdrawing from a particular business and it is intended to repatriate the funds released by the withdrawal. The effects of exchange rate fluctuations on the translation of net positions into euros are reflected in other comprehensive income.

Interest rate risks Fluctuations in market interest rates can cause fluctuations in the overall return on a financial instrument. Interest rate risk affects both financial assets and financial liabilities.

Since the majority of financial liabilities were entered into at fixed interest rates, changes in interest rates in the coming years will only have a limited impact on the LANXESS Group. The available liquidity is invested in instruments with short-term fixed interest rates, so that the LANXESS Group benefits quickly from rising interest rates. A general change of one percentage point in interest rates as of December 31, 2011 would have altered Group net income by around €3 million (2010: €3 million).

Credit risks Credit risks arise from trade relationships with customers and dealings with banks and other financial partners, especially with regard to the investment business and financial-instrument transactions.

Customer risks are systematically identified, analyzed and managed, using both internal and external information sources. Customer portfolios may be insured against credit risks, especially where the risk profile is elevated. The maximum credit risk is mitigated mainly through letters of credit and credit insurance agreements in favor of the LANXESS Group. Most of LANXESS's customer risks are insured against default with a leading European credit insurer.

Since the DSO (days of sales outstanding) period for trade accounts receivable as of December 31, 2011 ended before the consolidated financial statements were prepared, no significant credit risk exists in this regard.

Credit risk management also includes global management of the counterparty risk relating to banks and financial partners. The LANXESS Group pays particular attention to risk diversification to prevent any cluster risks that could jeopardize its existence. Through master agreements, the market values of open trading positions can be netted if a partner becomes insolvent, thereby further reducing risks.

Liquidity risks Liquidity risks arise from potential financial shortfalls and the resulting increase in refinancing costs. The aim of liquidity management in the LANXESS Group is to ensure that the Group has sufficient liquidity and committed credit facilities available at all times to enable it to meet its payment commitments, and to optimize the liquidity balance within the Group.

The €1.4 billion (2010: €1.4 billion) syndicated credit facility, which runs through November 2014 and was unused as of the closing date, is a key component in the LANXESS Group's liquidity management. Further long-term credit facilities amounting to some €450 million were arranged in 2011. About €330 million of this amount was unused as of the closing date. In addition to credit facilities, the Group has short-term liquidity reserves of €528 million in the form of cash and cash equivalents and highly liquid investments in AAA-rated money market funds. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

The following table shows the contractually agreed (undiscounted) cash flows for primary financial liabilities, the interest components thereof and derivative financial instruments:

Dec. 31, 2010

€ million	2011	2012	2013	2014	2015	> 2015
Bonds	**(26)**	**(468)**	**(50)**	**(550)**	**(11)**	**(211)**
of which interest	(26)	(66)	(50)	(50)	(11)	(11)
Liabilities to banks	**(135)**	**(64)**	**(17)**	**(15)**	**(14)**	**(32)**
of which interest	(12)	(6)	(3)	(2)	(2)	(2)
Trade payables	**(664)**					
of which interest	0					
Liabilities under finance leases	**(15)**	**(14)**	**(37)**	**(8)**	**(5)**	**(31)**
of which interest	(4)	(4)	(3)	(2)	(1)	(6)
Other primary financial liabilities	**(41)**	**(2)**				
of which interest	(41)	0				
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(147)	(196)				
Receipts	131	189				
Other hedging instruments						
Disbursements	(318)	(1)	(1)	(11)	(13)	
Receipts	311	1	1	10	12	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(219)	(87)	(71)			
Receipts	233	89	71			
Other hedging instruments						
Disbursements	(429)	0	0	0	(9)	
Receipts	432	0	0	0	9	

