Annual Report 2012

Thinking sustainably, driving change

LANXESS
Energizing Chemistry

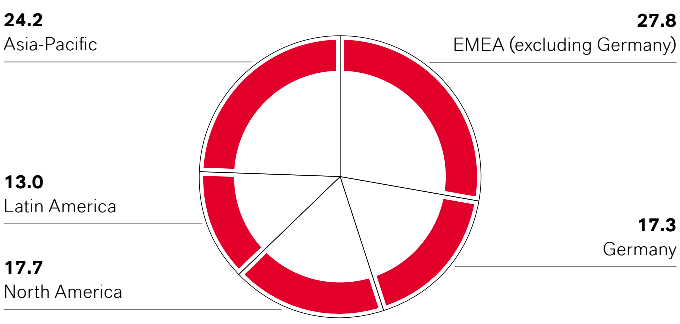
Key Data

€ million	Q4 2011	Q4 2012	Change %	2011	2012	Change %
Sales	2,123	2,123	0.0	8,775	9,094	3.6
EBITDA pre exceptionals	174	239	37.4	1,146	1,225	6.9
EBITDA margin pre exceptionals	8.2%	11.3%		13.1%	13.5%	
EBITDA	144	228	58.3	1,101	1,188	7.9
Operating result (EBIT) pre exceptionals	87	137	57.5	826	849	2.8
Operating result (EBIT)	52	126	>100	776	810	4.4
EBIT margin	2.4%	5.9%		8.8%	8.9%	
Net income	5	51	>100	506	514	1.6
Earnings per share (€)	0.06	0.62	>100	6.08	6.18	1.6
Dividend per share (€)				0.85	1.00	17.6
ROCE				17.2%	15.6%	
Cash flow from operating activities	261	414	58.6	672	838	24.7
Depreciation and amortization	92	102	10.9	325	378	16.3
Cash outflows for capital expenditures	354	315	(11.0)	679	696	2.5
Total assets				6,878	7,519	9.3
Equity (including non-controlling interests)				2,074	2,331	12.4
Equity ratio				30.2%	31.0%	
Pension provisions				679	892	31.4
Net financial liabilities				1,515	1,483	(2.1)
Employees (as of December 31)				16,390	17,177	4.8
Personnel expenses (€ million)				1,244	1,392	11.9
Work-related injuries resulting in at least 1 day's absence (per million hours worked)				2.7	3.4	
Energy consumption (petajoules)				54.5[1)]	56.0	2.8
Total water consumption (in million cubic meters)				292	309	5.8
Emissions of greenhouse gases (CO_2 equivalents in thousand tons)				1,937[1)]	1,913	(1.2)
Emissions of volatile organic compounds (in thousand tons)				7.8	7.6	(2.6)
Total waste (in thousand tons)				267	283	6.0
Total wastewater (in million cubic meters)				33	34	3.0

1) Figure restated

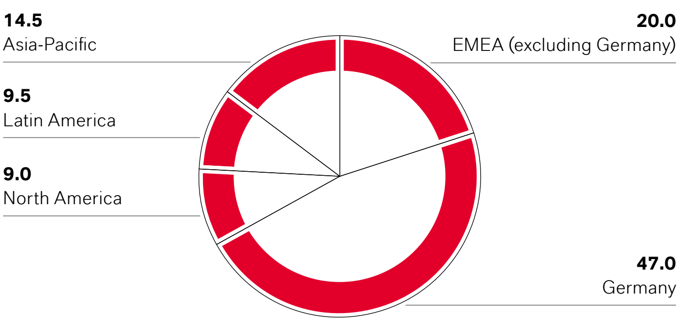
Sales by Region

%



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 plastics Durethan® and Pocan® are strong brands with significant potential for growth and innovation in the field of lightweight automotive components.

Business Units

- Butyl Rubber (BTR)
- Performance Butadiene Rubbers (PBR)
- High Performance Elastomers (HPE)[1]
- Keltan Elastomers (KEL)[1]
- High Performance Materials (HPM)

1) Since January 1, 2013

Performance Indicators

€ million	2011	2012	Change %
Sales	5,059	5,176	2.3
Proportion of Group sales	57.7%	56.9%	
EBITDA[1]	768	817	6.4
EBITDA margin[1]	15.2%	15.8%	
Cash outflows for capital expenditures	437	434	(0.7)
Employees (as of Dec. 31)	4,977	5,348	7.5

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	2011	2012	Change %
Sales	1,545	1,674	8.3
Proportion of Group sales	17.6%	18.4%	
EBITDA[1]	264	305	15.5
EBITDA margin[1]	17.1%	18.2%	
Cash outflows for capital expenditures	107	92	(14.0)
Employees (as of Dec. 31)	2,883	2,841	(1.5)

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	2011	2012	Change %
Sales	2,130	2,203	3.4
Proportion of Group sales	24.2%	24.2%	
EBITDA[1]	289	281	(2.8)
EBITDA margin[1]	13.6%	12.8%	
Cash outflows for capital expenditures	112	135	20.5
Employees (as of Dec. 31)	5,819	6,031	3.6

1) Pre exceptionals

2012 – LANXESS Year of Green Mobility

Throughout the world, more and more people seek increased mobility. The only way to counter the resulting burden on the environment is to come up with new, sustainable solutions. As a technology leader in specialty chemicals, we develop applications that can make mobility more environmentally compatible.

One of our most important green mobility products is white at the start of its life cycle: synthetic high-performance rubber. This product is the main component in modern green tires, simultaneously reducing their rolling resistance, increasing their durability and improving their braking behavior.

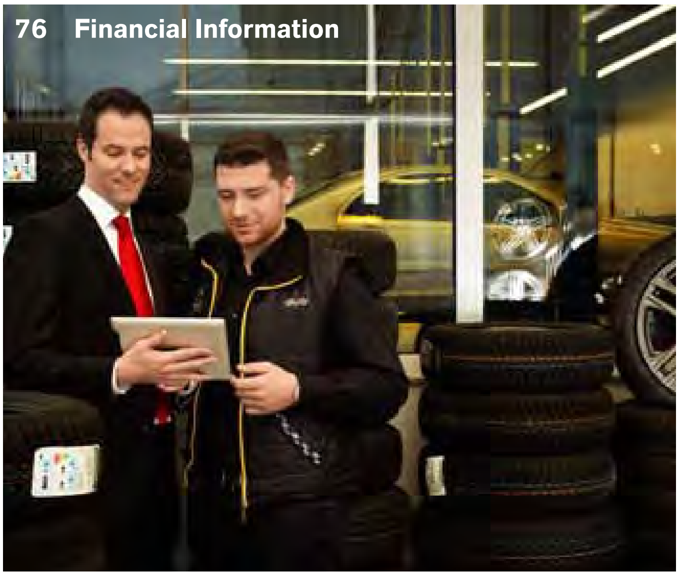
However, our portfolio includes many other innovative solutions for green mobility. Our high-tech plastics, for example, reduce the weight of components for cars and other vehicles, cutting their fuel consumption without compromising safety performance. And our stabilizers make it possible to produce fuels from renewable raw materials.

With innovative premium products, first-class technical **expertise** and **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 form the key to our **sustainable growth.**

In 2012 we set a further **mid-term earnings target.** Building on our established strategy combining organic and external growth, we aim to raise our key financial indicator – EBITDA pre exceptionals – to **€1.8 billion** by 2018. To this end, we are systematically aligning our product portfolio to four of the main global **megatrends** and expanding our local presence in **growth regions**.

Contents


Effect of LANXESS high-end rubbers



Ladies and Gentlemen,

When LANXESS became an independent company eight years ago, few people believed it would have a successful future. That is why I can look back on the 2012 fiscal year with particular pride. There is hardly any other year in our history that demonstrates more clearly just how successful we have become since 2005, despite many predictions to the contrary.

With an EBITDA pre exceptionals of €1.225 billion, we achieved the company's best result to date in 2012, in an increasingly demanding economic environment. Our net income, which came to €514 million, also reached a new high.

On behalf of the entire Board of Management, I would like to give special thanks to the employees of LANXESS for these achievements. Their tireless efforts for the company have made this success possible. Together, we will make the company a continuing success going forward and rise to every challenge.

One highlight for us all in 2012 was LANXESS's admission to the DAX 30 in September. I was very moved by this special endorsement of our hard work in the past years and the successful transformation of our company. To be listed in Germany's leading stock index is an honor for us – and a motivation to become even better.

Consistent with this is the fact that we set a new mid-term growth target last year: we aim to achieve an EBITDA pre exceptionals of €1.8 billion in 2018. Our existing goal for 2015 is an EBITDA pre exceptionals of €1.4 billion and we now intend to reach this already in 2014. The excellent results we posted last year are an important step in this direction. However, please don't let them make you think that 2012 was an easy year for LANXESS. We had to work incredibly hard for our success until the last day.

The deteriorating economic conditions in the second half of the year were the main reason for this. The eurozone debt crisis was no longer the only drag on the European economy. Weaker growth in many parts of Asia and sluggish economic momentum in Latin America had a negative impact as well. For our businesses, ongoing volatility in raw material prices and rising energy prices also made matters difficult. That the fourth-quarter operating results were still positive is largely attributable to fewer one-time effects compared to the previous year.

2013 is not going to make life any easier for us. Thus far, there are no signs of a fundamental improvement in the economic climate. Even if the initial measures are working, dealing with the impact of the debt crisis will still be a formidable challenge for the world economy and businesses. Important political and economic questions remain to be answered, sweeping reforms have yet to be introduced.

But we will not alter our growth strategy because of this. We are experienced in handling turbulent times and will be able to weather future storms, too. The long-term drivers of our businesses remain intact. Going forward, LANXESS and its technology-based products will continue to profit from the focus on growth regions and from the global megatrends.

As an example, our business in advanced intermediates for agrochemicals, with which we serve the agriculture megatrend, developed very positively. Our products support the more efficient use of arable land and help safeguard crop yields. In this way, we are making an important contribution to addressing the increasing demand for food from an ever-growing world population. We will strengthen the area of agrochemicals in the years ahead, enabling us to meet the growing demand for our products.

The global rise in mobility will also drive our development. Today there are more than 800 million vehicles on the road worldwide. That figure is expected to reach two billion by 2035. We are profiting from this trend. Our high-performance rubber products and high-tech plastics are making it possible to significantly reduce vehicle emissions and fuel consumption, thus helping counteract the growing impact on the environment associated with increasing mobility.

For us, 2012 was the year of green mobility. Our strength in this field delivered good results for the company, with green mobility products accounting for 17 percent of our total sales last year, or €1.6 billion. Our goal is to increase our total revenues in this area to €2.7 billion by 2015.

Last year, we pursued the growth this requires by again making smart long-term investments in key markets. In September, we broke ground in Singapore for the world's largest production facility for neodymium-based performance butadiene rubber. This high-performance polymer is vital to the manufacture of fuel-saving, emission-reducing green tires – a fast-growing market.

Our high-tech plastics represent another group of products with which we are very successfully making a contribution to green mobility. Here, too, we were able to strengthen our leadership position. In September 2012, we acquired Bond-Laminates, a company that specializes in making customized plastic composite sheets for the automotive industry. Compared to metal parts, these are easier to process, have excellent mechanical properties and weigh less, which makes it possible to reduce vehicle emissions and fuel consumption.

We are currently building the world's largest plant for EPDM synthetic rubber in Changzou, China. The facility will use the state-of-the-art Keltan ACE technology, which reduces energy requirements in comparison to conventional technologies.

We are committed to innovations and state-of-the-art technologies. One of our strengths is taking new approaches to ensure our company's future success. We did just that on several occasions in the year under review. For example, we presented a concept tire at our inaugural Mobility Day in the United States, which took place in September. This tire is among the first to have earned a double-A rating under the E.U.'s new tire labeling regulations, which is reserved for tires that demonstrate exceptional braking behavior on wet surfaces, particularly high fuel economy and low emissions. Since November 2012, all tires sold within the E.U. must be labeled to indicate their fuel economy, wet grip and rolling noise. Similar legislation is now in effect in South Korea and is being considered in other countries. For consumers, the new regulation provides a better basis for making tire buying decisions. Tires may look the same, but they often differ greatly in terms of how they impact fuel consumption, emissions and safety. Green tires receive excellent ratings in these areas.

Obviously, we have no intention of competing with our customers in the tire industry. However, our concept tire is proof of our extraordinary competence in the area of mobility and will offer our customers true added value. We can now offer them materials that have already been subjected to rigorous testing, reducing their time to market for new tires and thereby enhancing their competitive position.

We celebrated a further premiere in September with the launch of our fuel-savings app. This marks the first time we have directly addressed the people who use the products made from our materials. To date, the fuel-savings calculator has been used by around 180,000 consumers. The primary purpose of our initiative is to provide a valuable tool that helps in the purchase of new tires. How much money can you save with green tires? How long does it take for the investment to pay off? By how much are CO_2 emissions reduced? Just a few clicks clearly demonstrate the benefits of green tires to the consumer and the environment.

Our claim to promote the sustainability of the global economy through the exercise of entrepreneurial responsibility was underscored in 2012 when we reaffirmed our commitment to the principles of the world's largest corporate responsibility initiative, the Global Compact.

Our products make a valuable contribution in this regard. Naturally, we also attach great importance to making the underlying production processes as environmentally friendly as possible. We use cutting-edge technologies in our plants to save energy and water, for example. And each new production plant must meet strict environmental protection standards.

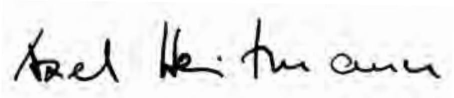
Experts rated the success of our efforts again last year and gave us a top grade. For instance, we were included in the Carbon Disclosure Leadership Index of the world's leading climate protection initiative for the first time. This means we ranked in the top ten percent of the 350 companies surveyed in Germany, Austria and Switzerland which are characterized by particularly transparent reporting about climate protection.

However, at LANXESS, sustainability means more than responsible stewardship of the environment. I firmly believe that companies that want to remain successful in the future must be sustainable in every aspect of their operations. For us, this includes promoting equal opportunity in our company and recognizing that people's diverse life experiences are a source of valuable knowledge.

As part of the Board of Management's Diversity & Inclusion initiative, we translated this understanding of sustainability into two projects last year. Through our Senior Trainee Program, which is unique in Germany, we enabled 13 highly qualified women and one man to return to employment after a long period spent raising a family. At the same time, we set a global corporate target for the medium term in respect of the proportion of women in mid-level and upper management: by 2020, we want around 20 percent of these positions to be held by women. The figure currently stands at just under 15 percent. With our ambitious target, we are aiming to help more highly qualified women advance their careers within the company and thereby make a contribution to equal opportunity.

Dear stockholders, commercial success and sustainable business practices go hand in hand at LANXESS. The capital market also acknowledged this last year. Our stock posted one of the largest increases in value in the DAX 30. On behalf of the entire Board of Management, I want to express my deep gratitude for your many years of trust. 2013 may be a challenging year for LANXESS, but that will only motivate us to maintain our successful course. I hope that you will continue to accompany us on this journey.

Best regards,



Management

Dr. Rainier van Roessel

Member of the Board of Management (Industrial Relations Director)

Performance Chemicals, Human Resources, Information Technology

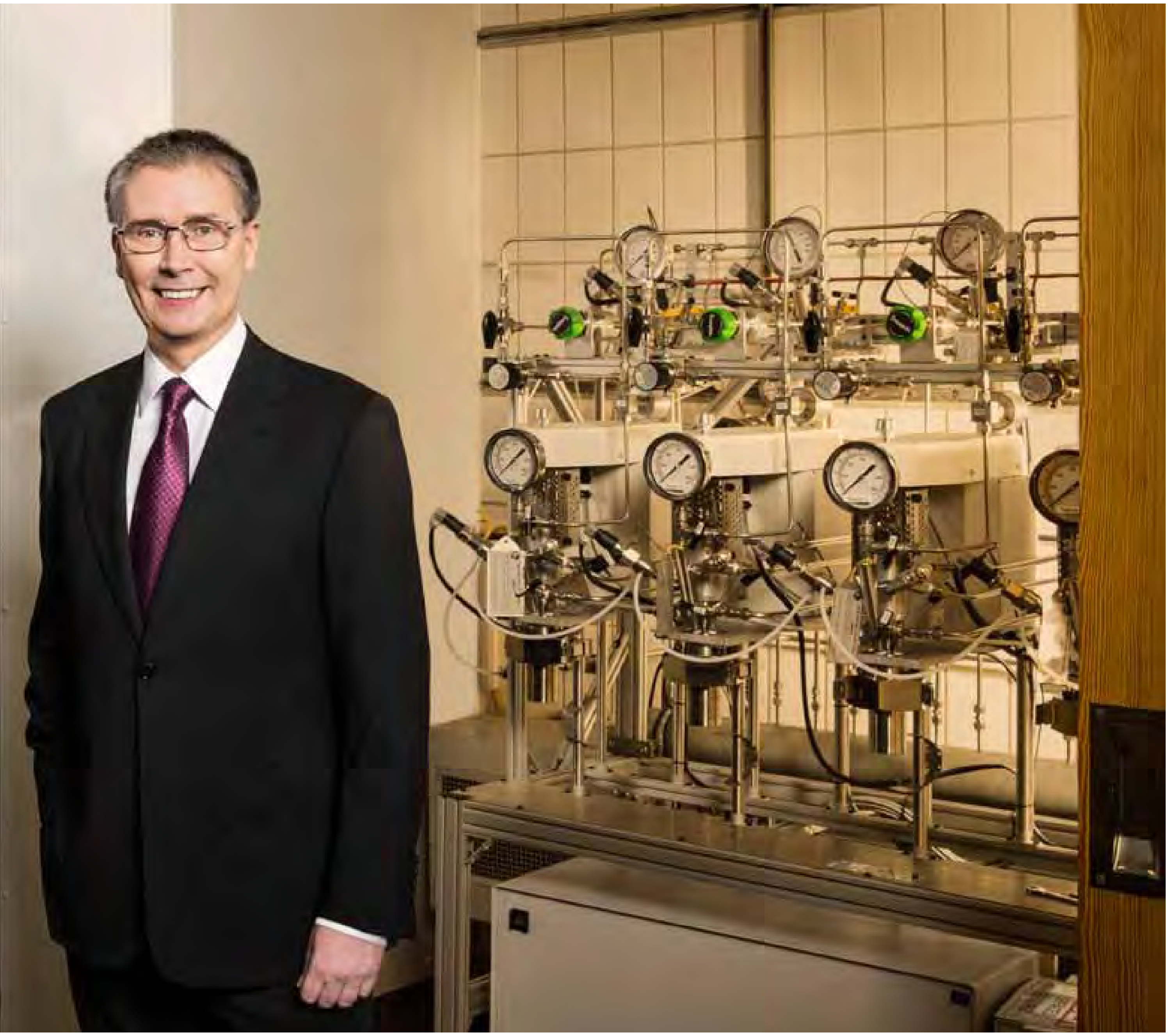
Rainier van Roessel was born in 1957 in Oisterwijk in the Netherlands. He studied business administration at the University of Cologne, where he also obtained his doctorate, and joined Bayer AG in 1988. When the LANXESS organization was set up in 2004, he became Head of the Rubber Chemicals business 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.

Dr. Axel C. Heitmann

Chairman of the Board of Management

Corporate Communications, Corporate Development, Executive Human Resources, Internal Auditing

Axel C. Heitmann was born in Hamburg in 1959. After graduating in chemistry from Hamburg University and Southampton University, United Kingdom, and obtaining his doctorate, he joined Bayer AG in 1989. In the subsequent years, he held a succession of roles at Bayer, which included a number of international assignments in the United Kingdom and China. Axel C. Heitmann was appointed Chairman of the LANXESS AG Board of Management on September 16, 2004.



Dr. Bernhard Düttmann
Chief Financial Officer

Accounting, Corporate Controlling, Investor Relations, Law & Intellectual Property, Mergers & Acquisitions, Tax, Treasury

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, 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.

Dr. Werner Breuers
Member of the Board of Management

Performance Polymers, Advanced Intermediates, Aliseca, Global Procurement & Logistics, Innovation & Technology, Industrial & Environmental Affairs

Werner Breuers was born in Mönchengladbach in 1958. He studied chemistry and obtained his doctorate from Aachen Technical University before beginning his career in the Research and Development Division of 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.

A driving force for new ideas

David Hardy, Technical Marketing Manager for the Performance Butadiene Rubbers business unit, discusses the further potential of our rubber grades for green tires with high-viscosity technology expert Dr. Jochen Kroll, polymer chemist Dr. Christopher Kohl and organic synthesis specialist Dr. Nadine Vogl, who work in the LANXESS Innovation & Technology Group Function.

We generate ideas and development projects through close collaboration between our business units – their Technical Marketing Managers serving as the direct interface with the market – and Innovation & Technology. This group function, established in 2009, pools our expertise and drives innovation projects to safeguard the company's long-term success.

This is also where the development of our high-performance rubbers for green tires started. Our scientists' expertise enabled us to balance the conflicting tire properties defined in the "magic triangle" of tire technology, combining low rolling resistance, good wet grip and durability.

This work demonstrates our commitment to addressing the major technical challenge of making mobility environmentally friendly. In light of the steadily growing number of vehicles worldwide and the associated environmental impact, it is one of the most important tasks facing society.

Our ideas and developments are protected by patents wherever this is possible and expedient. In the course of 2012, we submitted 90 priority applications worldwide. As of December 31, 2012, the full LANXESS patent portfolio included approximately 1,100 patent families covering around 7,600 individual property rights.


hted Nd-PBR
ect of LANXESS high-end rubbers i
General Purpose Rubber
Rolling resistance reduction
Nd-PBR
Durability

A new target with an unchanged focus

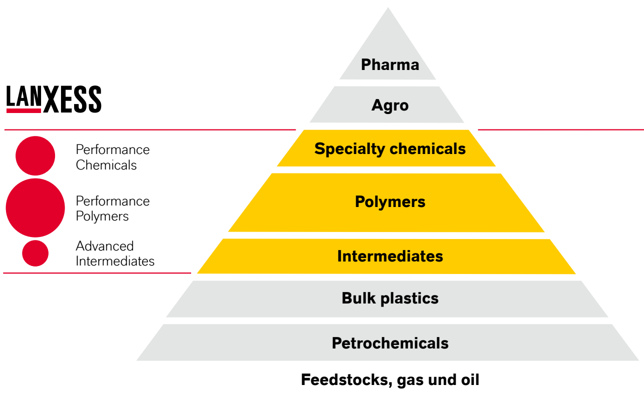
As a highly innovative supplier of premium products, LANXESS is one of the world's leading specialty chemicals companies. In 2012 we set a further mid-term growth target. Building on our established strategy combining organic and external growth, our goal is to raise our key financial indicator – EBITDA pre exceptionals – to €1.8 billion by 2018.

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. Since the start of 2013, our business operations have been grouped in 14 business units within these segments. In response to the growing significance of the global EPDM rubber business, we divided the Technical Rubber Products business unit in the Performance Polymers segment into two independent units. The new Keltan Elastomers business unit will focus on the production and marketing of EPDM. The remaining Technical Rubber Products portfolio, which includes a large number of high-performance rubbers and specialties for a wide range of applications, has been renamed the High Performance Elastomers business unit.

Our business units have global responsibility for their 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.

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.

Our aim is to position all our businesses at the forefront of their respective markets. Our main markets are the tire, automotive, consumer goods, chemical manufacturing, agrochemical and construction industries. Other important sectors to which we supply products include electronics, water treatment, medical supplies, coatings, printing technology and packaging. This diversification reduces our dependence on the momentum in specific industries and on individual customers. In 2012 our ten biggest customers accounted for only around 26 percent of our business.

Our global profile, which we have steadily improved in recent years, also plays a key role in the stability of our business performance. We have invested selectively in the key growth regions of Asia and Latin America, and now have an effective modern production network there, which we will continue to expand in the future.

Innovative thinking …

Through targeted 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 for them. This strengthens customer loyalty and enables us to differentiate ourselves clearly from our competitors.

Our research and development activities are closely allied to the needs of the market and our customers. Each business unit therefore has its own research and development capacity. Over and above this, our Innovation & Technology Group Function is an efficient central organizational unit that coordinates all research and development activities within the Group and handles cross-business unit projects.

The high significance of innovation for our company can also be demonstrated by some figures: in 2012 alone we increased our R&D spending by 33 percent and created more than 100 new jobs in this area of activity.

… to ensure sustainability

In our business activities we are 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 our entrepreneurial and, especially, economic objectives. They must therefore be linked to our core business or to our available expertise.

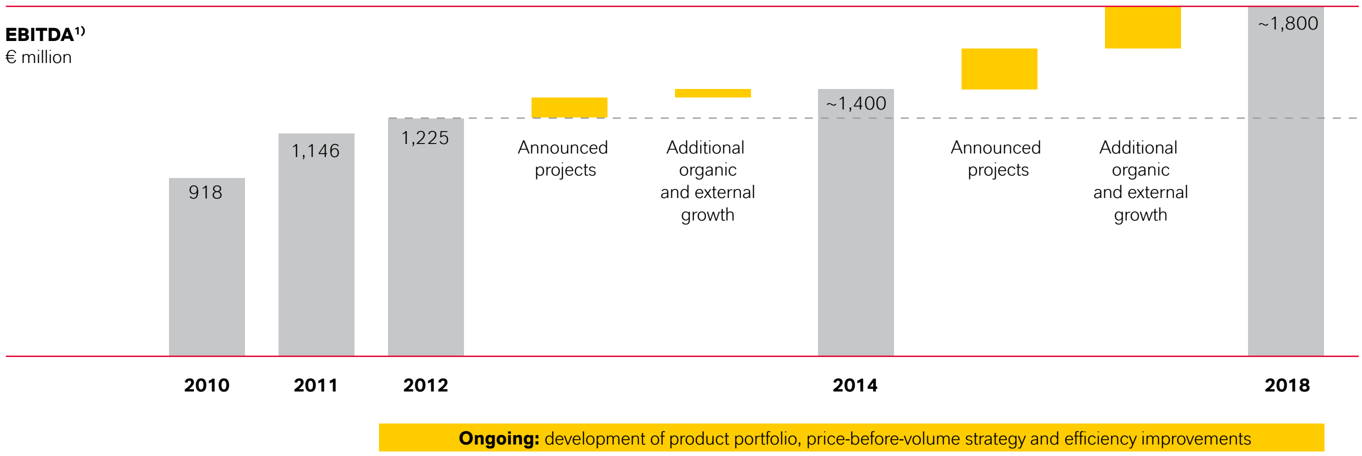
Further information about our commitment to sustainability can be found in the "Corporate Responsibility" section starting on page 36 of this Annual Report.

LANXESS Acts Sustainably

Good for Business
- Strengthening the reputation and positive image of the company
- 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

LANXESS Plans to Continue its Successful Growth Course



1) Pre exceptionals

New mid-term growth target

As a company, we are well-positioned to continue our growth course in the years ahead. Against this background, we communicated a new mid-term earnings target in September 2012. We aim to grow LANXESS's key financial indicator – EBITDA pre exceptionals – to €1.8 billion by 2018. We now intend to achieve our previous target of €1.4 billion EBITDA pre exceptionals by 2014, one year earlier than originally planned.

The following elements form the basis for our dual-track strategy of organic and external growth:

Participation in global megatrends

We are systematically aligning our product portfolio – and consequently our research and development activities – 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 High Performance Materials business unit offers the automotive industry future-oriented concepts for replacing metals with high-tech plastics that reduce vehicle weight and improve fuel efficiency. By 2015 we aim to generate sales of around €2.7 billion with products for green mobility.

Agriculture Rapid growth in the world's population is significantly increasing global demand for food. At the same time, eating habits worldwide are changing – with an increase in meat consumption in particular – and there is growing use of crops as alternative energy sources. Our Saltigo and Advanced Industrial Intermediates 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. The United Nations forecasts that the proportion of city-dwellers in the world population will increase from slightly more than 50 percent at present to just under 70 percent by 2050. 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 predict that demand for clean water will exceed the current supply by about 40 percent by 2030. We aim to make a significant contribution to closing that gap. Products and processes marketed by our business units, especially Ion Exchange Resins, are playing an increasingly important role in the treatment of drinking water, wastewater and process water.

A stronger presence in emerging markets

We consider a local presence in emerging markets to be a further strategic success factor. Since 2005, LANXESS has more than doubled sales in the emerging markets to around €3.4 billion. In regional terms, we therefore intend to continue concentrating principally on expanding our business and production capacities in these booming economies, with the focus remaining on the BRICS countries, especially Brazil, India and China.

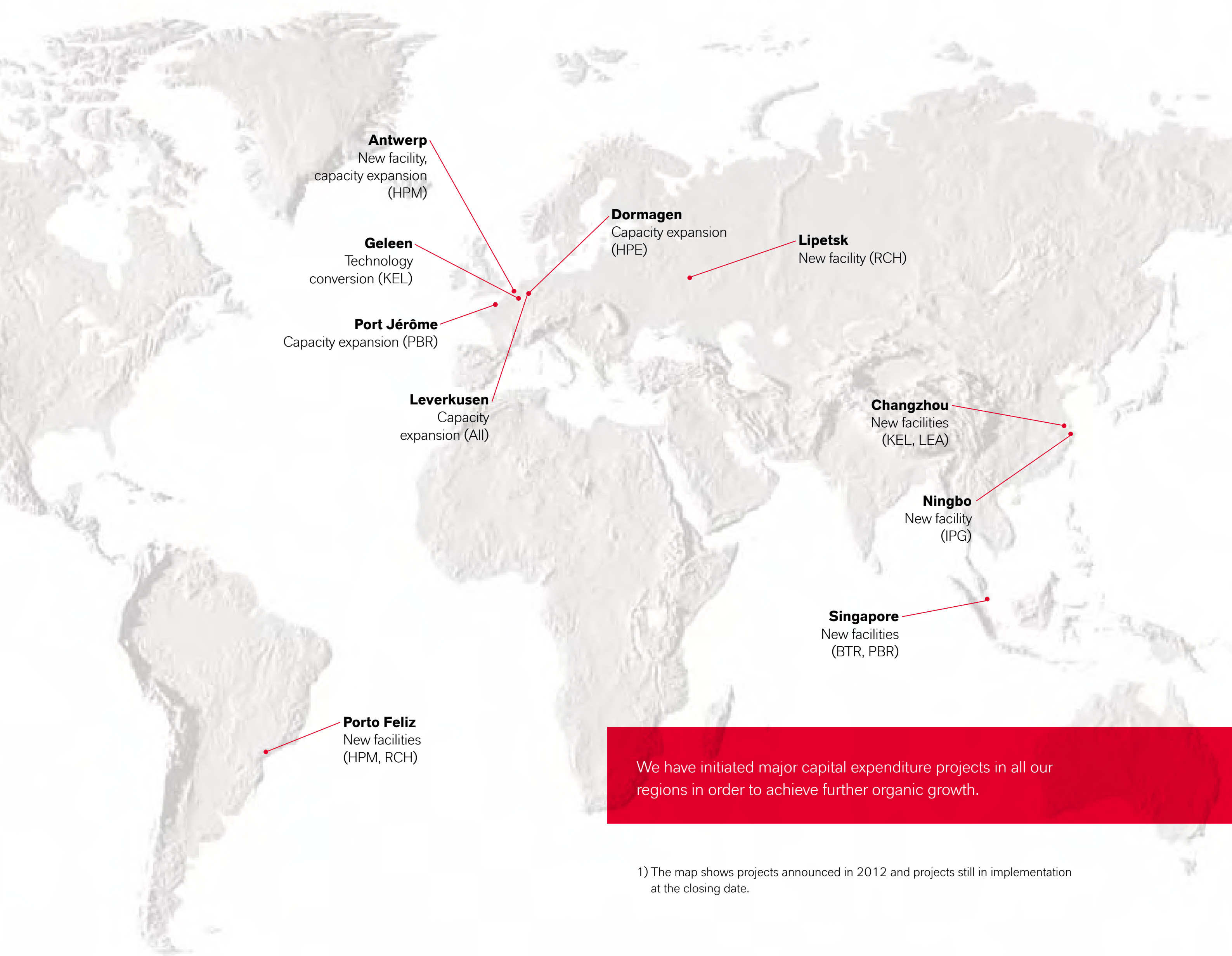
Continuation of the price-before-volume strategy

Ensuring that our added value is visible to customers is a basic precondition in the successful implementation of our proven price-before-volume strategy. In line with this, we refrain from business if we cannot obtain acceptable prices for our products.

Focus on organic growth

We aim to generate about two-thirds 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. Clear rules have been defined for all growth projects: they must generate a return that is at least equivalent to LANXESS's return on capital employed (ROCE).

In fiscal 2012, cash-relevant capital expenditures totaled €696 million. Around two-thirds of this was for measures to expand capacities and raise efficiency. We have also budgeted capital expenditures of €650 million to €700 million for 2013. A large part of this will be allocated to the Performance Polymers segment. However, our other two segments also have attractive growth prospects for which we initiated a number of promising projects.



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

1) The map shows projects announced in 2012 and projects still in implementation at the closing date.

Performance Polymers segment

- The Butyl Rubber business unit is constructing a state-of-the-art butyl rubber facility in Singapore. Costing some €400 million, this is the largest investment project in the history of LANXESS. Hot-commissioning will start in the first quarter of 2013.
- Close by, the Performance Butadiene Rubbers business unit is investing some €200 million in a new production plant for Nd-PBR. This plant is scheduled to come on stream in the first half of 2015.
- In Changzhou, China, the Keltan Elastomers business unit is investing €235 million in the world's largest production plant for EPDM rubber. This is also scheduled to start up in 2015.
- To strengthen the High Performance Materials business unit's high-tech plastics activities, a new world-scale facility for polyamide plastics is under construction at our site in Antwerp, Belgium. This is scheduled for completion in the first quarter of 2014. Additional production capacities for glass fibers will also be available in Antwerp in spring 2013.
- A new compounding plant in Porto Feliz, Brazil, will enable our High Performance Materials business unit to supply high-tech plastics to the Latin American market.

Advanced Intermediates segment

- Through 2013, the Advanced Industrial Intermediates business unit will be expanding production capacities for the high-quality intermediate cresol at the site in Leverkusen, Germany.

Performance Chemicals segment

- With the construction of a new facility at Ningbo, China, the Inorganic Pigments business unit will significantly expand capacities for its range of light-colored iron oxide red pigments. This is expected to come on stream in the first quarter of 2015.
- Starting in the first half of 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, China.
- Also, by the end of 2013, a new CO_2 concentration plant will make the Leather business unit independent of external suppliers at its site in Newcastle, South Africa, and pave the way for the future expansion of sodium dichromate production.
- In Lipetsk, Russia, the Rhein Chemie business unit is constructing LANXESS's first production facility in that country to supply additives and release agents to the rubber processing and tire industries there.
- Rhein Chemie is also building a production plant for high-quality curing bladders and rubber additives in Porto Feliz, Brazil, which should start operating in the second quarter of 2013.

Further information about these projects and the activities successfully completed before the editorial deadline for this Annual Report can be found in the segment sections starting on page 20.

Targeted acquisitions to expand our market position

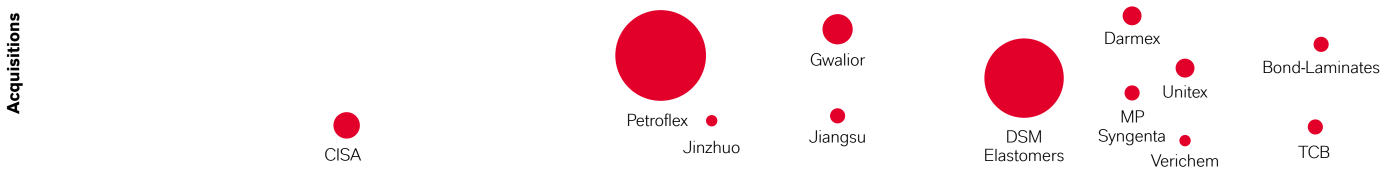
We also intend to continue generating growth through acquisitions. Our focus remains on small to mid-sized enterprises that optimize and complement our existing portfolio. Stringent strategic and financial criteria are used to evaluate potential acquisition targets. For example, the businesses acquired must make a positive contribution to earnings within three years.

Our M&A record shows that we understand how to grow our leadership positions through selective acquisitions. Since 2006, we have added many 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.

A major focus in 2012 was the successful integration of the elastomers business that we acquired from Dutch company Royal DSM N.V. in 2011. In addition, we made two smaller acquisitions to strengthen our portfolio.

By acquiring U.S. company Tire Curing Bladders, LLC (TCB), a leading manufacturer of vulcanization bladders, we have further expanded our position as a premium supplier to the tire industry. This acquisition enables our Rhein Chemie business unit to make the strategically important move into the manufacture of curing bladders for the tires of trucks, agricultural vehicles, off-road vehicles and construction machinery.

Successful Implementation of LANXESS Acquisition Strategy



	2006	2007	2008	2009	2010	2011	2012
Emerging markets	✓		✓	✓			
Complement portfolio				✓		✓	
Strengthen portfolio	✓		✓	✓	✓	✓	
Technology					✓	✓	✓

Acquisitions must be a good cultural fit, strengthening and expanding LANXESS's competencies

The purchase of Bond-Laminates GmbH, based in Brilon, Germany, complements the portfolio of our High Performance Materials business unit with the addition of innovative materials for lightweight construction in the automotive sector. Bond-Laminates specializes in developing and manufacturing customized plastic composites.

Further information about these transactions can be found in the segment sections starting on page 20 of this Annual Report.

Thanks to our long-term financing and farsighted risk management, our liquidity reserves at year-end 2012 amounted to around €2.3 billion in the form of cash and cash equivalents and undrawn credit lines. This gives us sufficient financial headroom for acquisitions to support our growth strategy in the future.

Outlook for 2013

With our product portfolio, we are successfully positioned in the relevant markets and we will be further expanding our presence in the world's growth regions.

As global economic momentum is expected to stay slow, we are cautiously optimistic for 2013. Compared with 2012, we believe the most dynamic development will come from the growth markets in Asia. While demand from customers is forecast to remain at a low level in the first quarter of 2013, as it was at the end of 2012, we expect it to pick up successively in the second half of the year.