Dec. 31, 2011

€ million	2012	2013	2014	2015	2016	> 2016
Bonds	**(436)**	**(70)**	**(570)**	**(32)**	**(232)**	**(541)**
of which interest	(34)	(70)	(70)	(32)	(32)	(41)
Liabilities to banks	**(167)**	**(33)**	**(40)**	**(38)**	**(37)**	**(63)**
of which interest	(7)	(6)	(5)	(4)	(3)	(2)
Trade payables	**(766)**					
of which interest	0					
Liabilities under finance leases	**(14)**	**(38)**	**(9)**	**(6)**	**(6)**	**(27)**
of which interest	(3)	(3)	(2)	(2)	(1)	(5)
Other primary financial liabilities	**(62)**	**(1)**	**(3)**	**(3)**	**(2)**	**(1)**
of which interest	(56)	0	0	0	0	0
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(447)	(183)				
Receipts	417	173				
Other hedging instruments						
Disbursements	(788)	(2)	(13)	(18)	(24)	
Receipts	777	2	11	17	23	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(38)	(2)				
Receipts	39	2				
Other hedging instruments						
Disbursements	(364)	0	0	(6)		
Receipts	370	2	0	6		

The contractually agreed payments for other primary financial liabilities due within one year from the closing date contain accrued interest of €53 million (2010: €40 million) relating to the bonds.

Raw material price risks The LANXESS Group is exposed to changes in the market prices of commodities used for its business operations. Increases in energy and raw material procurement costs are generally passed on to customers. Where such increases cannot be passed on in their entirety, the related risks are systematically monitored, evaluated and controlled as part of the financial risk management system. The aim is to achieve a deliberate and controlled reduction in the volatility of cash flows and thus the volatility of the company's economic value by making systematic use of derivatives, for example, for natural gas or n-butane. Where cash flow hedges qualify for hedge accounting, changes in their fair values are recognized in other comprehensive income until the hedged transaction is realized.

If all raw material prices had been 10% higher or lower on the closing date, the changes in the fair values of the respective hedging instruments would have increased or decreased other comprehensive income by €2 million (2010: €2 million).

Carrying amounts, measurement and fair value of financial instruments The table shows the carrying amounts of the individual classes of financial assets and liabilities and their fair values. The basis of measurement is also shown:

Dec. 31, 2010

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2010
Financial assets		
Trade receivables	LaR	942
Receivables under finance leases	–	8
Other financial receivables	LaR	72
Cash and cash equivalents	LaR	160
Available-for-sale financial assets		
Near-cash assets	AfS	364
Other available-for-sale financial assets	AfS	60
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	16
Other hedging instruments	FAHfT	6
Financial liabilities		
Bonds	FLAC	(1,095)
Liabilities to banks	FLAC	(250)
Trade payables	FLAC	(664)
Liabilities under finance leases	–	(90)
Other primary financial liabilities	FLAC	(43)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(24)
Other hedging instruments	FLHfT	(10)

Dec. 31, 2011

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2011
Financial assets		
Trade receivables	LaR	1,146
Receivables under finance leases	–	6
Other financial receivables	LaR	41
Cash and cash equivalents	LaR	178
Available-for-sale financial assets		
Near-cash assets	AfS	350
Other available-for-sale financial assets	AfS	81
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	1
Other hedging instruments	FAHfT	15
Financial liabilities		
Bonds	FLAC	(1,593)
Liabilities to banks	FLAC	(350)
Trade payables	FLAC	(766)
Liabilities under finance leases	–	(84)
Other primary financial liabilities	FLAC	(71)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(38)
Other hedging instruments	FLHfT	(15)

LaR Loans and Receivables
AfS Available-for-Sale Financial Assets
FAHfT Financial Assets Held for Trading
FLAC Financial Liabilities Measured at Amortized Cost
FLHfT Financial Liabilities Held for Trading

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2010
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
942					942
				8	8
72					72
160					160
		364			364
	8	52			52
		16			16
			6		6
(1,095)					(1,203)
(250)					(250)
(664)					(664)
				(90)	(90)
(43)					(43)
		(24)			(24)
			(10)		(10)