In 2012 already, we introduced successful measures to counter the impact of a slowdown in demand. These include flexible plant management and high cost discipline. In light of the anticipated economic challenges, we will be continuing these measures in 2013. In addition, we believe that all our segments are well-positioned to benefit from an improvement in business conditions during the year.

Against this background, we are confident of continuing to grow over the coming years and of achieving our mid-term target of €1.4 billion EBITDA pre exceptionals in 2014.

Trying out ideas in the test tube

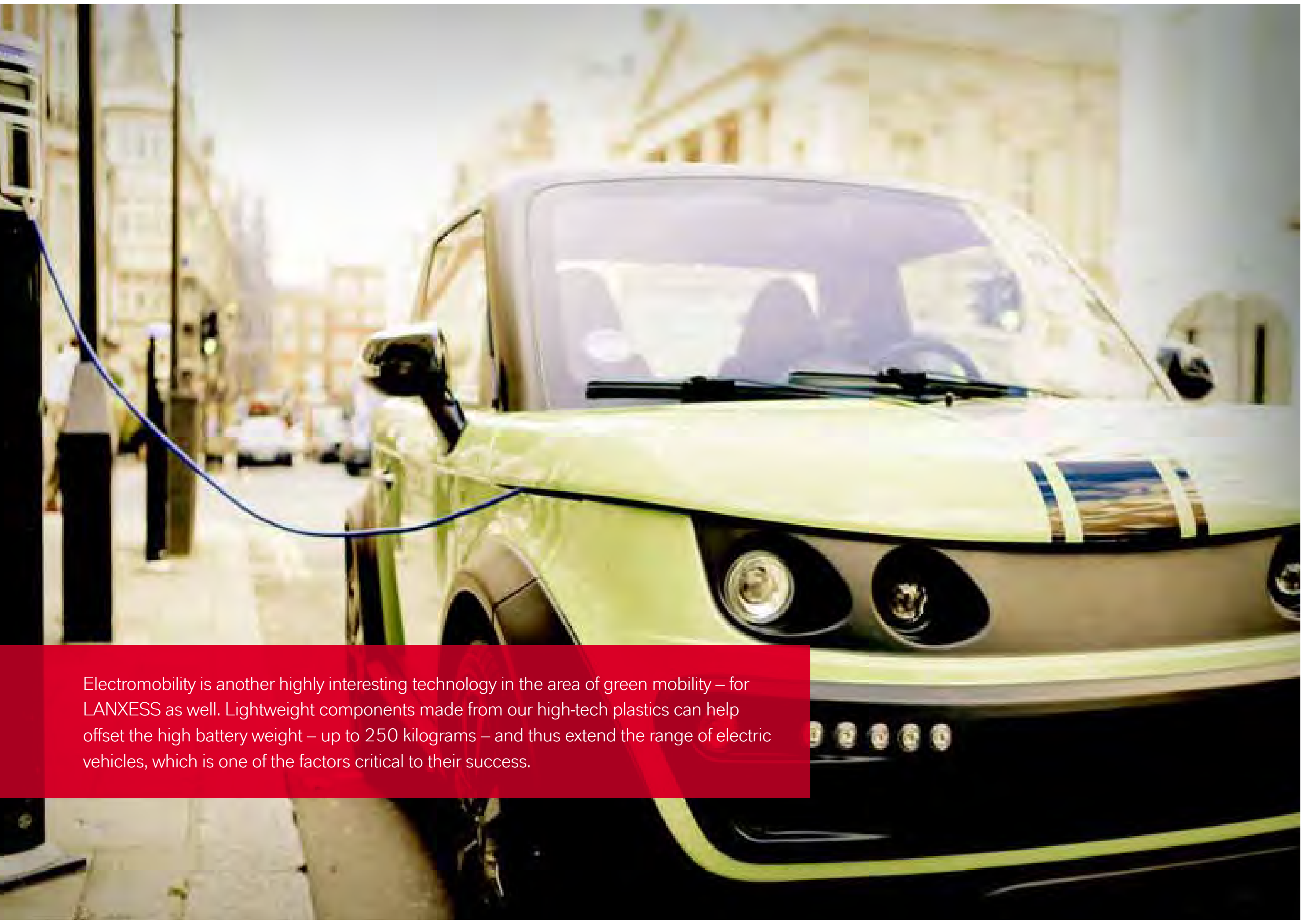
Xia Dong prepares a new rubber compound in the LANXESS laboratory in Leverkusen. She is studying polymer processing at the Qingdao University of Science and Technology in China and, together with her fellow student Genhai Liu, won the LANXESS Student Rubber Award in 2012. We rewarded her outstanding performance with a four-week internship at our Technical Rubber Products business unit. LANXESS has been cooperating closely with Qingdao University since 2007.

Most of our basic research is conducted in collaboration with universities and research institutes. Generating knowledge in this way is not only far more efficient and cost-effective than maintaining our own resources; it also gives young scientists the opportunity to acquire practical experience with a global enterprise. In 2012, we had a total of 203 (2011: 145) major research and development alliances, 78 (2011: 50) of which were with universities, 66 (2011: 55) with suppliers or customers, and 59 (2011: 40) with research institutes. Advanced scientific work is done by our larger research and development units at the sites in Leverkusen, Krefeld-Uerdingen and Dormagen, Germany; London, Canada; and Qingdao and Wuxi, China. There we develop and test high-performance rubber products for energy-saving green tires, for example.

Our total research and development expenses in 2012 increased by 33 percent on the prior year to €192 million, or 2.1 percent of sales (2011: €144 million, or 1.6 percent of sales).

Performance Polymers

The Performance Polymers segment brings together all our polymer activities and comprises the Butyl Rubber, Performance Butadiene Rubbers, Keltan Elastomers, High Performance Elastomers and High Performance Materials business units. They all hold leadership positions in their respective markets.



Electromobility is another highly interesting technology in the area of green mobility – for LANXESS as well. Lightweight components made from our high-tech plastics can help offset the high battery weight – up to 250 kilograms – and thus extend the range of electric vehicles, which is one of the factors critical to their success.

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 synthetic rubbers that meet the most stringent requirements, including various polybutadiene rubber (PBR) grades, solution styrene-butadiene rubber (S-SBR) and emulsion styrene-butadiene rubber (E-SBR). Neodymium-based performance butadiene rubber (Nd-PBR) and S-SBR are used especially for manufacturing modern, fuel-efficient high-performance tires. However, the products of Performance Butadiene Rubbers are also an indispensable component of many everyday items such as shoes, yogurt pots and golf balls.

Effective January 1, 2013, we have reorganized the activities of our former Technical Rubber Products business unit. The newly created Keltan Elastomers business unit will focus exclusively on manufacturing synthetic ethylene-propylene-diene rubber (EPDM). This move reflects the increased significance of this business for LANXESS since our acquisition in 2011 of the EPDM activities of Dutch-based Royal DSM N.V. EPDM is used above all in the automotive industry for door seals and high-quality weather-stable dampers. It is also used as a modifier for plastics, in the manufacture of oil additives and in the wire and cable and construction industries. The remaining Technical Rubber Products portfolio, which includes a large number of high-performance rubbers and specialties for a wide range of applications, has been renamed the High Performance Elastomers business unit. The new structure offers both business units the opportunity to achieve further growth by focusing even more specifically on the particular needs of their markets.

The High Performance Materials business unit (formerly Semi-Crystalline Products) is successful with the high-tech plastics Durethan® and Pocan® and their key strategic feedstocks. These products are used primarily for lightweight construction solutions in automotive engineering and in the electronics industry.

Mobility megatrend is main growth driver

With economic growth and rising prosperity, particularly in emerging nations and developing countries, our world is becoming increasingly mobile. LMC Automotive, a market research company specializing in the automotive industry, forecasts that the number of cars in use worldwide will increase by more than 60 percent in the next 15 years. However, this growth 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. Thanks to our pioneering technologies, our business units in the Performance Polymers segment enable us to significantly contribute toward mastering this challenge in two areas.

The future belongs to green tires

Legislators around the world have identified private transport, i.e. cars and trucks, as a key focus of their initiatives to increase energy efficiency and thereby significantly reduce harmful CO_2 emissions. The European Union, for example, has stipulated that European car manufacturers must reduce average fleet emissions from their current level of 120 grams per kilometer to 95 grams by 2020. Since around one quarter of a car's fuel consumption is accounted for by its tires' rolling resistance, improving the energy efficiency of tires is the primary strategy for achieving this target.

As the market leader in high-performance rubbers, we make it possible to optimize the conflicting tire properties defined in the "magic triangle" of tire technology, combining low rolling resistance, good wet grip and durability. If all the vehicles in the world were fitted with these modern high-performance 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 extent to which tires with optimized rolling resistance can extend the still very limited range of electric vehicles.

Legislators have also recognized the huge potential of these tires and introduced corresponding regulations. Since November 1, 2012, all new vehicle tires sold in the European Union have to be labeled to show their fuel efficiency, wet grip and noise emissions. However, the European Union is not alone in its efforts. In December 2012, South Korea introduced mandatory tire labeling based on the E.U. model. Japanese tire manufacturers voluntarily introduced a comparable labeling system at the start of 2010. From November 2016, all tires imported to Brazil or manufactured there for the local market will have to be labeled in this way, too. Similar legislation is also being discussed in both the United States and China.

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 more than

2 billion tires to leave the production lines in 2017 – some 28 percent more than today. Over the same period, the proportion of green tires is likely to increase from around 35 percent at present to just under 50 percent. To satisfy this growing demand, we are making selective investments in the global expansion of our production capacities.

Key investments in the growth market of Asia Four major investment projects are at various stages of implementation in Asia.

Hot commissioning of our new, high-tech butyl rubber plant in Singapore will begin on schedule in the first quarter of 2013. Costing around €400 million, it is our largest investment project to date. Regular production is scheduled to start in the third quarter of 2013 to meet the growing demand for butyl rubber in Asia. The plant has an annual capacity of up to 100,000 tons. It is also setting new standards in terms of environmental protection, with 10 percent of the investment going into technologies that will cut energy and water consumption and reduce emissions. State-of-the-art waste gas purification units have been installed and measures implemented to recover process water and heat of condensation.

In September 2012, we laid the foundation stone for a new production facility for Nd-PBR, also in Singapore. 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 will supply the growing market for green tires, especially in Asia, and is scheduled to come on stream in the first half of 2015. With this investment, we are creating around 100 new jobs. 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.

Our project to build a new plant to manufacture EPDM rubber in Changzhou in Jiangsu province, which is scheduled to start operating in 2015, represents our largest investment in China to date at around €235 million. With an annual capacity of 160,000 tons, the plant will be the largest of its kind in the world. Up to 200 employees will use sustainable Keltan ACE technology to produce various premium EPDM grades tailored to the needs of our Asian customers. Compared to conventional technologies, ACE reduces the energy costs in the manufacture of EPDM and, at the same time, increases the range of applications for these rubber products.

In May 2012, we opened our new facility for the manufacture of NBR rubber in Nantong, northwest of Shanghai, in the key growth market of China. In a joint venture with the Taiwanese TSRC Corporation, we invested around €40 million in the facility, which started with an annual capacity of 30,000 tons. Some 100 new jobs have been created at the most modern production facility of its kind in Asia. China is the world's largest and fastest-growing market for NBR, with an average annual growth rate of around 10 percent.

Selective capacity expansions in Europe and the United States The ongoing development of our existing sites is a further important factor in expanding our leading position in synthetic high-performance rubbers.

Through 2015, we will be investing some €30 million to strengthen the production site in Port Jérôme, France, where our Performance Butadiene Rubbers business unit produces the high-performance rubbers Nd-PBR and S-SBR, and also lithium butadiene rubber (LiBR) for the plastics industry. This investment project is aimed at maintaining the plant assets and improving productivity and energy efficiency. We expect to reduce specific energy consumption by 20 to 25 percent, while increasing productivity by around 5 percent. Successful conclusion of the second expansion phase of Nd-PBR capacities at our site in Orange, United States, also resulted indirectly in increased capacities for S-SBR in Port Jérôme. With an investment volume of €10 million, this project was completed in the third quarter of 2012. The expansion in Orange enables us to strengthen our focus on the production of S-SBR in Port Jérôme, thereby increasing total output at the French site.

As part of the successful integration of the elastomers business acquired from Royal DSM N.V. in 2011, we are making the site at Geleen, Netherlands, that we acquired with the transaction into the headquarters of our new Keltan Elastomers business unit and an innovation center within the global LANXESS network. A new administration building accommodating up to 120 employees was completed 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 aforementioned Keltan ACE technology.

In 2012, we made good progress with three major projects at the sites where our High Performance Elastomers business unit operates.

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 in the second half of 2013 and will increase production by 10 percent. The expansion work will also see the deployment of a new technology that will boost the energy efficiency of production by 20 percent.

In light of the considerable increase in global demand for our synthetic high-performance rubber Therban®, we expanded production capacities at our sites in Leverkusen, Germany, and Orange, United States, by 40 percent each. This investment was in the low-single-digit million euro range.

We also significantly expanded EVM capactities at our site in Dormagen, Germany, to meet the steady rise in demand for special elastomers. €9 million was invested to increase production by 30 percent to 15,000 tons each year.

The E.U. tire labeling regulation aims to ensure greater transparency for consumers and support their tire-buying decisions with a system similar to the one already used for domestic appliances. Classes range from A (best performance) to G (worst performance). The rolling resistance of category A tires is around 40 percent lower than that of category G tires, which translates into a fuel saving of around 10 percent.

Concept tires underscore innovative strength In 2012, we underscored our role as the innovation leader in the field of synthetic rubber by introducing a concept tire developed in-house on the basis of our synthetic rubber portfolio. This tire was one of the first to be awarded a double-A rating for fuel efficiency and wet grip in accordance with the new E.U. tire labeling regulation. Thanks to our expertise in assessing the impact of different grades of synthetic rubber on the running properties of tires, which we acquired during the development process, we will in future be able to offer materials that have been pre-evaluated in stringent tests. This represents real added value for our customers because it will enable them to shorten the time to market for new tires and strengthen their competitive position.

A tire with an A rating for wet grip takes around 20 meters less than one with an F rating to come to a standstill from a speed of around 80 kilometers per hour. Because their fuel consumption is 5 to 7 percent lower, green tires are one of the fuel-saving technologies in cars that amortize soonest. Moreover, they currently offer car drivers the highest potential for reducing CO_2 emissions per euro spent.

We are also demonstrating the benefits of green tires to the general public with a new fuel savings calculator that has been available free of charge as an app and on the Internet since September 2012. The software provides quick and simple answers to three important questions: 1. How much money can be saved by using high-quality fuel-efficient tires? 2. How long does it take to amortize their purchase? 3. How high is the reduction in a vehicle's CO_2 emissions? We developed the software in collaboration with the Technical University of Munich. It has been tested and certified by the TÜV Rheinland inspection agency.

For some years now, we have been fully committed to the development of sustainable technologies and processes for making synthetic rubber. In 2012, we once again made some significant progress in this respect.

At our site in Triunfo, Brazil, we started industrial-scale production of the world's first bio-based EPDM rubber, which we market under the name Keltan® Eco. This material is made of ethylene derived from sugar cane. In terms of quality, it is on a par with conventionally produced ethylene.

We are currently testing an environmentally friendly and resource-saving production process for butyl rubber in two pilot plants at our site in Zwijndrecht, Belgium. The manufacture of butyl rubber is highly complex and involves process steps at temperatures ranging from minus 95 to plus 200 degrees Celsius. We expect the technology introduced for the first time on an industrial scale in Zwijndrecht to result in tangible resource savings.

The housing for a passenger airbag module that we have developed as part of a joint advanced engineering project with several partners demonstrates that high-tech plastics offer an alternative not only to metals in automotive applications, but also to plastic structures made in the conventional way by injection molding. The use of plastic composites cuts the weight of the housing by over 30 percent compared with a current series-produced version made of polyamide 6.

Lightweight construction is also an interesting alternative under the hood. Made from polyamide 66, the new oil pan for turbo gasoline engines – including those in Audi's A3, A4 and A6 families and in the VW Passat – weighs around one kilogram less than the equivalent steel component. Compared with an aluminum variant, it weighs 50 percent less. As this weight saving is in the area of the front axle, there is also an improvement in driving dynamics.

Developed in cooperation with ZF Friedrichshafen AG, our brake pedal based on a plastic composite is around half the weight of conventional steel brake pedals but has the same mechanical load-bearing capacity. Weighing just 355 grams, this concept component is the world's first car brake pedal made of polyamide reinforced with continuous glass fibers that is suitable for large-scale series production. Production is scheduled to start at the end of 2013.

Lightweight construction innovations in 2012

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. In 2010, modern vehicles contained an average of around 14 kilograms of high-tech plastics. By 2017, this is likely to have increased to around 22 kilograms. There are good reasons for this. Plastics and fiber composites are easier to process than metal components. They also have outstanding mechanical properties and weigh up to 50 percent less than their metal counterparts.

By using our high-tech plastics, the automotive industry can therefore lower production costs, increase design freedom and improve vehicle safety in one single step. Other advantages include significant environmental benefits, because lighter cars consume less fuel, which also results in lower emissions. Our products can also play a key role in making electromobility a technology for the masses because every kilogram saved will increase the range of electric vehicles, which is still perceived by many consumers to be inadequate.

All our know-how relating to innovative and customized high-tech plastics is combined in the High Performance Materials business unit (formerly Semi-Crystalline Products). We offer far more than just the production and supply of materials. Our HiAnt® brand consolidates our engineering expertise to provide our customers and partners with the best possible support in developing innovative components. Our services range from material selection and complex simulation calculations to mold construction, part testing and assistance with the transition to series production.

In March 2012, a new Material Testing Center for HiAnt® solutions opened at our site in Dormagen, Germany. The state-of-the-art testing equipment installed there can be used to determine the material data for the most important load scenarios for thermoplastic materials, such as their fatigue, crash and creep properties. In December 2012, we also opened a development center for high-tech plastics in Hong Kong to strengthen our relations with automakers in the Asia-Pacific growth region. Driven by strong domestic demand and the growing purchasing power of an expanding middle class, China has now become the world's largest market for the automotive industry.

Our takeover of Bond-Laminates GmbH in Brilon, Germany, in September 2012 is also helping to enhance our expertise and thus strengthen our position as a premium supplier of lightweight construction technologies for green mobility. The company has around 80 employees and specializes in developing and manufacturing customized continuous fiber-based composite sheets, which are marketed under the name TEPEX®. Our successful cooperation with Bond-Laminates in projects for the automotive industry dates back to 2006.

Our HiAnt® solutions make us the preferred partner to many well-known companies in the automotive industry, including Audi, BMW and Mercedes-Benz. Our high-tech plastics are already used in more than 100 vehicle models worldwide. 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 5 percent through 2017. In Asia, and especially in China, growth rates are likely to be slightly higher.

We will adapt our capacities to this market growth with a total investment volume of €125 million through 2014.

Expansion of the global plastics production network The construction of a new world-scale plant for polyamide is an important part of our growth strategy and a significant commitment to our site in Antwerp, Belgium, as the central location for producing the key intermediates for our high-tech plastics. Costing around €75 million, the plant is designed for an annual capacity of around 90,000 tons and is scheduled to come on stream in the first quarter of 2014. Together with the nearby production facility for the key precursor caprolactam, we are thus creating a group of highly productive plants in Antwerp to supply our global network of compounding facilities with high-quality polyamide plastics. Our glass fiber production operations are also based in Antwerp and capacity is currently being expanded by 10 percent.

In addition, we continued expanding our global production network in the past fiscal year. We opened our first production facility for high-tech plastics in the United States in Gastonia, North Carolina, in September 2012. This site is located close to the "auto belt" in the southern United States. Many automakers – including a number of German companies – and automotive suppliers are located there. In the United States, the world's largest market for high-tech plastics, demand is being driven in particular by stricter fuel consumption standards for cars and light commercial vehicles. The plant, which cost around €15 million, has an initial annual capacity of 20,000 tons and created 45 new jobs. We are investing a similar amount in constructing a facility of comparable size in Porto Feliz, Brazil, which is scheduled for completion in mid-2013. This will reinforce development of the site as our production center for cutting-edge technologies in Latin America.

In light of growing global demand for polybutylene terephthalate (PBT), we doubled capacity at the compounding facility in Hamm-Uentrop, Germany, owned jointly with U.S. chemicals group DuPont. This project represented an investment of around €10 million.

Advanced Intermediates

The Advanced Intermediates segment comprises our businesses with basic and fine chemicals. The Advanced Industrial Intermediates business unit 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.

Another approach in green mobility is the manufacture of carbon-neutral fuels from renewable raw materials. These fuels can only be put to practical use if biodiesel stabilizers like Baynox® plus from LANXESS are added to prolong their shelf life.

Segment benefits from agriculture megatrend

The steadily growing global population is probably the key driver of the agriculture megatrend. According to the United Nations, it will rise to around 9.3 billion by 2050. The increasing number of people is also driving world demand for food. For example, the demand for cereals is expected to grow by 1.5 percent each year through 2025. Also, eating habits worldwide are changing and there is growing use of crops as alternative energy sources. 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 yields.

Advanced Industrial Intermediates expands aromatics network

The high-quality intermediate cresol is used in agrochemicals and in the manufacture of vitamin E, resins and flame retardants. We will be increasing production capacity at our Leverkusen site by around 20 percent through mid-2013. This investment of some €20 million is a further clear commitment to Germany as a production location and to our globally unique aromatics network.

Comprising a total of seven large-scale facilities, primarily at the Leverkusen site, this network is equipped with cutting-edge technologies that enable us to use, process or market almost all the aromatic compounds it produces. With its low waste levels, low transport requirements and high energy efficiency, the aromatics network is an outstanding example of sustainable chemical production.

In 2012 we were able to double our production capacities for synthetic menthol at the Krefeld-Uerdingen site as planned. Working together with a producer of fragrances and flavorings, we are one of the world's leading manufacturers of synthetic menthol and thymol. Our output is coordinated with this contractual partner and its processes. This capital investment project has also significantly improved process efficiency. For example, the expanded plant uses a highly efficient catalyst we developed ourselves. In connection with the expansion of production capacities, measures were also implemented that significantly reduce specific energy consumption.

Baynox®, the first biodiesel stabilizer to be approved by German oil companies, has already become a near-classic in our portfolio of green products. An effective antioxidant, it ensures that the biofuel obtained from natural raw materials remains stable and can therefore be used for longer. Baynox® Solution 50% is another innovation from the Baynox® product family that has been awarded "no-harm" certification from Arbeitsgemeinschaft Qualitätsmanagement Biodiesel e.V. (AGQM). This product meets the demand from countless biodiesel producers for a liquid stabilizer with a high active ingredient content that can also be metered easily.

Antioxidants also play a key role in protecting animal feed from spoiling. They prevent the unsaturated fatty acids in the feed from becoming rancid and thus also toxic or even carcinogenic. Since 2012, we have been marketing our proven antioxidant butylhydroxytoluene (BHT) as a feed additive under the new brand name Rovelox®. Certified to the internationally standardized FAMI-QS system, this product perfectly complements our preservative Rovelan®, which has already established us as a premium supplier to the animal feed industry.

Saltigo – customized premium quality

In 2012, our Saltigo business unit raised its strategic profile significantly by sharpening its focus on the agrochemical sector. In the pharmaceutical sector, Saltigo will be concentrating on the demanding late development phases, which is where the business unit's strengths in tailoring end-to-end solutions can be best applied.

With the start of the marketing campaign for the insecticide Saltidin® in Asia, Saltigo also continued its initiative to strengthen its market position for multi-customer products in the year under review. Given the tropical climate in many parts of Asia, the region offers excellent market opportunities for this premium product, which is highly rated by consumer organizations and has been recommended by the World Health Organization (WHO) as the substance of choice for malaria prophylaxis. Yet Saltidin® is not only of interest to the manufacturers of insecticides but also to the producers of cosmetics and pharmaceutical formulations who wish to give their products – such as sun creams – a valuable additional benefit. These customers can apply for a license to use the basic formula and, once registered, can produce and market the preparation under their own brand name.

For the second time, Saltigo has been honored by Syngenta, one of the world's leading manufacturers of seeds and crop protection agents. At the Syngenta Supplier Conference, the business unit received the Global Sourcing Award of Recognition 2012 in the "Partnership" category. Special mention was made of Saltigo's ability to produce new products quickly and efficiently and to continuously improve processes. Particular praise was given to the generally high product and service quality, future-focused approach and rapid response to unexpected changes in order volumes.

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.

Green mobility is not just about road vehicles. Innovative products from the LANXESS portfolio are also used in modern passenger aircraft. For example, our X-Lite technology makes it possible to produce particularly lightweight leather for the seats – with positive effects on fuel consumption and payload capacity.

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 the biggest producer and supplier 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 manufacture leather together with chrome chemical and chrome ore specialties worldwide. The Rhein Chemie business unit produces chemical specialties for the rubber, plastics and lubricant industries. Rubber Chemicals is among the world's main suppliers of high-quality rubber chemicals. In recent years, the Ion Exchange Resins business unit has become a provider of end-to-end solutions for water treatment.

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

Portfolio expansion in response to 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 2011, Rhein Chemie gained access to a further business area: 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. Growth prospects in this business are driven above all by the trend among an increasing number of tire manufacturers to outsource the production of vulcanization bladders to specialists.

We have now made the strategically important move into the manufacture of vulcanization bladders for the tires of trucks, agricultural vehicles and construction machinery with the takeover of Tire Curing Bladders, LLC (TCB) in the United States. Based in Little Rock, Arkansas, TCB is one of the world's leading vulcanization bladder manufacturers with an annual capacity of more than 400,000 bladders. The company primarily serves the North American market. This acquisition further expands Rhein Chemie's market position as a manufacturer of high-quality vulcanization bladders.

In line with our dual-track growth strategy, we are also facilitating the organic expansion of this business. The plant we have built at our Brazilian site in Porto Feliz at a cost of around €10 million will start manufacturing high-performance vulcanization bladders in the second quarter of 2013. And we increased our production capacities at the Burzaco site in Argentina by 40 percent in the year under review.

Construction work at LANXESS's first production plant on Russian soil is also proceeding to schedule. Starting in the first half of 2013, Rhein Chemie will use the new production facility in Lipetsk to manufacture rubber additives and release agents above all to serve the automotive and tire industries in Russia and the other CIS countries. The total investment for the project amounts to approximately €5 million.

The systematic expansion of Rhein Chemie's portfolio with innovative solutions has also been recognized by international experts from the tire industry, the automotive sector and the scientific community. At the Tire Technology Expo – one of the world's most important events for tire technologies – the business unit was named "Tire Industry Supplier of the Year."

Rhein Chemie also won first prize in the Responsible Care 2012 competition organized by the German Chemical Industry Association (VCI) for an innovative process to recover the key raw material phenol from mixed wastewater streams generated during the manufacture of a plastics additive. The solution developed by a team of laboratory, production and applications technology experts enables us to reduce the amount of phenol disposed of by around 150 tons each year and the volume of hazardous liquid waste by an even larger amount.

Our Rubber Chemicals business unit also embarked on some innovative product developments in 2012. As part of the work to develop the rubber additive Vulkalink®, which improves the rolling resistance of green tires, selected global tire manufacturers have been given a first-time opportunity to subject what we consider to be the four most promising laboratory substances to rigorous testing and provide detailed assessments at a very early stage. This novel form of cooperation in the industry represents a classic win-win situation. We gain a good idea of the market appeal and likely success of Vulkalink® early on, which significantly reduces the time to market. And our customers have the opportunity to contribute their specific product requirements in subsequent stages of the development process. In the second quarter of 2013, we will be providing our customers with a variant of Vulkalink® optimized in line with their requirements for further testing.

Broad range of services for urbanization megatrend

With urbanization continuing unabated, the United Nations estimates that just under 70 percent of the world's population will live in cities by 2050, compared to "only" just over 50 percent today. The urbanization trend is most evident in emerging and developing countries. It is predicted that eleven new megacities – cities with more than 10 million inhabitants – will develop in China and India alone before the end of this decade. Our products are used in a large number of customer industries that are benefiting from increasing urbanization.

The inorganic pigments supplied by our Inorganic Pigments business unit do more than just create color accents. Iron oxides from the Bayoxide® line, for example, are an important component in state-of-the-art lithium-ion batteries for electric vehicles.

Pigments for greener living

The demand for sustainable transport concepts is especially high in the steadily growing urban conurbations. Electric cars have the potential to master the balancing act between high individual mobility and sustainability. However, consumer acceptance can only be achieved if the total costs of electric mobility are reasonable – and the service life and range of the batteries used play a vital role in this respect.

The Bayoxide® product range marketed by our Inorganic Pigments business unit includes several iron oxides for manufacturing the cathodes used in state-of-the-art lithium-ion batteries. Our latest development is the engineered iron oxide Bayoxide® E B 90. It enables manufacturers to produce high-performance batteries for electric cars that can significantly reduce CO_2 emissions per kilometer driven. According to estimates, the global market volume for batteries for electromobility could grow to around €20 billion by 2020. As one of the world's leading manufacturers of iron oxide pigments, we have the capacities to reliably serve this growing demand.

Inorganic Pigments is also playing a pioneering role in developing environmentally compatible pigment manufacturing processes.

With the construction of a new facility at Ningbo in Zhejiang province in eastern China, we significantly expanded our range of light-colored Bayferrox® iron oxide red pigments, which are used especially by the coatings industry. Designed to meet the latest environmental standards, the facility will initially have an annual capacity of 25,000 metric tons. Construction is scheduled to start in the second quarter of 2013 and start-up is planned in the first quarter of 2015. The facility will use the Penniman process that has been optimized by LANXESS and is characterized by its particularly high energy efficiency. Optimized water treatment and waste gas cleaning will ensure the high environmental compatibility of the new facility. Our €55 million investment will create around 150 new jobs.

We have also invested €1.6 million in modernizing and expanding the water treatment unit at the world's largest facility for the production of iron oxide and chrome oxide pigments in Krefeld-Uerdingen. Wastewater streams generated during production are treated using the sustainable boiling process to recover iron oxide pigments from the process water. Not only is the process water we return to the Rhine far cleaner than when we originally removed it, we also simultaneously improve our pigment yield. At the same time, the capacity for synthesizing Bayferrox® black and red pigments has been increased.

Flame retardants for improved safety

Another way in which we are responding to the urbanization megatrend is with products from our Functional Chemicals business unit, including a wide range of flame retardants for the polyurethane industry. For example, our Levagard® flame retardants combine the unrivaled heat-insulating properties of rigid polyurethane foams with the ability to comply with increasingly stringent fire safety requirements. Coating polyurethane insulating panels with Bayfomox® in a single production operation gives them not one but three vital properties that previously required several separate work steps – good thermal insulation, a high level of fire resistance and excellent soundproofing. LANXESS products can often be found in the floors, walls and roofs of energy-efficient buildings that meet high safety standards.

Water megatrend offers excellent growth potential

Usable water is one of the most valuable of all raw materials. Even in areas where it is available in sufficient quantities, water often cannot be used due to high levels of contamination. State-of-the-art industrial processes like those used to generate electricity cannot be implemented safely and economically without ultra pure water. Population growth, environmental pollution and climate change will greatly exacerbate the supply situation in the decades ahead. Studies suggest that the demand for clean water in 2030 will exceed current supply levels by around 40 percent. For this reason, water treatment products are steadily gaining significance – and with them the activities of our Ion Exchange Resins business unit.

Successful introduction of membrane filtration elements

When we commissioned a production plant for reverse osmosis membrane technology at the Bitterfeld site in 2011, we became an end-to-end supplier for water treatment. Complementing our proven Lewatit® ion exchange resins, the Lewabrane® membrane elements produced there make it possible to remove even minute particles from water, along with other undesirable substances such as nitrates, pesticides, viruses and bacteria. At present, our products are mainly used to purify brackish water, a process that is needed in many industrial applications including the treatment of circulating water and steam in power stations and the production of ultra pure water for the microelectronics industry. The membrane elements are manufactured using state-of-the-art technology, which we developed and implemented in part ourselves together with the Fraunhofer Institute for Factory Operation and Automation (IFF) in Magdeburg.

The market launch of our Lewabrane® membrane elements was a key event in 2012. The global membrane market is currently estimated to have a volume of around €1 billion, and this figure is set to rise further still. At present, we offer our customers seven universally applicable element types with features such as a very high rejection capacity or a high flow rate. We will systematically add new products to our portfolio. In future, the membrane elements will also be used to produce drinking water from brackish water or seawater. We expect to obtain the relevant authorization in the course of 2013. Our portfolio for industrial water treatment is complemented by our new LewaPlus™ design software for effective support in planning complete water treatment systems incorporating our ion exchange resins and membrane elements.

With its ion exchange resins and membrane filtration elements, our Ion Exchange Resins business unit is a major end-to-end supplier of water treatment products – a market characterized by dynamic growth worldwide.

Further measures in the international production network

Two major investment projects in our Leather business unit are paving the way for its future growth in the BRICS states in particular.

China is the world's largest market for leather chemicals. A new facility in Changzhou in Jiangsu province is scheduled to start producing premium leather chemicals such as Tanigan®, Isoderm®, Euderm® and Levotan® in the first half of 2013. Equipped with cutting-edge technologies, this facility will have an annual capacity of up to 50,000 tons. We are also placing particular emphasis on the use of environmentally friendly processes at the facility. For example, it is designed to minimize wastewater and will be powered in part by renewable energy from geothermal sources and solar cells. Our €30 million investment will create around 100 new jobs.

At our South African site in Newcastle, we are investing €40 million in the construction of a treatment plant for highly concentrated CO_2 at our state-of-the-art production facility for sodium dichromate, which is used to manufacture, for example, products such as chrome tanning agents for the global leather industry. Work began in the first quarter of 2012 and start-up is scheduled for the second half of 2013. This investment means we will no longer need to rely on the supply capability of the external vendors who currently still provide us with CO_2. As well as optimizing the facility's capacity utilization, this project also lays the foundation for future production expansions. By capturing the waste air from steam generation at the facility and using it to cover our CO_2 requirements, we will be able to reduce the site's CO_2 emissions by around a quarter, despite the higher capacity utilization.

Our Functional Chemicals business unit has increased the capacity of its production network for phosphorus chemicals at the Leverkusen site by 10 percent. One of the largest of its kind in the world, this network ensures efficient production, global availability and high delivery reliability. Our investment of around €5 million has also enabled us to improve the logistics concepts for filling operations, which has resulted in greater flexibility.

Green chemistry in many facets

Our Material Protection Products business unit has identified an important new potential application for its proven product Velcorin®. Midway through 2012, the European Union approved the use of Velcorin® in wines with a sugar content of less than five grams per liter, which means it can now also be used in classic dry wines. Velcorin® protects wine from contamination with microorganisms during production and thus prevents spoilage – without affecting the wine's sensory properties, aroma or color. Velcorin® has been successfully used as an

Our Leather business unit is one of the most innovative suppliers of leather chemicals in the market. Two major investment projects in China and South Africa are now paving the way for the business unit's future growth.

oenological process in a wide range of applications in the New World wine-growing countries outside the European Union for many years. Other important applications include fruit juice beverages, iced tea, flavored water and isotonic sports drinks.

As one of the few renewable energy sources that can be stored, biogas has a key role to play in the energy transition. In its unpurified form, however, it contains toxic, strong-smelling and corrosive hydrogen sulfide. The highly effective synthetic iron oxide Bayoxide® E 16 marketed by Inorganic Pigments is a cost-efficient and sustainable alternative for desulfurizing biogas. Iron oxide is neither a hazardous material nor a water contaminant, and it can be handled using simple equipment and without expensive metering systems. Moreover, it does not cause any corrosion damage to the plant. Bayoxide® E 16 removes hydrogen sulfide in the fermentation reactor so effectively that the resulting biogas in most cases can be used directly. The desulfurization residues – iron sulfide and sulfur – are substances that occur naturally in soil and can be combined with the fermentation residue to use as fertilizers.

We have taken our strategic partnership with BioAmber Inc. in the United States to the next level by acquiring a 3.4 percent minority interest. BioAmber is currently building a facility to produce succinic acid from renewable raw materials in Sarnia, Canada. The fermentation process used to produce the acid requires less energy, is more cost-effective and emits less CO_2 than the conventional process using fossil raw materials. As part of our commitment to green chemistry, the Functional Chemicals business unit has developed a range of new phthalate-free plasticizers based on BioAmber's succinic acid that is produced from the waste from agriculture and sugar cane production. Four test products distributed to more than 200 customers in various industries in 2012 met with great interest and generated a large number of specific customer projects. We expect to be able to market our new plasticizer in commercial quantities soon after completion of the Sarnia facility.

As part of its pioneering Sustainable Leather Management initiative, our Leather business unit has made significant progress with the new broad-spectrum fungicide Preventol® U-Tec G. Even low doses of this product reliably preserve leather tanned using our new X-Tan® technology. The organically tanned hides and skins, known as X-Whites, can therefore be stored much longer than before without being damaged by harmful microorganisms – especially mold. Entirely in keeping with the philosophy of Sustainable Leather Management, Preventol® U-Tec G is readily biodegradable in wastewater treatment plants.


CCD-System
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Stringent testing

Karl-Josef Stühler, Head of Rheology at the LANXESS Technical Service Center in Leverkusen, prepares a rubber test strip. He was involved in developing the tear analyzer, which is used to test the tensile strength of rubber samples. This apparatus is now in use around the world.

We apply more than 400 different methods, including mechanical, dynamic mechanical and extremal tests, to evaluate our rubber products and their properties. Our testing facilities in Germany, the Netherlands, China and Canada produced around 11,000 rubber compounds in 2012, each of which was extensively tested. Our physicists and chemists are also working systematically to optimize existing tests and develop new methods.