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2011
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
1,146					1,146
				6	6
41					41
178					178
		350			350
	8	73			73
		1			1
			15		15
(1,593)					(1,700)
(350)					(350)
(766)					(766)
				(84)	(84)
(71)					(71)
		(38)			(38)
			(15)		(15)

Carrying Amounts by IAS 39 Category

€ million	Dec. 31, 2010	Dec. 31, 2011
Loans and receivables	1,174	1,365
Available-for-sale financial assets	424	431
Financial assets held for trading	6	15
	1,604	**1,811**
Financial liabilities measured at amortized cost	(2,052)	(2,780)
Financial liabilities held for trading	(10)	(15)
	(2,062)	**(2,795)**

Fair value measurement Fair value measurement is based on a hierarchy that reflects the significance of inputs in the valuation. This comprises three levels:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2 Inputs other than quoted prices used within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 Inputs for the asset or liability that are not based on observable market data.

The classification of financial instruments using the fair value hierarchy is as follows:

Fair Value Measurement Levels

€ million	Dec. 31, 2010		
	Level 1	Level 2	Level 3
Available-for-sale financial assets			
Near-cash assets	364	–	–
Other available-for-sale financial assets	51	1	–
Derivative assets	–	22	–
Derivative liabilities	–	(34)	–

Fair Value Measurement Levels

€ million	Dec. 31, 2011		
	Level 1	Level 2	Level 3
Available-for-sale financial assets			
Near-cash assets	350	–	–
Other available-for-sale financial assets	72	1	–
Derivative assets	–	16	–
Derivative liabilities	–	(53)	–

Net result by category The following table provides an overview of the net results based on the measurement categories defined in IAS 39:

Net Results by IAS 39 Category

€ million	2010	2011
Loans and receivables	13	14
Available-for-sale financial assets	(1)	(10)
Assets and liabilities held for trading	0	0
Financial liabilities measured at amortized cost	(101)	(100)
	(89)	**(96)**

Net gains and losses principally comprise interest income and expense and remeasurement effects.

The net result for available-for-sale financial assets includes losses of €7 million (2010: €1 million), which are reflected in other comprehensive income.

In addition, fees of €8 million were incurred in 2011 (2010: €15 million) in connection with financial instruments.

Collateralization of financial liabilities Financial liabilities amounting to €15 million (2010: €28 million) were collateralized by mortgages or other property claims.

Mezzanine financing Mezzanine instruments such as profit participation rights, convertible bonds or warrant bonds have not been issued. Information on the possible issuance of such instruments is given in Note [12].

36 Notes to the Statement of Cash Flows

Explanation of the method used to calculate and present cash flows For a general explanation, please see the comments on the statement of cash flows in the section headed "Accounting policies and valuation principles."

Net cash flow provided by operating activities The net cash inflow from operating activities in 2011 amounted to €672 million (2010: €430 million). Income before income taxes, which is the starting point for the statement of cash flows, amounted to €655 million (2010: €493 million) after depreciation, amortization and impairments of €325 million (2010: €283 million). Income taxes paid in 2011 amounted to €95 million (2010: €114 million). The balance of other assets and liabilities showed a year-on-year decrease of €16 million (2010: €4 million). Cash outflows for the external financing of pension obligations (CTA) comprised payments of €30 million (2010: €75 million) to LANXESS Pension Trust e.V., Leverkusen, Germany. Total payments of €90 million were made in the years prior to 2010. Further information on external financing of the pension obligations is given in Note [13].

Net cash used in investing activities Purchases of intangible assets, property, plant and equipment led to a cash outflow of €679 million in 2011 (2010: €501 million). Of this amount, 71% went for expansions and 29% to maintain existing operating capacities. Cash inflows from financial assets mainly comprised proceeds from the sale of units in money market funds and overnight funds. The acquisition of subsidiaries resulted in a cash outflow of €285 million (2010: €0 million) net of acquired cash and cash equivalents totaling €41 million (2010: €0 million) and subsequent purchase price adjustments. Cash inflows comprised €9 million (2010: €8 million) in interest received and €1 million (2010: €8 million) in income from other affiliates. This consisted mainly of inflows from the transfer to LANXESS of the pro-rata share of the income of Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method. The net cash outflow for investing activities was €923 million (2010: €375 million).

Net cash provided by (used in) financing activities A net cash inflow of €276 million (2010: outflow of €214 million) was recorded for financing activities. This included a €434 million inflow from net borrowings (2010: €81 million outflow for net loan repayments), a €100 million (2010: €91 million) outflow for interest paid and other financial disbursements, and a €58 million (2010: €42 million) outflow for the dividend paid by LANXESS AG in 2011. Details of unused credit facilities are given in Note [35].

Cash and cash equivalents Cash and cash equivalents (cash, checks, bank balances) amounted to €178 million (2010: €160 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

37 Segment reporting

Key Data by Segment

€ million	Performance Polymers		Advanced Intermediates		Performance Chemicals		Reconciliation		LANXESS	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
External sales	3,692	5,059	1,411	1,545	1,978	2,130	39	41	7,120	8,775
Inter-segment sales	0	1	47	52	8	10	(55)	(63)	0	0
Segment/Group sales	3,692	5,060	1,458	1,597	1,986	2,140	(16)	(22)	7,120	8,775
Segment result/EBITDA pre exceptionals	548	768	259	264	281	289	(170)	(175)	918	1,146
Exceptional items affecting EBITDA	1	(9)		(19)	(5)		(24)	(17)	(28)	(45)
Segment assets	2,545	3,468	883	941	1,212	1,421	109	135	4,749	5,965
Segment acquisitions		219				120				339
Segment capital expenditures	298	447	101	117	114	113	16	23	529	700
Depreciation and amortization	141	159	57	63	67	77	17	13	282	312
Impairments	0	2	1	7	0	1	0	3	1	13
Segment liabilities	874	1,012	417	454	519	527	459	473	2,269	2,466
Employees (December 31)	4,281	4,977	2,903	2,883	4,907	5,819	2,557	2,711	14,648	16,390
Employees (average for the year)	4,258	4,748	2,920	2,875	4,795	5,574	2,502	2,652	14,475	15,849

2010 figures restated

Segment changes made after the closing date for the consolidated financial statements for 2010 involved the transfer of the adipic acid activities from the Semi-Crystalline Products business unit in the Performance Polymers segment to the Advanced Industrial Intermediates business unit in the Advanced Intermediates segment. The previous year's figures have been restated accordingly.

Key Data by Region

€ million	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
External sales by market	2,038	2,546	1,320	1,569	1,174	1,458	955	1,201	1,633	2,001	7,120	8,775
Non-current region assets	446	706	813	937	385	438	375	431	371	575	2,390	3,087
Acquisitions		108		42		57		118		14		339
Capital expenditures	91	165	193	222	73	53	30	43	142	217	529	700
Employees (December 31)	2,638	3,357	7,590	7,846	1,309	1,427	1,215	1,585	1,896	2,175	14,648	16,390

Notes to the segment reporting The valuation principles applied in segment reporting correspond to the uniform recognition and valuation principles used for the consolidated financial statements prepared in accordance with IFRS.