Our customers benefit particularly from our considerable testing expertise. This year, we introduced a concept tire we developed in-house on the basis of our synthetic rubbers. This tire was one of the first to be awarded a double-A rating for fuel efficiency and wet grip in accordance with the new E.U. tire labeling regulation. Thanks to our expertise in assessing the impact of different grades of synthetic rubber on the running properties of tires, which we acquired during the development process, we will in future be able to offer materials that have been pre-evaluated in stringent tests. This represents real added value for our customers because it will enable them to shorten the time to market for new tires and strengthen their competitive position.

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, which is also a key component of our strategy. Safety, environmental protection, social responsibility, quality and commercial efficiency are all key corporate goals at LANXESS.

Integrated 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 responsible commercial practices. 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 the different management systems in place around the world – each with their own documentation, guidelines and audit certificates – into a single management system for all sites, thus creating the basis for considerably more efficient management structures and workflows. External, independent experts regularly audit the progress of system integration at new sites and the performance of our management system worldwide. Confirmation of our compliance with ISO 9001 and ISO 14001 takes the form of a global matrix certificate. In 2012, we successfully completed the recertification audit, which must take place every three years.

As of April 28, 2012, our matrix certificate covered 41 companies with 79 sites in 22 countries. At the end of 2012, the site we acquired from DSM in Geleen, Netherlands, our facilities in Liyang, China, the headquarters of the Butyl Rubber business unit in Singapore and the sites assigned to Rhein Chemie that were acquired from Darmex in Burzaco and Merlo, Argentina, and Colonia, Uruguay, were included in the certificate, thus making it one of the most comprehensive industrial certificates in the world. For our sites in the United States, we also received certification to RC14001 (RC = Responsible Care®). In 2013, we plan to integrate our new butyl rubber facility in Singapore, our production sites in Greensboro, Gastonia and Neville Island in the United States and the site acquired from DSM in Triunfo, Brazil, into the matrix certificate.

HSEQ (health, safety, environmental protection and quality) management is an important part of our integrated management system. We have aligned our HSEQ management 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.

Clearly defined responsibilities

We have established various committees to ensure compliance with and the ongoing development of our CR strategy and the rules and standards defined in our management systems.

The CR Committee, which is made up of representatives from several group functions, is responsible for developing our CR strategy and ensures that all LANXESS's CR activities are in line with this strategy. In its capacity as an interdisciplinary competence center, it advises both the Board of Management and the business units on all matters relating to sustainability. It is also responsible for collecting and maintaining reliable data that comply with current market standards for use in our external CR communications.

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, environmental and climate 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.

The Compliance Committee, which is made up of representatives from a range of specialist backgrounds, 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.

Comprehensive values system established

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.

Compliance LANXESS considers compliance with laws and ethical principles to be the basis for sustainable corporate governance. Our employees' integrity and awareness of their responsibilities are key factors in the success of our company. The "Code for Legal Compliance and Corporate Responsibility at LANXESS," which is applicable throughout the Group, specifies minimum standards and gives our employees advice and guidance on complying with these standards.

As a global enterprise, we are committed in all our markets to promoting respect for human rights at all times and preventing child and forced labor. Our code also covers issues such as anti-competitive behavior, anti-corruption, data protection, occupational, product and plant safety and environmental protection. To take sufficient account of the individual circumstances – particularly with respect to legislation – in specific countries or business areas, there are also many specific guidelines on the aforementioned issues. All globally applicable LANXESS directives and guidelines are contained in a system that is accessible to every employee. Our Compliance Code can also be found in the "Values & Visions" section of the "About LANXESS" menu on our website at www.lanxess.com.

"The company respects applicable law and requires its employees and business partners to do likewise." This is the key statement of our Compliance Code and expresses our basic guiding principle – that each of our decisions and activities must satisfy this premise, irrespective of the aims we are pursuing or the conditions we face.

In the first instance, we define applicable law as any applicable international or national legislation in the jurisdictions in which LANXESS operates. Moreover, human rights and ethical principles are considered to take precedence in all cases, even if they are not stipulated in the applicable legislation. In this context, we have also signed the U.N. Global Compact, and recognize the principles it sets forth as inalienable rights. We consider the stated principle of legality and ethical behavior to be more than just compliance issues. Instead, we see them as inextricable aspects of our corporate responsibility and sustainability culture.

We have established a Compliance Management System to implement our clear commitment to compliance in our daily business activities. This system supports and guides decision-makers and other company employees in their actions. In this way, we eliminate any potential uncertainties relating to our compliance principles. These range from basic questions such as the extent to which all laws must be obeyed in countries where the rule of law is limited, to specific questions such as whether issuing invitations to business partners can be considered to be corruption.

Compliance Management System The LANXESS Compliance Management System (CMS) is described in our CMS statutes and was externally audited by Deloitte & Touche GmbH in 2012. The global audit covered the largest possible scope (design, suitability and effectiveness). It was not limited to defined risks but focused on the ten main compliance risks identified in the course of our analysis. The audit was completed without observation – i.e. no significant weakness was identified – and with an unqualified audit opinion.

The CMS principles we apply are based on a comprehensive framework for company-wide risk management (COSO II). The basic elements of our CMS include:

- Compliance culture
- Compliance objectives
- Compliance risks (identification, evaluation and measures)
- Compliance program
- Compliance organization
- Compliance communication
- Compliance monitoring and improvement

At the top, our compliance culture is shaped by the responsibility and commitment of our Board of Management and Supervisory Board. If it is to permeate the entire company, the process of living and communicating our compliance culture must also be an essential aspect of the leadership role at every subsequent decision-making level. At LANXESS, responsibility for compliance and for business activities go hand in hand.

Our compliance objective is to avoid any violations. It is based on the principle outlined above that compliance represents the fundamental condition for every decision and action taken by our company.

Compliance risks are regularly analyzed by the Compliance Committee and presented to the Board of Management for discussion. They are evaluated according to the likelihood of occurrence and damage potential. Risk exposure is analyzed both for business areas and countries, and Risk Officers are appointed accordingly. Wherever possible, early-warning indicators and monitoring instruments are defined and countermeasures initiated to reduce the risks identified.

The principal risk exposures we have identified relate to antitrust law (horizontal), competition law (vertical), anti-corruption, export control, environmental and safety regulations, data protection, product liability, insider trading, discrimination, accounting law and – being closely related to compliance – fraud (against the company).

Our compliance program includes all of the "classical" CMS elements, such as issuing a compliance code and specific guidelines and work instructions, and establishing guidance systems, information and training. We ensure compliance in the broader sense by clearly assigning responsibilities within our structural and process organizations, and by implementing a functioning internal control system and suitable auditing and monitoring activities.

The compliance organization includes a global Compliance Committee, a global Compliance Officer drawn from this body and local compliance officers and/or committees in every country where a LANXESS company operates. Various group functions also assume support and/or monitoring roles in the compliance system, for example Legal, HSE and Internal Auditing in particular. The responsibility for ensuring legally compliant behavior, however, always rests with the respective decision-maker. We therefore view compliance primarily as a key leadership task within the company.

Our compliance communication involves both top-down and bottom-up processes in equal measure. Information events and training courses enable our employees to fulfill their tasks correctly and in compliance with the law. Our communication activities include the "Compliance" section on the LANXESS intranet, coupled with e-learning programs. From a bottom-up point of view, compliance issues and problems are reported to local compliance officers and on to the central Compliance Committee. The global Compliance Officer reports significant developments, findings and measures to the Board of Management and the Audit Committee of the Supervisory Board on a regular basis. There is an obligation to report ad hoc to the Board of Management and the Supervisory Board in the event of wide-reaching compliance violations. However, there has been no need to do so as yet.

Compliance monitoring is performed by means of general audits and dedicated audit programs conducted by Internal Auditing and a central HSE department. Since Internal Auditing is itself part of the CMS framework, we have this organizational unit regularly audited by independent third parties. The status of compliance at LANXESS is also subject to regular review by the auditor of the financial statements.

Global Compact We are committed to the established principles of the world's largest corporate social responsibility initiative, the U.N. Global Compact. Since we signed up in 2011, we have continued to raise our sustainability profile. You can find more information about the Global Compact at www.unglobalcompact.org.

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.

The Most Important CR Issues Perceived by the Stakeholder Groups Surveyed

Capital market	Customers	Employees	NGOs	Politics	Suppliers
• Transparency • Sustainability in the supply chain	• Supply chain transparency • CR strategy	• Diversity • Health and safety • Work-life balance • Sustainability in the supply chain	• Environmental protection	• Renewable energy sources • Social standards in the supply chain	• Sustainability in the supply chain

Responsible Care® 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. We have supported this initiative since 2006, when we 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. Our corporate directives ensure that the principles of the charter are integrated into our management principles and corporate strategy.

We also expect our suppliers to commit to our values and rules, especially the Global Compact, and establish adequate systems to ensure legally compliant behavior and carry ethical behavior throughout their organizations. We published our new "Supplier Code of Conduct" at the beginning of 2012, and this has been part of our communication with suppliers since then.

Additionally, in the course of acquisitions, we make it a principle of our due diligence processes to ensure that human rights are also respected by the target company.

Stakeholder dialogue expanded significantly

In 2012, we implemented a variety of projects and events to develop a more active dialogue with key stakeholders on issues that are or may become relevant to our company and our economic success.

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 a justified interest in our activities. The primary purpose of our dialogue with customers, employees, suppliers, capital market participants, the media, neighbors of our sites, and representatives of politics, public authorities and NGOs is 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.

Second stakeholder survey yields positive results

Following our first stakeholder survey in 2010, a second survey was carried out in the reporting year. Around 80 key stakeholders in Germany and other European countries told us in writing or in telephone interviews how they perceive LANXESS's sustainability activities and which issues they consider to be particularly important. The most heavily represented stakeholder groups were employees, customers, representatives of politics and capital market participants. However, we also included representatives of NGOs and our suppliers in the survey.

Compared to the first survey, the perception of LANXESS has once again improved. In terms of our general CR strategy and activities, our stakeholders feel that we are well-positioned compared to the relevant competitors. In particular, our performance in developing innovative products for green mobility and communicating our sustainable activities was rated very highly. However, our stakeholders were also unanimous in the opinion that we could improve the transparency of sustainability in our supply chain. The most concrete suggestions for improvement related to working conditions and environmental protection, spread over a number of individual aspects.

Based on the results and suggestions from the survey, we will focus our future activities more on those areas our stakeholders consider to be particularly relevant. As a next step, we will also develop a materiality matrix. In compiling the content of this annual report, we also considered the information needs of our stakeholders, significantly expanding reporting on aspects of our supply chain (see page 117) and on diversity (see page 45ff.), for example. The next stakeholder survey is planned for 2014.

Customer satisfaction as a success factor

In markets with a high level of competitive pressure such as the chemical industry, customer satisfaction and customer loyalty are among the most important success factors. Every kind of feedback is therefore important and helps us to better assess our customers' requirements and priorities and take appropriate measures when necessary. In line with a Group-wide guideline, we conduct customer surveys every two years. These provide us with vital information about the loyalty of our customers, their expectations and how they perceive our services compared to those of our competitors. Our aim for the next survey in 2013 is to significantly increase the number of customers contacted.

We apply the principle of one voice to the customer in responding to inquiries about our products, for example about specifications, certificates or hazardous substances. Our goal is that every customer has a regular contact person, if possible in the business unit responsible. We see customer complaints as both a challenge and an opportunity in equal measure. Our customer complaint management is responsible for resolving customer dissatisfaction quickly and competently, so as to establish a sustained bond between the customer and us. We have also established a Group-wide guideline for this purpose. The aim of every corrective action is to prevent or at least minimize comparable errors and the associated costs in the future. We therefore consider it vitally important that every complaint is documented appropriately.

As a supplier, we also have to submit to regular audits performed by our customers in the context of their management systems.

Establishment of a high-performance network

We are very aware that no single organization alone – company, government, research institute or NGO – will be able to master the major social challenges of our time. Alongside the many CR activities of our own, we are therefore participating increasingly in establishing powerful global networks where we combine our competence in sustainable development with the expertise of other partners. As well as state institutions, NGOs in particular – with their extensive expert knowledge of specific issues – have a crucial role to play. Our Green Mobility initiative is a prime example of successful networking that benefits several participants and is totally in keeping with our philosophy of "Good for business, good for society."

For example, the Mobility Days we held in 2012 created an interdisciplinary, global platform for discussing current green mobility issues and trends with experts from business, science and associations. Our event includes a conference featuring high-profile speakers from science and industry and also provides the opportunity to break out into smaller groups for panel discussions and papers on specific mobility issues. During the reporting period, Mobility Days were held in China, the United States, Europe and South Africa. We also continued our successful series of Rubber Days in Rio de Janeiro, Brazil, where we focused on high-performance rubber for green mobility.

We held our first stakeholder dialogue on education in November 2012, focusing on "New frontiers of learning." Representatives from educational establishments, foundations, business, media and politics came together in Leverkusen to generate ideas for developing the educational landscape in the areas of mathematics, IT, science and technology in North Rhine-Westphalia and beyond. We plan to continue this debate, which was seen as very constructive by the participants, with another round table in 2013.

More often, too, we are seeking dialogue with our stakeholders at high-profile external events. For example, Chairman of the LANXESS Board of Management Axel C. Heitmann was a keynote speaker at the eMobility Summit 2012. In the presence of the German Federal Minister of Transport, he highlighted the central role of the chemical industry in the mobility of the future. In collaboration with tire manufacturer Continental, we brought together participants from various sectors of industry for a series of events entitled "Responsibility for the future." These provided a forum for exchanging practical experiences about successful strategies, new processes and cutting-edge technologies.

We also conduct an open dialogue with government representatives and with authorities on local, European and international level. The focus is on an active exchange of ideas on strategic corporate issues such as environmentally friendly product and process innovations, developments on raw material and energy markets and issues relating to the labor market and education policy. We maintain offices in Berlin and Brussels that place us close to the center of political decision-making. A member of our executive management also represents the issue of sustainability in the German parliamentary advisory committee on growth, prosperity and quality of life.

Employees

Innovative and Stringently Applied HR Strategies Support our Sustainable Growth

Leadership & Qualification	• Global leadership concept emphasizes behavioral change • Extensive investment in qualification, special focus on global sales force
Demographic Management	• Comprehensive demography programs to enhance productivity • Workforce planning aligned with demographic data and succession plan
Employee & Labor Relations	• Employee turnover in volatile BRIC countries below sector average • Reliable and stable labor relations in countries with strong union traditions
Compensation	• Performance-based and flexible compensation schemes • Employee stock plan in Germany with over 70% participation over years

Our entrepreneurial success is based to a very large extent on the performance, innovative strength and commitment of our employees. Only through focused and sustainable employee training and development can we ensure that we achieve our corporate goals and safeguard LANXESS's competitiveness in the long term. Against this backdrop, integrated, global HR work is increasingly becoming a significant strategic factor.

Our HR strategy defines four central areas of activity, within which we have developed and implemented a range of innovative tools.

By actively promoting social responsibility, providing attractive jobs in an international environment, offering performance-based market-rate compensation and promoting a culture that inspires diversity, leadership and trust, we give our employees access to remarkable career development opportunities, also outside their home countries.

In fiscal 2012, several national and international awards confirmed the success of this strategy. In Germany, LANXESS was awarded the Cologne Chemistry Prize 2012 for exemplary and sustainable HR work. This prize is awarded annually by the VAA (Association of Academic and Managerial Employees in the German Chemical Industry). The judges' decision was based on an annual satisfaction survey of 6,000 managers in 25 chemical and pharmaceutical companies. This year we ranked among the top three for the first time.

In China, the CRF Institute named us China's Top Employer for the third time, after honoring us in 2009 and 2011. A total of 300 leading companies took part in the competition. We were one of 36 companies judged as outstanding in the remuneration, training and development, career development, working conditions and corporate culture categories. In Mexico, the global Great Place to Work® Institute rated us as one of the 100 best multinationals and major local employers in the country.

Our successful growth policy, evidenced by our admission to Germany's lead index, the DAX, was once again linked with an increase in the workforce in all key target markets in fiscal 2012. A total of 1,442 new employees joined the LANXESS Group worldwide in this period. At our companies in Germany, we hired 345 new employees across all age groups. Our main focus was on specialists in the areas of production and technology, especially engineers and chemists.

New Employees by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific	
Age group	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**
< 20		2	1			1		3		
20–29	24	76	31	96	10	34	34	47	64	167
30–39	33	59	24	82	12	39	19	61	43	156
40–49	10	28	14	57	10	25	5	22	15	30
50–59	3	11	4	35	5	19	1	12	2	7
≥ 60	1	2		1		3		2		
Total	**71**	**178**	**74**	**271**	**37**	**121**	**59**	**147**	**124**	**360**

Recruiting talent worldwide

As part of our sustainable corporate policy and against the backdrop of increasing international competition for talents, 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 minds and 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 shaped by challenging tasks and encourages employees to assume responsibility in an international context at an early stage. This gives our employees unique development opportunities, as reflected in our low turnover. In Germany, the turnover resulting from voluntary resignations was below 1 percent in the reporting period. Globally, it was around 4 percent.

Turnover %

	Germany		Rest of the World	
Age group	**Female**	**Male**	**Female**	**Male**
< 20	0.0	0.0	0.0	0.0
20–29	2.3	2.6	8.2	6.6
30–39	1.5	1.1	7.4	5.1
40–49	0.5	0.6	3.7	2.5
50–59	0.3	0.1	1.7	1.3
≥ 60	0.0	1.3	2.3	8.7
Total	**0.8**	**0.6**	**5.6**	**3.8**

In fiscal 2012, we continued to seek direct contact with talented university and school students through our presence at a large number of career fairs, university events and scientific conferences and by organizing our own events. We also cooperated with university career centers and funded a range of scholarships as part of the German government's "Germany Scholarship" program. Through this, LANXESS supported more than 50 students at eight renowned universities in 2012, including students at RWTH Aachen University, TU Dortmund University and the University of Cologne. The scholarship holders receive a monthly payment of €300. The company pays €150 of this amount and the remaining half is shared equally by the German government and the state of North Rhine-Westphalia. In addition, we offer our scholarship holders individual guidance.

Every year, almost 200 students work on their theses with us in Germany alone. Here, we actively seek collaboration with universities and colleges. We are also increasing our support for scientific conferences and congresses such as those organized by the Max Planck Society PhD Student Network and the Society of Chinese Chemists and Chemical Engineers in Germany.

Furthermore, we are extending our cooperation with student initiatives. At the invitation of the Bonding student initiative at RWTH Aachen University, we were one of the companies to showcase its projects and career opportunities as part of a special event on sustainability.

In Brazil, we offer an internship program with a special part-time contract to students in the concluding stages of their degree programs. They are given responsibility for a project of their own, the results of which will later be presented to top management. This attractive offering targets the best of a year group, enabling us to attract local young talents who bring new expertise to the company. We also offer a similar internship program in India, which is supplemented by a mentoring program.

In China, we have expanded our partnership with the Changzhou Institute of Engineering Technology. By means of a "LANXESS class," we share practical and scientific expertise with the university, providing the students with an early insight into the working world through internships and thus arousing their interest in working for LANXESS. In Pittsburgh, United States, we continue to 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.