On December 31, 2011 the LANXESS Group comprised the following reporting segments:

Segment	Operations
Performance Polymers	Special-purpose rubbers for high-quality rubber products, e.g. for use in vehicles, tires, construction and footwear; engineering plastics, polyamide compounds
Advanced Intermediates	Intermediates for the agrochemicals and coatings industries; fine chemicals as precursors and intermediates for pharmaceuticals, agrochemicals and specialty chemicals; custom manufacturing
Performance Chemicals	Material protection products; inorganic pigments for the coloring of concrete, emulsion paints and other coatings; finishing agents for the leather industry; rubber chemicals; ion exchange resins for water treatment; plastics additives such as flame retardants and plasticizers

The reconciliation eliminates inter-segment items and reflects assets and liabilities not directly allocable to the core segments including, in particular, those pertaining to the Corporate Center. It also includes the €12 million (2010: €13 million) interest in investments accounted for using the equity method and the corresponding income of €7 million (2010: €16 million) (see Note [3]).

The transfer prices used for inter-segment business transactions are calculated using the OECD rules as if they had been agreed upon between independent third parties in comparable circumstances (arm's-length principle).

The majority of employees reflected in the reconciliation provide services for more than one segment. They include technical service staff.

The reporting regions are those into which LANXESS's activities are organized: EMEA (Europe [excluding Germany], Middle East, Africa), Germany, North America, Latin America and Asia-Pacific.

Regional sales are calculated according to the recipient's place of business. In fiscal 2011, no individual customer of the LANXESS Group accounted for more than 10% of Group sales.

Since the earnings figure used for management purposes within the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals, this is the amount reported as the "segment result." It comprises gross profit, selling expenses, general administration expenses, research and development expenses and other operating income and expenses. It does not include, in particular, depreciation and amortization or exceptional items, which relate principally to restructuring activities.

In light of the Group's central financial management, interest income and expense and income tax income and expense are not reported at segment level.

Reconciliation of Segment Sales

€ million	2010	2011
Total segment sales	**7,136**	**8,797**
Other/Consolidation	(16)	(22)
Group sales	**7,120**	**8,775**

Reconciliation of Segment Result

€ million	2010	2011
Total segment results	**1,088**	**1,321**
Depreciation and amortization	(283)	(325)
Other/Consolidation	(170)	(175)
Net interest expense	(83)	(98)
Exceptional items in EBITDA	(28)	(45)
Income from investments accounted for using the equity method	16	7
Other financial income and expense	(47)	(30)
Income before income taxes	**493**	**655**

Segment assets principally comprise intangible assets, property, plant and equipment, inventories and trade receivables. In particular, segment assets do not include cash and cash equivalents, income tax receivables, receivables from derivatives, or other financial assets.

Information on equity-method income is contained in Note [3]. It mainly comprises income from site services provided by Currenta GmbH & Co. OHG, Leverkusen, Germany, and is not related to the operating business of the segments. Therefore, it is not allocated among the segments.

Reconciliation of Segment Assets

€ million	Dec. 31, 2010	Dec. 31, 2011
Total segment assets	**4,640**	**5,830**
Near-cash assets	364	350
Deferred tax assets	170	196
Cash and cash equivalents	160	178
Other financial assets	132	109
Income tax receivables	69	64
Derivative assets	22	16
Other/Consolidation	109	135
Group assets	**5,666**	**6,878**

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and impairments in fiscal 2010 and 2011 were recognized directly in profit or loss.

Segment liabilities mainly comprise provisions, trade payables and other liabilities. In particular, segment liabilities do not include income tax liabilities, liabilities from derivatives, or other financial liabilities.

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2010	Dec. 31, 2011
Total segment liabilities	**1,810**	**1,978**
Other financial liabilities	1,478	2,098
Income tax liabilities	84	112
Deferred tax liabilities	40	75
Derivative liabilities	34	53
Other/Consolidation	459	488
Group liabilities	**3,905**	**4,804**

38 Audit fees

In 2011, audit fees of €2,714 thousand (2010: €2,485 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,275 thousand (2010: €1,174 thousand) relates to the auditing of financial statements, €653 thousand (2010: €446 thousand) to audit-related services, and €786 thousand (2010: €865 thousand) to other services rendered to Group companies. The fees for financial statements audit services comprise all fees, including incidental expenses, paid or to be paid for the audits of the consolidated financial statements of the LANXESS Group and the mandatory financial statements of LANXESS AG and its German subsidiaries.