In addition, we are continuously expanding our cooperation with selected schools – including elementary schools – around the world. In this way, we give teachers, children, faculty and students the opportunity to discover more about the many fascinating functions in process engineering, chemical research and central administration that we can offer on account of our product 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 other focal points of LANXESS's extensive education initiative, which we continued to extend in fiscal 2012. 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. Particularly highly 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. The most recent intake of fellows has been active in schools in North Rhine-Westphalia since 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 and personal coaching for fellows.

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 provide direct support for projects in the schools in their free time. This commitment was also continued in 2012.

Structured development of 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 2012, our marketing, controlling, finance, human resources and engineering programs were complemented by a new information technology program. Since the initiative started, we have offered a wide range of entry-level positions to 63 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. We continued this program in 2012, with a special focus on trainee positions in finance and technical production.

In India, we have implemented two trainee programs – an 18-month management trainee program in which we develop exceptional talents for leadership functions, and a shorter project trainee program for young graduates.

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, leadership skills and further career path of management staff worldwide on a regular basis. The results of these reviews form the basis for detailed feedback discussions between managerial staff and their supervisors. 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 individual development options, including personal coaching and 360-degree feedback. We extended the range of special modular and multidimensional programs available at the LANXESS Academy. Designed specifically to prepare trainee managers for their future tasks, these programs proved to be a very successful component of our structured management training. During the reporting period, 331 employees – 68 of them women – took part in the programs.

Training and development are significant aspects of personnel development at all levels. Alongside formal training sessions and seminars, which amount to 10,000 hours a year in France, for example, there are many informal training courses such as orientation days, peer-to-peer coaching and continuous knowledge-sharing events linking young and experienced employees.

The LANXESS Summer Academy, which takes place once a year near our company headquarters, encourages training, networking and personal development across the boundaries of our business units and group functions by means of presentations, seminars and a varied supporting program. The Academy is aimed at employees from various backgrounds – from business professionals to chemists and engineers. After the very positive feedback of the previous years, we again increased the number of participants in 2012. 130 employees took part in the one-week program, which included eleven seminars on improving hard and soft skills and an intensive exchange of experiences.

Under the umbrella of the LANXESS Academy, we continued offering functional training for our global sales teams in 2012. The International LANXESS Sales Academy (ILSA) is a one-year modular program designed 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 the targeted qualification of our global sales employees to be a significant success factor in the further improvement of our customer relationships. It also gives us a competitive edge in today's global markets. 200 first-level sales employees from all over the world took part in the program in the first two years.

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 the year under review, it concentrated particularly on green mobility – which was our focus for 2012 – and the Board of Management's Diversity & Inclusion initiative.

Positive results from our employee survey In 2012, we conducted our first employee survey in Germany in collaboration with the renowned Great Place to Work® Institute. 1,050 employees were asked to evaluate the strengths and weaknesses of their current work environment at LANXESS. The aim of the survey was to acquire in-depth information that we can use to improve our appeal as an employer and further enhance our motivating and performance-oriented workplace culture.

An overwhelming majority – 75 percent of those questioned – expressed a firmly positive opinion of LANXESS, fundamentally describing the company as a very good employer. The high degree of loyalty and identification with the job, great willingness to recommend the products manufactured, the fair and positive treatment of employees in a discrimination-free environment, the high level of occupational safety and LANXESS's profit-sharing model were cited as outstanding strengths. Of course, weaknesses and development potential were also identified. For example, our employees would like stronger leadership in their day-to-day work, more intensive communication of targets and expectations, greater transparency regarding individual career opportunities and more support in achieving a work-life balance.

Based on these findings, we initiated a comprehensive discussion process in each business unit and group function during the reporting year. The results of this process will help us to work together in further improving our workplace culture by means of selected measures.

Development opportunities and diversity for international markets

Our global alignment is a key strategic advantage. LANXESS currently employs people from 69 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 international 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 2012, we reviewed the LANXESS International Assignment Policy for its currentness and market conformity. To this end, we conducted four benchmarks with more than 470 companies in various industries.

One result is that we intend to give greater consideration to family circumstances in the future – not only with respect to dual career situations but also to family issues in general. LANXESS is one of the few companies to provide a dual career allowance to compensate some of the loss of income caused when a partner gives up work to accompany one of our employees on an international assignment. In addition, we support the accompanying partner's professional development.

In 2012, we also started to link expatriate management more closely with career management, making international assignments a key component of our systematic personnel development and encouraging talent mobility. Therefore, all expatriate positions at LANXESS have been advertised globally since mid-2012. This gives all our employees the same opportunity to apply for an international assignment and embark on an international career.

Making expatriate management one of the central components of systematic personnel development also means enabling employees with limited international mobility to work abroad. In 2012, therefore, we enhanced the framework conditions for short-term assignments. To this end, our revised International Assignment Policy now includes an attractive mix of fringe benefits and special training for both long-term and short-term assignments. In this way, we are making it easier for new and experienced managers as well as skilled non-managerial employees to acquire international work experience.

Against this backdrop, the number of employees on international assignment rose again significantly in 2012. On average, 260 employees – around 7 percent of our managers and experts – worked as expatriates outside their home countries, mainly in Singapore, China, the United States and Brazil.

LANXESS Employee Structure by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific	
Age group	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**
< 20		2	1					3		1
20–29	92	304	142	447	26	122	87	257	149	463
30–39	183	793	260	1,172	64	192	128	384	265	873
40–49	134	939	558	2,498	100	302	47	360	107	423
50–59	93	820	405	2,380	144	465	32	294	19	169
≥ 60	10	72	22	187	35	103	2	32	4	11
Total	**512**	**2,930**	**1,388**	**6,684**	**369**	**1,184**	**296**	**1,330**	**544**	**1,940**

LANXESS Employee Structure by Functional Area and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific	
Functional area	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**
Marketing	109	136	405	564	79	94	77	103	166	339
Production	255	2,616	458	5,228	156	948	131	1,112	141	1,290
Research and Development	13	59	109	408	29	75	6	15	19	110
Administration	135	119	416	484	105	67	82	100	218	201
Total	**512**	**2,930**	**1,388**	**6,684**	**369**	**1,184**	**296**	**1,330**	**544**	**1,940**

LANXESS Employee Structure by Segment, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific	
Segment	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**
Performance Polymers	154	1,740	203	1,195	128	763	61	535	119	450
Advanced Intermediates	13	13	190	2,204	14	12	5	3	29	358
Performance Chemicals	272	1,104	454	1,907	94	323	134	691	186	866
Reconciliation[1]	73	73	541	1,378	133	86	96	101	210	266
Total	**512**	**2,930**	**1,388**	**6,684**	**369**	**1,184**	**296**	**1,330**	**544**	**1,940**

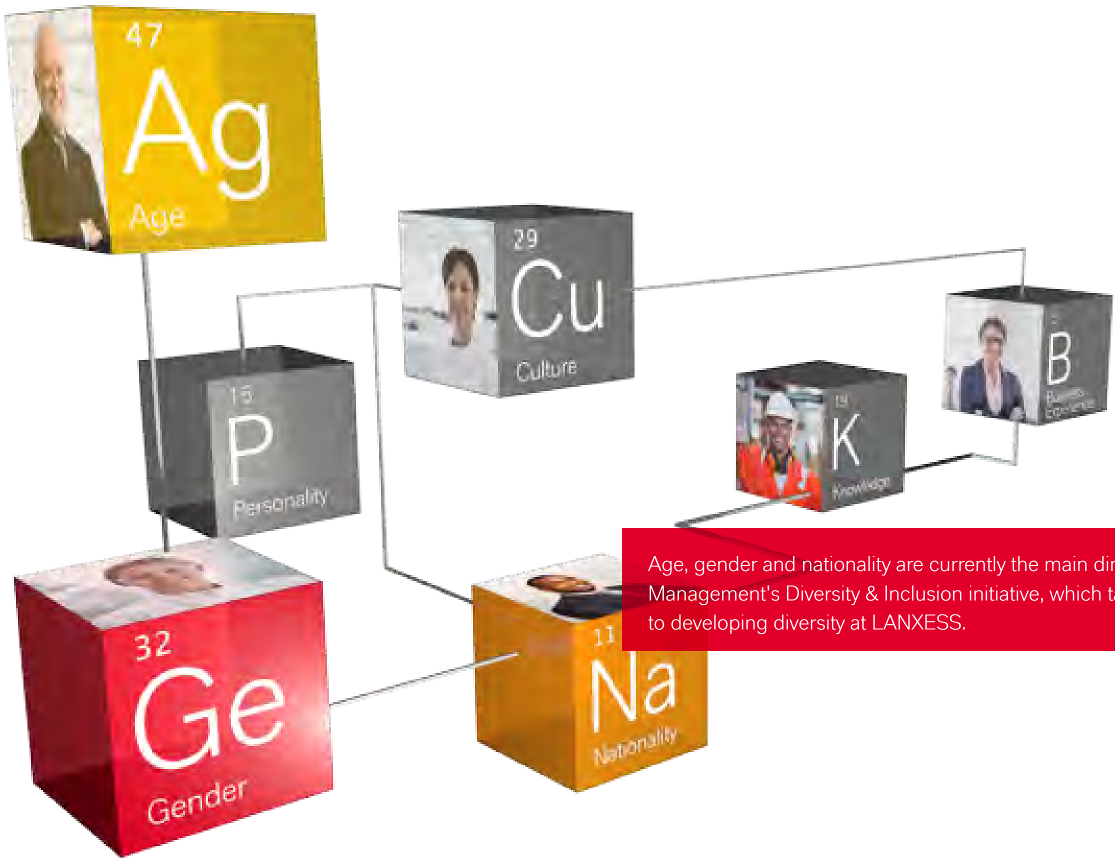
1) Includes group functions and LANXESS Distribution

In addition to achieving a global transfer of knowledge by sending experts and managers abroad, our goal is still to develop local management with the necessary expertise and international competencies in each country and to transfer challenging tasks to suitable local employees. Outside Germany, 78 percent of our management functions are currently filled by local employees.

The global Diversity & Inclusion initiative In order to achieve structured development of diversity at LANXESS and utilize its positive effects for our company and its employees, we established the Diversity & Inclusion (D&I) initiative in 2011, under the patronage of Board of Management member and Labor Director Rainier van Roessel. This initiative reflects the great importance of a diverse workforce for our competitiveness on global markets, for increasing our innovative strength and performance capabilities and for attracting and retaining promising talents.

In the first project phase, completed during the reporting year, we established the framework of our ongoing commitment to diversity and inclusion on the basis of in-depth data analyses, best-practice case studies and employee interviews around the world.

To avoid getting lost in the many different dimensions of diversity (e.g. age, gender, nationality, ethnicity, disability, social origin, experience), we decided at an early stage to focus first on the dimensions of age, gender and nationality. The criteria for this decision included the



Age, gender and nationality are currently the main dimensions of our Board of Management's Diversity & Inclusion initiative, which takes a structured approach to developing diversity at LANXESS.

expected leverage effect for a diverse corporate culture at LANXESS and the importance of different dimensions in key country organizations and target markets. For the pilot areas involved – the Inorganic Pigments and Technical Rubber Products business units and the Accounting group function – and the participating countries of Brazil, China, Germany, France, India and the United States, the first project phase highlighted different priorities and areas for action. However, this was to be expected considering the great significance of regional and organizational influences for diversity in a company.

Despite these differences, our commitment to increasing diversity worldwide has a common basis – equal opportunity. Wherever equal opportunity exists, recruitment and development will be based on performance, experience and personality, and not on membership of a particular group. To guarantee this in all cases, a company must influence the attitudes of its employees and managers toward the different nationalities, age structures, genders etc. they encounter in their daily work. Diversity starts in the head of every individual.

With this in mind, the path to greater diversity at LANXESS requires a cultural change process above all else. We must also create the structural framework (e.g. organization, processes, guidelines) so that diversity generates added value for our employees and the company. As part of the Diversity & Inclusion project, we developed and started implementing more than 30 measures with this aim during the reporting year. Based on the findings of the first project phase, some of these measures apply Group-wide while others are limited to certain corporate entities or countries.

One such measure is the Senior Trainee Program, unique in Germany, that we launched as a Diversity & Inclusion lighthouse project during the reporting year. This program lasts 18 months and offers a qualified full-time position to employees with an academic background who wish to return to working life after a period of time spent raising a family. Alongside their actual work, the participants receive personal support from a mentor, individual coaching and tailor-made training. On November 5, 2012, 14 Senior Trainees began their second career in eleven different business sectors. Since then, they have been gaining experience in their future areas of responsibility, in line with their academic training. By better recognizing the professional and life experience of these men and women and actively utilizing their potential, we are taking a particularly innovative approach to combining our general commitment to greater diversity with the requirements of active demographic management.

Other projects aim to identify the potential for flexibilization associated with part-time and home-office working for middle and upper management, or to encourage women at LANXESS to share their experience across organizational and hierarchical boundaries.

The initiative is thus making a key contribution to reaching the goal we have set ourselves of raising the proportion of women in middle and upper management to 20 percent by 2020. The figure currently stands at just under 15 percent.

Taking action on demographic change

In view of the challenges posed by demographic change, LANXESS cooperated closely with the employee representatives in 2009 to develop XCare, a comprehensive demographic concept for our German companies based on the collective agreement on lifelong worktime and demography in the chemical industry. In 2012, this project focused in particular on the issues of health management and preventive medicine and balancing career and family life. This project aims to find answers to the challenges posed by a steady rise in the average age of our workforce coupled with a shortage of skilled young people.

The XCare project was initially based on an extensive demographic analysis of the entire LANXESS organization, 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.

Vocational training In 2012, 140 young people (108 men and 32 women) accepted the opportunity to start one of the 16 technical, commercial or scientific training programs at LANXESS. A further 26 young people have chosen our four combined vocational training and study programs. We are planning to increase our offering of combined engineering programs in 2013. Our aim in the medium term is for combined programs to account for 10 percent of our vocational training positions in Germany.

With a total of 386 trainees in 16 different career paths (as of December 31, 2012), LANXESS continues to train more young people than it needs to meet its own requirements. In 2012, we gave permanent and temporary positions to more than 50 percent of those who completed their vocational training with us in Germany.

LANXESS has always given priority to training young people as a means of safeguarding the company's future and as an element of our social responsibility. In 2012, we once again strengthened the marketing activities for our vocational training programs using a range of media, attended all major regional career fairs and visited schools. Through events of our own such as "NeXt Azubi" (NeXt Trainee), we address young people with an interest in our company and give them valuable guidance for their later career choices. We took part in Germany's Girls' Day for the first time in April 2012, providing girls with a deeper insight into technical areas of activity in our company. In addition, our one-year orientation program XOnce provides young people with useful guidance on their way to a later traineeship if they are not ready to take this route at the current time.

Demographic management Another main focus of our XCare demographic project in Germany is balancing career and family life, which remains an important issue for a large number of LANXESS employees. 5.3 percent of our employees in Germany aged between 20 and 40 made use of the option to take parental leave. Of this figure, almost 46 percent were fathers. In 2011, in support of parents looking for care for their children, we 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. Construction also started on a kindergarten close to the Leverkusen site in November 2012.

Providing care is an important aspect of career and family life. We aim to support employees in the care of dependents, either financially or in terms of time. In line with the German government's draft legislation on family caregiver leave, which came into force in 2012, we were 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, paid short-term release from duties, and individually agreed part-time working for caregivers. We added two further modules to this program during the reporting period – a care loan at favorable terms and the support of an external service provider in arranging care placements close to all our German sites. More than 60 information events took place at our German sites throughout 2012.

Caregiver leave remains at the heart of the program. 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. 17 employees have already take advantage of caregiver leave and other job release options. Given the considerable interest in advice and further information on this issue, we anticipate increased demand in the coming months.

Health and preventive medicine During the reporting year, we also intensified communication in the area of people and health and launched new projects. Our primary goal is to raise awareness of health issues among employees and managers and encourage them to adopt healthy behaviors at work and in their free time. We take seriously our responsibility of involving the employees and managers concerned in making workplaces as healthy as possible, but at the same time rely on the individual responsibility of our workforce. In Germany, our reintegration management and occupational health management programs are based on corresponding agreements with the employee representatives.

As part of our reintegration management program, we recently started giving individual support to employees who are suffering illness or have had long periods of absence from work due to ill health in the past twelve months. To this end, workplace integration teams comprising integration officers and employee representatives have been in place at all our German sites since 2011.

In the area of occupational health management, further facilities have joined those originally selected for pilot projects in taking the first steps toward introducing this system. Another roll-out is planned in the course of 2013. As a rule, the projects are steered by working groups made up equally of employee and employer representatives who analyze the existing health situation and develop a participatory action model. The projects encompass management workshops, prevention concepts, advice on ergonomics for plant workers, help to give up smoking and nutrition programs for shift workers.

Experience from the pilot projects shows that our employees are particularly keen to obtain personal advice about their health and the possible need for preventive action. Building on this awareness and knowledge about their own health, employees are also responding well to follow-up offers. Special medical check-ups are offered specifically for top management. Around 500 eligible managers are invited to regular appointments.

In the area of saving and retirement provision, we reached agreement with the employee representatives in Germany in 2012 on further allocation options for the long-term account. These include integration of the demography fund contribution, a provision of the 2012 collective bargaining agreement. In addition, we are introducing comprehensive accident insurance for all non-managerial employees in Germany from the beginning of 2013. Cover will apply worldwide, both at work and at home.

All benefits with respect to work and family, health and retirement provision apply to the core workforce. Individual benefits may vary regionally and be adjusted locally to our employees' needs. Variable remuneration systems have been implemented for 78 percent of our employees worldwide.

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 market-rate 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, and of some non-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.

In 2012, we used a total of €100 million to give our employees worldwide a share in the company's success. Some of this amount was already paid out at the end of 2011.

Our managers are also able to reward outstanding employee performance quickly and unbureaucratically. All employees worldwide are entitled to such rewards on the basis of a prompt assessment of their performance. In fiscal 2012, this resulted in payments of €9 million worldwide – €6.4 million to employees in Germany – for outstanding individual performance. We are planning to implement a new employee dialogue and feedback tool in 2013. The Employee Dialog project was launched at the end of 2012. It represents an innovative approach to performance management based on an ongoing dialogue and thus also on active management of the relationship between supervisors and employees. Compared with the rigid and more formal structures of traditional approaches, the focus is on trust and individual motivation as success factors. In the long term, this creates a culture in which leadership and employee development are seen as a joint task for supervisors and employees – which benefits individual productivity and satisfaction.

We again offered an employee stock plan in 2012. 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 €54.78 on the Frankfurt Stock Exchange. The participation rate was 73 percent. At the reporting date, our employees and Board of Management members held around 1 percent of LANXESS'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 plan compares the performance of LANXESS stock against the Dow Jones STOXX 600 Chemicals℠ 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 introduced a new long-term compensation component to replace LANXESS's Long-Term Incentive Plan (LTIP). The Long-Term Stock Performance Plan 2010-2013 (LTSP) comprises four tranches, one commencing each year. This plan compares the performance of LANXESS stock against the Dow Jones STOXX 600 Chemicals℠ Index over a period of four years. The participation rate is 89 percent.

Acting in partnership

A key pillar of our HR policy is close cooperation between employee representatives and management, including trade unions and employers' associations, in line with the principle of active codetermination. More than 64 percent of our employees worldwide are covered by the terms of collective agreements; in Germany, this figure is nearly 90 percent.