39 Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act

A Declaration of Compliance with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act (AktG) and made available to stockholders on the LANXESS website.

40 Exemptions under Section 264 Paragraph 3 of the German Commercial Code

In 2011 the following German subsidiaries made use of disclosure exemptions pursuant to Section 264 Paragraph 3 of the German Commercial Code (HGB):

- Aliseca GmbH, Leverkusen
- IAB Ionenaustauscher GmbH Bitterfeld, Greppin
- LANXESS Accounting GmbH, Leverkusen
- LANXESS Buna GmbH, Marl
- LANXESS Deutschland GmbH, Leverkusen
- LANXESS Distribution GmbH, Langenfeld
- LANXESS International Holding GmbH, Leverkusen
- LXS Dormagen Verwaltungs-GmbH, Dormagen
- Perlon-Monofil GmbH, Dormagen
- Rhein Chemie Rheinau GmbH, Mannheim
- Saltigo GmbH, Langenfeld
- Vierte LXS GmbH, Leverkusen

Responsibility Statement

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

Leverkusen, February 28, 2012

LANXESS Aktiengesellschaft, Leverkusen

The Board of Management

Dr. Axel C. Heitmann	Dr. Bernhard Düttmann
Dr. Werner Breuers	Dr. Rainier van Roessel

Auditor's Report

We have audited the consolidated financial statements prepared by the LANXESS Aktiengesellschaft, Leverkusen, the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the E.U., and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Cologne, February 29, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki	Carsten Manthei
German Public Auditor	German Public Auditor

Glossary

Industry-specific terms

CLP and GHS CLP is the abbreviation for classification, labeling and packaging. The E.U. CLP Regulation contains new provisions for the classification, labeling and packaging of substances and mixtures. It was announced on December 31, 2008 and has already entered into force.

This new regulation is based on the Globally Harmonized System of Classification and Labeling of Chemicals – or GHS for short – which ensures that hazards are labeled in the same way all over the world. The use of internationally agreed classification criteria and labeling elements is aimed at making things easier for distributors and at protecting people and the environment worldwide from the hazards that may be caused by chemicals.

Compounding facility A facility for processing and finishing engineering plastics to enhance their functional properties.

Elastomers Stable yet elastic and formable polymers that are used to manufacture tires, rubber bands and sealing rings, for example.

Exclusive synthesis Synthesis is a process in which chemical elements are used to manufacture a new substance. In the case of exclusive synthesis, substances are produced individually and exclusively for a certain customer – in contrast to catalog business.

Fermentation process Generally speaking, fermentation characterizes the conversion of organic substances by bacteria or enzymes. However, industrial chemicals such as acetone or butanol can also be produced by fermentation.

ISO 14001 International standard which supports organizations in introducing an environmental policy, formulating environmental targets and implementing these with the aid of an environmental management system.

ISO 50001 International standard which defines requirements for systematic energy management to help organizations reduce energy costs, greenhouse gas emissions and other environmental impacts.

ISO 9001 International standard which defines minimum requirements for quality management systems.

Off-spec products Products which do not meet the manufacturer's own specifications or customer requirements.

Polyamide A synthetic polymer with very good mechanical and electrical properties and high resistance to chemicals and wear.

REACH Abbreviation for the Registration, Evaluation, Authorization and Restriction of Chemicals. The E.U. REACH Regulation stipulates the registration, assessment and approval of chemicals before marketing. It imposes a duty on manufacturers and importers to determine the hazardous characteristics of substances and estimate their impact on health and the environment.

Steam cracker A facility that uses steam to produce chemical raw materials for manufacturing plastics, coatings, solvents and crop protection products.

Synthetic rubber Synthetic rubber is the term used for elastic polymers produced from petrochemical raw materials. It is the starting product for rubber production. With a 50 to 60 percent share of production volume, styrene-butadiene rubber is the most important of the synthetic rubbers. It is used especially in the manufacture of car tires.

VOC emissions Volatile organic compounds is the collective term for organic carbon compounds that evaporate easily or already become gaseous at low temperatures.

Vulcanization Vulcanization is a process that applies heat and pressure over time to make rubber more durable. It destroys the plastic properties of the rubber or rubber blend and makes it elastic.

Financial glossary

Capital employed This is defined as total assets less deferred tax assets and interest-free liabilities.

Cash flow Inflows and outflows of cash and cash equivalents.

Corporate governance Responsible corporate management and oversight aligned with long-term value creation. It comprises the observance of laws, regulations, recognized standards and recommendations as well as the implementation and application of company guidelines and management and control structures.

Deferred taxes Tax expense or tax income that is likely to arise in the future from temporary differences between the carrying amount used in the annual financial statements and the taxable value of assets and liabilities and tax income that is likely to arise in future from unused loss carryforwards or tax credits.

Due diligence The careful investigation and analysis of a company, particularly in respect of its economic, legal, tax and financial condition and its performance in the areas of technology and the environment. It is undertaken especially by potential purchasers involved in acquisition projects.

EBIT Earnings before interest and taxes: the operating result before deduction of interest and income taxes.

EBITDA Earnings before interest, taxes, depreciation and amortization: the operating result before deduction of interest and income taxes plus depreciation and impairment losses on property, plant and equipment and amortization and impairment losses on intangible assets.

EMEA Europe, Middle East, Africa region

Equity method Accounting method that sets the interests in affiliated companies against the acquisition costs, with the result that any changes in the stakeholder's interest lead to an adjustment in the net assets of the affiliated company.

Euro Benchmark Bond Bond issued in euros which, on account of its issue volume, can be used as a reference value for comparable issuers.

Financial covenants Clauses or (side) agreements in loan agreements and term sheets. These are contractually binding promises by the borrower or obligor during the term of the loan agreement, for example, that net financial liabilities will not exceed a defined multiple of an earnings indicator such as EBITDA pre exceptionals.

GDP Gross domestic product: the sum of all goods and services produced by an economy over the period of one year and destined for consumption.

Goodwill Intangible assets from the acquisition of a company. This is measured as the excess of the cost of acquisition over the fair value of the net assets acquired.

Hedging An investment position intended to limit or offset certain clearly identified risks such as exchange rate fluctuations or interest rate changes.

IAS/IFRS International Accounting Standards/International Financial Reporting Standards. These are uniform international accounting regulations issued by the International Accounting Standards Board with the aim of ensuring the global comparability of financial statements and the publication of information of relevance to decisions.

Joint venture A contractual agreement between two or more partners concerning an economic activity which they manage jointly.

Net financial liabilities Calculated as the sum of current and non-current financial liabilities (adjusted for liabilities for accrued interest) less cash, cash equivalents and near-cash assets.

Net working capital The sum of all inventories and trade accounts receivable less trade accounts payable.

Purchase price allocation Distribution of the cost of an acquisition to the acquired assets, liabilities and contingent liabilities.

Rating Assessment of a debtor's credit standing. Ratings are issued by, for example, the world's leading rating agencies such as Standard & Poor's, Moody's Investors Service and Fitch Ratings, but also by banks applying their own criteria.

ROCE Return on capital employed: ROCE is the ratio of EBIT pre exceptionals to capital employed and a measure of profitability.

Sell-side analysts Sell-side analysts work for banks and brokerages. They produce industry-specific analyses of listed companies. These are used to assess the stock of the companies analyzed and to make investment recommendations. Published in the form of research studies, these recommendations are targeted at external users, especially institutional investors, and are intended to provide investment ideas.

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May 15
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August 7
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September 20
LANXESS Capital Markets Day

November 6
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