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 accordance with the German Works Constitution Act, LANXESS is obliged to inform the Works Council fully and in good time of any planned operational changes which could result in material disadvantage to all or substantial parts of the workforce. This does not affect the provision of information about the company's economic affairs to the Economics Committee. We fully comply with these legal obligations with respect to the responsible bodies. In Germany, the notification period is four weeks.

Open to ideas

When LANXESS employees have good ideas for improving work procedures, plants and processes, these ideas pay off. Our idea management system fosters the development, processing and implementation of suggestions for improvements to ensure that we continually receive proposals for enhancing cost-effectiveness, occupational safety and environmental protection.

In 2012, employees at LANXESS's German companies submitted a total of 3,157 new suggestions, a rate of 430 per thousand employees. In the same period, 1,507 ideas were implemented, yielding total savings of €3.1 million. 1,035 of these ideas led to improvements in occupational safety and environmental protection. A total of €1.2 million was paid out to employees whose ideas were put into practice. The highest individual payment of €73,000 was awarded for an improvement in process logistics that led to increased capacity in a production facility.

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 2012, the Functional Chemicals business unit won the Ideas Competition for the first time. 104 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 66 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 in the value creation chain

LANXESS is responsible for its actions across the entire supply and value creation chain – from the global procurement of raw materials and product development, through production, storage and transport, to use and disposal. The health and safety of our stakeholders – employees, contractors, immediate neighbors of our production sites, customers and end users – is of central importance at each of these stages. Through our safety standards, we aim to ensure the responsible application of chemistry in health and environmental protection, in the handling of chemicals, in plant safety and in workplace safety precautions. Company-wide standards are in place to define the associated requirements and responsibilities. Through the ongoing training of our employees and regular auditing of our health, safety and environmental management, we ensure that the requirements are systematically and sustainably implemented in our processes.

Procurement in the supply chain

Responsible action begins in procurement. At LANXESS, all the raw and other materials, plant and services needed for our operations must satisfy uniform global safety and environmental protection requirements. Raw materials in particular are subject to stringent monitoring to ensure safe processing in our production facilities. For example, the procurement of any raw material is dependent on the submission by the supplier of a current safety data sheet. Our procurement department clarifies which of the REACH requirements must be satisfied in the case of raw materials from non-European suppliers. In order to minimize our procurement risks and enhance supply chain transparency, we and five other international chemicals companies founded the Together for Sustainability initiative in 2012. Further detailed information is contained in the "Procurement and production" section in the combined management report on page 117.

Uniform standards in production

Across the globe, LANXESS operates at 47 production sites in which it holds more than 50 percent (as of December 31, 2012). The diversity of the company's product portfolio necessitates the use of many different chemical and technical processes. Uniform standards for planning, engineering and operating facilities are applied to ensure a high level of process, plant and occupational safety. Handling chemical substances and working with technical equipment intrinsically involve health and safety risks. We systematically identify these risks and the hazard potential and minimize these by taking them into account when planning facilities and by defining and implementing the necessary preventive and protective measures. To help us achieve this, we have established LANXESS-specific guidelines within the context of our global management system. These govern our procedures for all safety-critical processes in our production facilities and cover aspects such as the definition and implementation of technical and organizational protective measures and the environmentally friendly handling of raw materials and waste.

Experts conduct specific spot checks as part of on-site audits to assess implementation of the relevant guidelines and local regulations for safe plant operation. At each facility, compliance with the safety standards must be certified regularly, at least at the intervals required by local legislation. In 2012, a total of 32 facilities, 14 of them in Germany, were audited in the course of HSE compliance checks.

It goes without saying that safety and environmental aspects also play an important role in 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 management 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 HSEQ standards at these locations. In 2012, we performed two such gap analyses.

Xact: Board of Management's global safety initiative

In 2012, we pressed forward with our Xact global safety program, launched in 2011, with the support of our partner DuPont Sustainable Solutions (DSS). Within this initiative, we have divided the issue of safety into 22 elements covering aspects of the occupational safety culture and process and plant safety.

In a first phase, completed in spring 2012, we performed a standardized analysis at a total of 22 plants and sites. These included facilities in Argentina, Belgium, Canada, China, France, Germany, India, the Netherlands and the United States. Almost all business units were represented. The in-depth analysis included an internal evaluation of safety practices coupled with an assessment by DSS consultants. It yielded valuable findings for further improvement. In particular, we were able to identify numerous best safety practices.

A significant consequence of our analysis is that we will be stepping up the involvement of the operational management level in the ongoing review of safety standards in future, thus emphasizing their responsibility. The central body for monitoring the program and the continuous improvement of our safety standards is the LANXESS HSE Council, which includes two members of the Board of Management and three business unit heads.

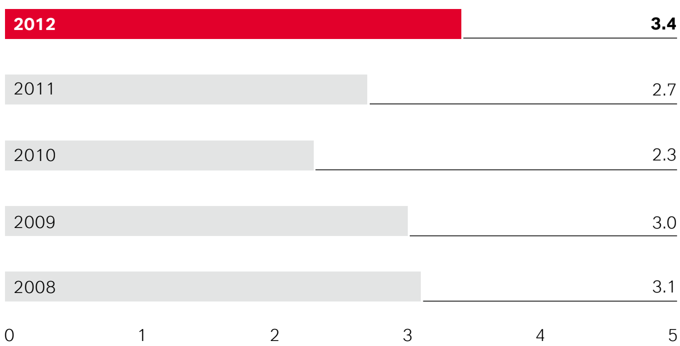
In the next phase, which started in the second half of 2012, twelve international corporate sub-committees made up of some 80 experienced employees – primarily from the business units, but also from supporting group functions – have been scrutinizing and refining the global HSE standards for the LANXESS Group. They are due to complete their task by mid-2013.

Lastly, in the implementation phase, local sub-committees will have the task of adapting our improved global standards to the specific conditions at their respective locations and producing the associated documentation. They will be steered by a local HSE council. In some countries where we have larger sites or several companies, a regional HSE council will be responsible for country-specific requirements, for example concerning reporting. In addition, we will be supporting the consistent application and effectiveness of the standards with a systematic audit program. Implementation will take place in several stages. It started at our German sites in Leverkusen, Dormagen and Krefeld-Uerdingen at the end of 2012.

Recording accidents and incidents 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. Our sites also regularly report near accidents, including unsafe conditions and actions. 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, disruptions or near accidents in the future.

The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, is one of the indicators used to assess occupational safety. In 2012, the LTIFR was 3.4, compared with 2.7 in 2011. Our analyses showed that the LTIFR rose markedly over the prior year, especially outside Germany. This resulted primarily from a number of accidents at our chrome ore mine in South Africa, which has gained statistical relevance owing to the international harmonization of our reporting structures and the employee situation there. Also, our Xact global safety program has raised the profile of occupational safety. The associated increase in awareness for work-related accidents and their consequences among our employees is reflected in an improved reporting culture. We expect the LTIFR to decrease again in the coming years following the implementation of further measures.

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

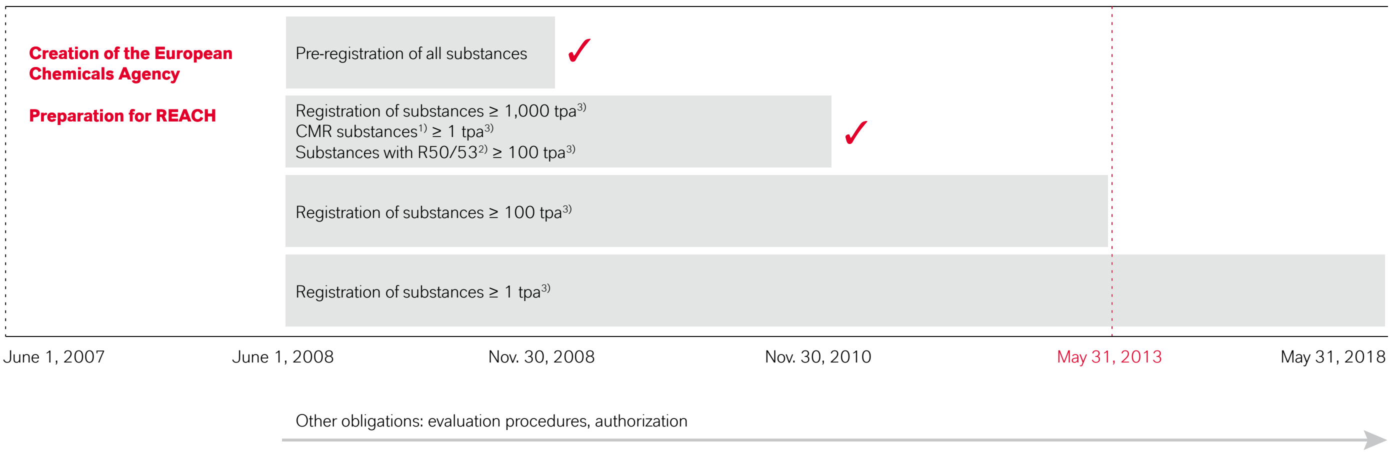


Despite our intensive efforts in the area of plant, process and occupational safety, there were regrettably two fatal work-related accidents in the year under review. Both of these occurred in South Africa: one at an underground conveyor system in our chrome ore mine in Rustenburg, the other during maintenance work on our rubber chemicals production facility at Isithebe. We temporarily suspended work at the chrome ore mine. The cause of the accident was investigated thoroughly, and the safety equipment on the conveyor systems was modified accordingly. At the rubber chemicals plant, potential weaknesses were identified with the support of experts from similar plants in Germany.

Taking an active approach to global product stewardship

Product stewardship involves the safe handling of chemical substances and products throughout their life cycle. In 2006, the International Council of Chemical Associations (ICCA) launched the Global Product

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

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. In line with the Responsible Care Global Charter and the GPS initiative, we are committed to manufacturing and marketing our products in such a way as to prevent injury to people and damage to the environment. Product safety is a top priority at all stages of the supply chain – from research and development, through production and transportation, to downstream processing and disposal.

Our Product Safety Management at LANXESS 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. 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.

Management of chemical control regulations Worldwide, a range of chemical control regulations govern the registration, labeling and marketing of substances and mixtures. The safe handling, marketability and safe transportation of our chemicals and products are conditional on compliance with these regulations.

LANXESS has a global organization for managing the various demands with respect to these control regulations and compliance with them. It is supported by a globally applicable electronic safety data system that generates safety data sheets for our customers in more than 30 languages and provides national safety information systems with globally standardized substance data and updated documents. Safety data sheets give commercial users information about the properties of a chemical product with a view to ensuring safe handling across the supply chain.

Before manufacturing, importing or selling our products in a given country, we examine their marketability in accordance with the chemical legislation in force there. We register our substances and products in line with local requirements and we participate in the substance analysis programs of the relevant authorities by supplying all available information and producing new data if necessary.

We obtain certification for products beyond what is legally required if this is requested by customers. For example, we have certificates in the areas of food and drinking water contact, food and feed additives, eco-labels and E.U. environmental labels as well as certificates confirming conformity with religious dietary laws.

We aim to raise marketability and the provision of hazardous goods data to a globally uniform safety and technical standard by successively integrating the safety data system into our SAP system worldwide. In 2013, China will be the focus of our activities in this respect.

The safety data system is also regularly adapted to the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) in the various countries in the event of changes to hazardous goods legislation. The GHS is a system under the umbrella of the United Nations that aims to harmonize existing classification and labeling systems used in various sectors such as transportation and consumer, employee and environmental protection. Implementation of the GHS global initiative in the E.U. is supported by REACH and the CLP (Classification, Labelling and Packaging of Substances and Mixtures) Regulation, which we implemented by the relevant deadline.

We expressly support the protection goals of the E.U. REACH regulation, which aims to achieve a high level of chemicals safety for human health and the environment. During the first REACH registration phase that ended on November 30, 2010, we prepared dossiers for 193 substances that we produce in or import to the European Union in volumes exceeding 1,000 tons annually and submitted these to the European Chemicals Agency (ECHA). In the second phase through to the end of May 2013, we will be registering around 200 substances with volumes exceeding 100 tons. Lastly, all substances with volumes exceeding one ton must be registered by the third deadline at the end of May 2018. We expect to submit a total of some 750 substance dossiers over all three phases.

In the registration process, we review the available substance information and fill any data gaps by exchanging information with competitors, obtaining expert opinions or developing appropriate tests ourselves. Within the context of a voluntary commitment made by the German chemical industry association (VCI) in 1997 to record and assess substances, we go beyond the legal requirements to determine a basic data set for our intermediates as well, in line with Appendix VII of the REACH regulation. Registration also involves systematically analyzing the effects of our substances on human health and the environment and describing safe conditions of use. In doing this, we consider the entire product life cycle.

Global dangerous goods and transport safety management Through our global dangerous goods and transport safety management system, we ensure compliance with the relevant legal regulations and thus avoid hazardous situations in dangerous goods and transport processes. We coordinate, supervise and review the implementation of international, regional and local dangerous goods and transport safety regulations and internal company guidelines. Our expertise regarding the globally standardized classification and interpretation of dangerous goods regulations, together with regional regulations, helps us to ensure compliance in global transport operations. The classification determines the wrapping, marking and labeling, permitted modes of transport and transport routes. The classification database is filed in LANXESS's chemicals safety data system. In 2012, we revised our existing guidelines on dangerous goods and transport safety management and defined international responsibilities.

Storage management We operate our own warehouses, but also commission external warehousing service providers on the basis of a specified process that considers relevant aspects of logistics, safety and security, environmental protection and cost-effectiveness. In line with a corresponding chemical industry concept, we apply a globally standardized warehouse concept that takes into account the substances stored and meets fire protection and occupational health and safety requirements. We revised this concept in 2012 and now give greater consideration to regional requirements. We ensure compliance with our guidelines and regularly conduct on-site inspections.

Ecological responsibility

We view the continuous improvement of environmental performance as a key corporate goal. 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.

It is an established part of our strategy to equip all new production sites in line with state-of-the-art environmental standards, taking into account local requirements. This often sets us apart from many local competitors. One example of this approach was the opening of our water treatment plant in Nagda, India.

Environmental protection in proximity to our production sites The areas around our European sites contain many protected areas that fall under the European Habitats Directive. No significant effects on biodiversity are to be expected when our production facilities are running normally or during either scheduled or unscheduled downtime. Although no measures are currently required that go beyond the respective local permitting requirements, we are conducting further detailed evaluations, initially at our European sites. Any information about protected areas near our sites outside Europe was included in the necessary permit processes.

Our industrial sites themselves do not contain any protected or restored natural habitats since, as a rule, these areas continue to be used for industrial purposes. Some unused areas outside the sites are near-natural, for example at La Wantzenau, France, or Duque de Caxias, Brazil. There are isolated cases of protected species, such as the capybara, living on land and in waters at our sites. Landfill sites are recultivated in line with legal requirements but do not necessarily revert to natural habitat. The provisions made by LANXESS for environmental protection primarily relate to contaminated soil and groundwater in areas that were used industrially and not those with protected status.

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 aim is to reduce each segment's specific energy consumption and specific CO_2e emissions by 10 percent by 2015 (base year: 2010). Our measures are applied in all value creation processes – from energy generation through manufacturing processes and transportation to waste disposal.

Systematic energy management Resource and energy efficiency are key factors in our company's energy efficiency and in climate and environmental protection. Against this background, we began implementing an energy management system based on ISO 50001 in 2010. The consistency and transparency of a well-structured operational energy management system are aimed at helping us conserve resources, cut energy costs and thereby significantly improve our competitiveness.

Initially, we focused on those production units in Germany which we integrated into the ISO 50001 internal audit management system in 2012. The LANXESS Energy Management Directive that came into force in February 2012 defines the standards to be applied in our global operations. We successfully completed implementation of the energy management system in the German production units at the end of 2012. The first LANXESS production facility to be certified to ISO 50001 was IAB GmbH in Bitterfeld in 2012. Our other German facilities are to follow in 2013. We have also begun introducing the energy management system in our production units outside Germany and will continue with this in 2013.

To implement the energy management system at operational level, an energy officer with global responsibility was appointed for each business unit, and energy teams were established for the German production units.

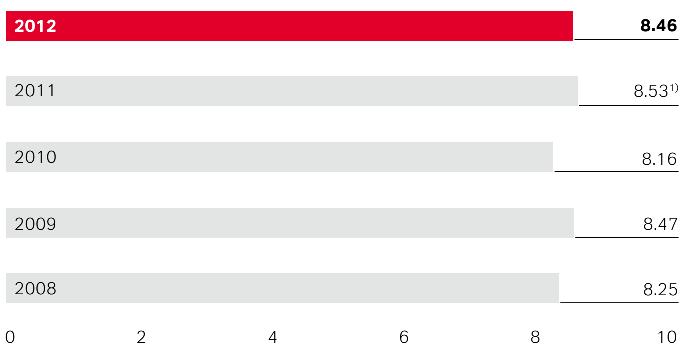
Against the backdrop of our energy target and building on the structures of the LANXESS energy management system, we continued refining our systematic approaches to increasing energy efficiency across the company in 2012. For example, the business units evaluated existing and potential efficiency improvement measures in terms of their possible contribution to reducing indirect greenhouse gas emissions and energy costs, the investment needed and their technical feasibility.

Since 2012, all our savings measures have been combined in the LANXESS Energy Efficiency Program (LEEP), aimed at creating a Group-wide overview of potential savings, the cost of their implementation and their impact on our energy goals. A newly established team of energy experts from the Innovation & Technology group function is supporting the identification of new measures. Typical improvement measures concern operating procedures, existing technologies, and also the engineering redesign of plant sections.

We still see substantial potential for improving our energy efficiency, particularly by increasing our accuracy at coordinating production capacities with demand, improving the use of residual heat, optimizing refrigeration and, generally, by propagating best practices throughout the company. For example, in 2010 alone, we started up four highly efficient cogeneration plants at our sites in Porto Feliz, Brazil; Nagda and Jhagadia, India; and Zwijndrecht, Belgium.

Energy Consumption in Relation to Volumes Sold

gigajoules per ton of product

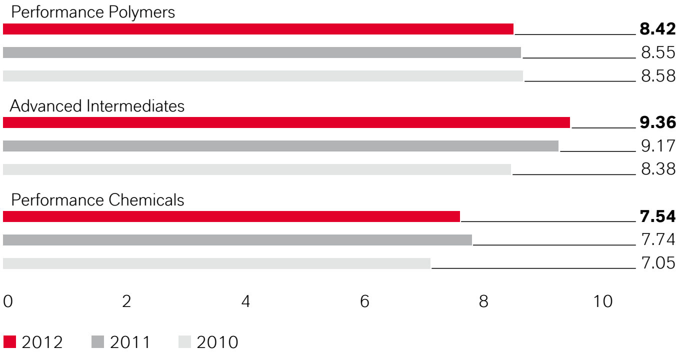


1) Figure restated

In 2012 we increased volumes sold by around 2.5 percent, resulting in an increase of about 3 percent in absolute energy consumption (see also Environmental and Safety Performance Data table). By contrast, the specific energy consumption (energy consumption in relation to volumes sold) declined slightly.

Energy Consumption by Segment

gigajoules per ton of product



Our efforts to reduce the specific energy consumption in each segment yielded only slight progress over the previous year. One substantial reason for this is the continuing expansion of our product portfolio by way of acquisitions.

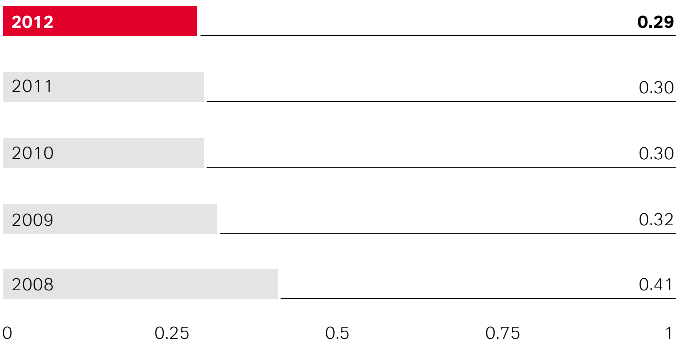
Reduction of climate gas emissions Having succeeded in largely neutralizing our emissions of particularly harmful nitrous oxide for several years, we reduced CO_2 equivalents by 1.6 million tons in 2012 alone (compared to 2007). In the same period, we succeeded in reducing our direct greenhouse gas emissions by around 45 percent worldwide. In 2009, we had already met the target we set for our operations in Germany of reducing the emission of climate gases by 80 percent in 2012 and we have been able to maintain this level to date.

In the European Union, trading in CO_2 emissions rights – or allowances – is a cost-effective way of reducing harmful CO_2 gas emissions. 18 LANXESS facilities in Europe are subject to emissions trading (EU-ETS). Three trading periods were defined for emissions trading in the European Union. The second trading period that ran from 2008 to 2012 has now been concluded without us having to purchase additional allowances. Since all of our facilities are at the cutting edge of technology and participate in international competition, we expect to receive an adequate number of free allowances for 2013 to cover our anticipated CO_2 emissions.

Scope 1 emissions cover direct emissions from production and our own energy generation operations. Scope 2 emissions are indirect emissions associated with the procurement of energies. The graphics below show the development of LANXESS's specific Scope 1 and Scope 2 emissions.

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

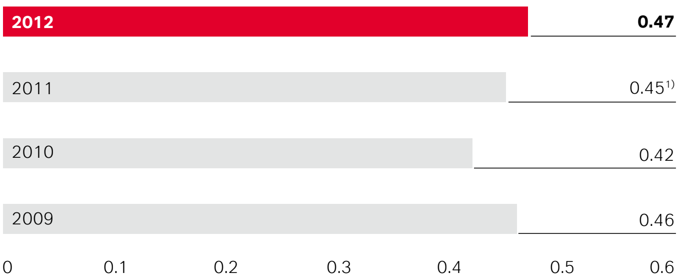
CO_2 equivalents, tons per ton of product



1) Figure restated

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

CO_2, tons per ton of product



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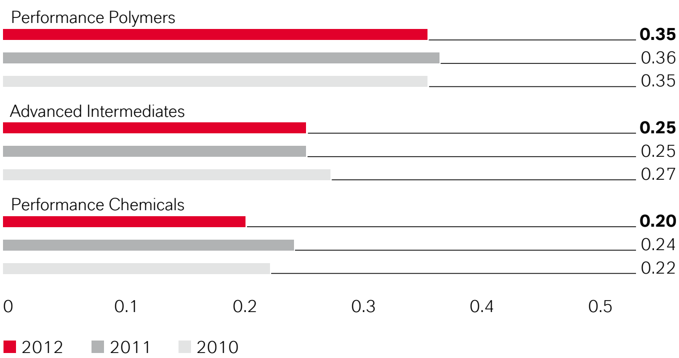
Greenhouse Gas Emissions (Scope 1) by Segment

CO_2 equivalents, tons per ton of product



Compared with the base year (2010), Scope 1 emissions in our Advanced Intermediates and Performance Chemicals declined slightly. In the Performance Polymers segment, the base year level was restored after a slight increase in 2011.

Sustainable logistics We aim to minimize the environmental impact of our logistics operations. We view the intelligent combination of road, rail, river and sea transport as a key to achieving this.

We select our transport solutions on a case-by-case basis, applying the principles of safety, punctuality, cost-effectiveness and CO_2 reduction. A CO_2 monitoring dashboard introduced in 2012 enables us to compare the costs and potential CO_2 savings of a transport solution, and thus develop an effective strategy for reducing emissions in our supply chain. The dashboard also visualizes our transport-related CO_2 emissions for our employees responsible for logistics procurement and planning, thus raising their awareness of the issue.

In our collaboration with external service providers, we focus on their ability to master the particular challenges of chemical logistics and give preference to those who share and develop our goal of sustainable and cost-effective transport concepts. Measures include the use of lightweight and fuel-saving equipment and the development of concepts to minimize transport volumes. In addition, we participate actively in various national and international initiatives concerning sustainable logistics and infrastructure.

In Germany, we continue to use the TÜV SÜD-approved Eco Plus solution offered by logistics provider DB Schenker Rail logistics company 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 German rail transport operations by almost 75 percent. In the reporting year, Dormagen joined Krefeld-Uerdingen as the second site we have linked to our rail-shuttle network. We use this to transport our products to various seaports for shipping worldwide and it now saves us some 2,000 truck transports annually. Each year, LANXESS transports a total of around 375,000 tons of chemicals and bulk materials by rail in Europe.

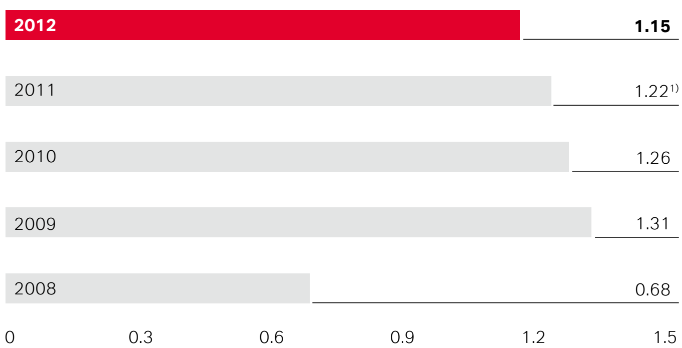
Carbon Disclosure Project We again participated in the Carbon Disclosure Project (CDP) in 2012, sharing data and information on climate protection and the reduction of emissions. The Carbon Disclosure Project is an organization representing international institutional investors who have joined forces in order to improve transparency for the financial market on questions linked to climate change and the requisite corporate guidelines. In 2012, we were included in the Carbon Disclosure Leadership Index (CDLI) for the first time. Our transparent reporting on climate protection puts us in the top 36 of 350 companies assessed in German-speaking countries. The CDP Climate Change Report singled out LANXESS, along with six other companies, as being exemplary in the field of active climate protection.

Carbon footprints We are systematically compiling carbon footprints for selected products so we have reliable information about greenhouse gas emissions throughout the life cycle of these products, and thus gain new insights regarding further potential reductions. We are also continuing the life-cycle assessments of specific products for the same reason. The analysis covers criteria such as CO_2, primary energy consumption, and greenhouse and eutrophication potential.

Other atmospheric emissions The European Union's NEC (National Emission Ceiling) Directive has set maximum national 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 in support of the respective national air quality improvement programs.

VOC Emissions in Relation to Volumes Sold

VOC, kilograms per ton of product



1) Figure restated

In the year under review, our VOC emissions decreased further in relation to the 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 (base year: 2010). The significant increase in our VOC emissions between 2008 and 2009 was attributable to the portfolio expansion undertaken at that time, especially in Brazil.

Solutions for clean water Our innovative products and technologies help our customers worldwide to clean, treat and conserve water. We also take measures to ensure the efficient use of water at our own sites.

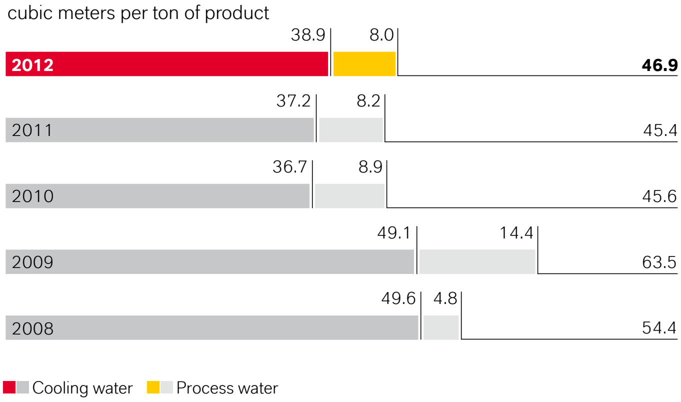
All wastewater and surface water discharges at our sites are subject to legal and permitting requirements. We use both technical (wastewater treatment) and organizational (monitoring) measures to comply with these requirements.

Before issuing an operating permit, the authorities assess the possible economic, social and environmental impacts of water extraction on the surrounding area. At all LANXESS sites, this takes place under approved conditions. The issue of water extraction is also addressed by our environmental protection compliance program.

During the reporting period, we commissioned a new wastewater treatment plant at our site in Nagda, India. It treats the water from the existing wastewater treatment plant so that hardly any wastewater needs to be discharged from the site. On the contrary – we can use the water recovered from the wastewater treatment plant in our production processes, thus compensating any water shortages in the summer months.

Water Consumption in Relation to Volumes Sold

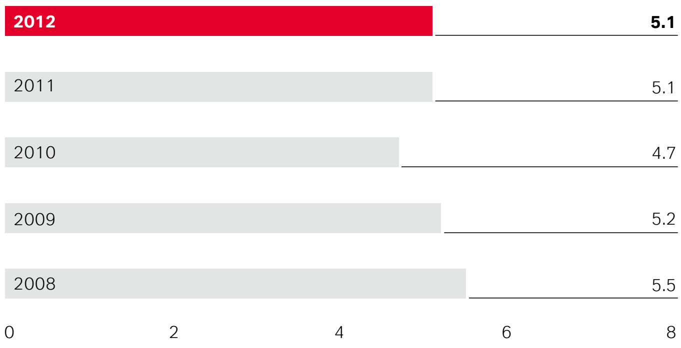
cubic meters per ton of product



Overall, total water consumption in relation to volumes sold increased slightly year on year. This was primarily attributable to an increase in the amount of cooling water used. Since this is not contaminated, it can be discharged without treatment. By contrast, the amount of process water used was reduced slightly.

Wastewater in Relation to Volumes Sold

cubic meters per ton of product

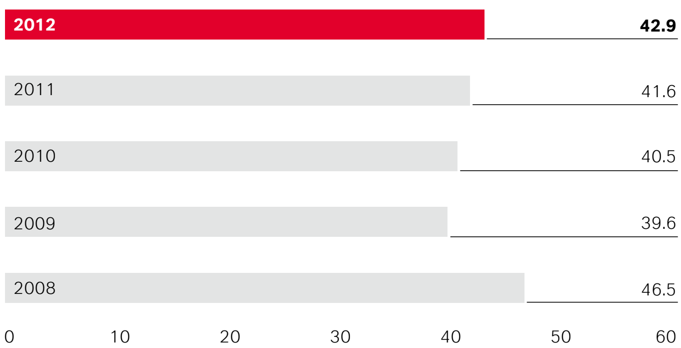


With respect to the amount of wastewater requiring treatment, we have achieved a relatively stable level over the past years in relation to volumes sold.

Sustainable waste management 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 use resources as efficiently as possible and 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 or energy source. In order to minimize the amount of waste requiring disposal, we seek to continuously improve our production processes.

Total Waste in Relation to Volumes Sold

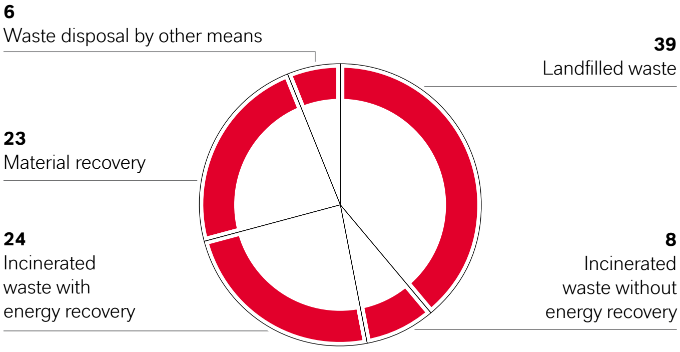
kilograms of waste per ton of product



The total amount of waste generated worldwide in relation to volumes sold has decreased by approximately 16 percent compared to 2007. Some 47 percent of our waste is used in material or energy recovery. Year on year, we increased the material recovery rate by five percentage points. Worldwide, slightly more than half our waste is classified as hazardous.

Waste for Disposal

%



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 HSE performance indicators for each business unit and location worldwide. These provide a valid database for internal and external reporting and map the progress we are making towards achieving our globally applicable HSEQ objectives (see table on page 60 f.). Data for all indicators except the lost time injury frequency rate (LTIFR) are collected only at those of our production sites in which LANXESS has a holding of more than 50 percent.

We are aware of the great challenge involved in defining and ensuring the use of uniform indicators for all sites and regions. We were able to further improve the quality of the data in 2012 by introducing standard documentation of the data collection processes.

In the year under review, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft assessed our data collection processes and system in the course of a business audit. Our HSE indicators for 2012 were audited with a view to achieving a "limited assurance" rating. The audit certificate is on page 204 of this Annual Report.

Environmental and Safety Performance Data

	2010	2011	2012[*), c)]
Safety			
Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked)[1)]	2.3[b)]	2.7[b)]	3.4[c)]
Volume sold[2)] in thousand tons/year	6,404[a)]	6,434[a)]	6,596[c)]
Energy in petajoules (10^{15} joules)[3)]	52.0[b)]	54.5[d)]	56.0[c)]
Direct energy sources (EN3)			
Non-renewable	15	14	14
Renewable	–	0	0
Indirect energy sources (EN4)			
Non-renewable	35	38[d)]	40
Other direct energy sources			
From biomass	2.0[a)]	2.5	2.0
Water in million cubic meters/year			
Total water consumption (EN8)	292[b)]	292[b)]	309[c)]
Surface water	–	127	135
Groundwater	–	8	7
Rainwater	–	0	0
Wastewater	–	1	2
Other water sources	–	155	165
Cooling water in total water consumption[4)]	235[b)]	239[b)]	257[c)]
Process water in total water consumption	57[b)]	53[b)]	52[c)]
Emissions into air in thousand tons CO_2e/year			
Total greenhouse gas emissions (EN16)	4,556	4,804[d)]	4,981[c)]
Direct (Scope 1)[5)]	1,906[b)]	1,937[d)]	1,913
Indirect (Scope 2)[6)]	2,708	2,867[d)]	3,068
Ozone-depleting substances (EN19)	0.00041	0.00071[d)]	0.00231[c)]
NO_x, SO_x and other emissions (EN20)			
NO_x[7)]	2.6	2.8	2.4
SO_2[8)]	1.7	1.9	1.2
CO	2.1	3.0	2.1
NH_3	0.2	0.2	0.1
NMVOC[9)]	8.0	7.8	7.6
Wastewater in million cubic meters/year			
Total wastewater discharge (EN21)	266[b)]	272[b)]	291[c)]
Cooling water (uncontaminated, without treatment)[4)]	235[b)]	239[b)]	257
Production wastewater (with treatment)	31[b)]	33[b)]	34
Emissions in wastewater (after treatment)			
Total nitrogen	0.54[b)]	0.54[b)]	0.53[c)]
Total organic carbon (TOC)	2.1[b)]	2.2[b)]	2.2[c)]
Heavy metals[10)]	0.0047[a)]	0.0045[a)]	0.0060[c)]

Environmental and Safety Performance Data

	2010	2011	2012*), c)
Waste in thousand tons/year			
Total weight of waste (EN22)	259b)	267b)	283c)
Incineration with energy recovery	–	70	68
Incineration without energy recovery	89	24	22
Landfilling	96	93	111
Material recovery	–	47	64
Other forms of disposal	–	33	18
Type of waste			
Hazardous	141b)	143b)	153c)
Non-hazardous	118b)	124b)	130c)

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. The sites at Little Rock and Gastonia, U.S.A., and Brilon, Germany, are not included because they were only recently acquired by LANXESS. 2010/2011: On account of limited recording and control options and the resulting estimates, the base data contain some inherent uncertainties. 2012: The data are based on actual values for the period January through October. Appropriate estimates were used for November and December.

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).

1) LTIFR: accident rate per million hours worked resulting in one workday 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) 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).
4) Equivalent to circulating cooling water
5) All Scope 1 greenhouse gases are calculated as 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: 240 kt CO_2, 2012: 225 kt CO_2
6) All Scope 2 greenhouse gases are calculated as CO_2e. 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 for fiscal years 2010 and 2011 and the factors from 2010 were used for fiscal year 2012.
7) Nitrogen oxide (NO_X) calculated as NO_2 (excluding N_2O – nitrous oxide)
8) Sulfur dioxide (SO_2) + SO_3 calculated as SO_2
9) Total VOC (volatile organic compounds) excluding methane and acetone
10) Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc)

a) Indicator was assessed (limited assurance) by KPMG AG Wirtschaftsprüfungsgesellschaft in the course of a business audit
b) Indicator was assessed (reasonable assurance) by KPMG AG Wirtschaftsprüfungs-gesellschaft in the course of a business audit
c) Indicator was assessed (limited assurance) by PwC AG Wirtschaftsprüfungsgesellschaft in the course of a business audit
d) Value corrected compared to the value published in the prior year

HSEQ Targets for 2012

Target	Program/Measures	Target Date	Target Attainment
1. Improvement in occupational and plant safety – no injuries	Implementation of Xact safety program	2012	• Implementation of the Xact program is on schedule. • The “no injuries” target was not attained by all business units.
2. Implementation of international chemicals 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	Fully attained, i.e. new developments tracked, impact analyzed, need for action identified and measures implemented by specified deadlines. e.g. implementation of the 2nd amendment regulation to the CLP Regulation concerning adaptation to technical and scientific progress; notification of 12 new substances in China; 46 REACH dossiers submitted; preparations for EHS reporting in Malaysia completed; TSCA Inventory Update/Chemical Data Rule reporting obligations (U.S.A.) met.
3. Climate protection	Reduction of the specific CO_2e emissions by 10% per business segment (base year: 2010)	2015	Ongoing measure
	Reduction in specific energy consumption by 10% per business segment (base year: 2010)	2015	Ongoing measure
	Increase in resource efficiency and analysis of environmental footprint of suitable products	2012	Analyses were performed for chlorobenzene, Eco-Keltan and polyamide 6.
4. Environmental protection	Reduction in absolute emissions of volatile organic compounds (VOC) by 30% (base year: 2010)	2015	Ongoing measure
5. Energy management	Introduction of an energy management system based on ISO 50001 (roll-out focus in 2012 is Germany)	2012	Implementation was completed in the German production units; IAB GmbH in Bitterfeld was the first LANXESS production facility to be certified to ISO 50001 in 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	The Keltan sites and the Singapore site were integrated into IHS IA as planned during the course of SCORE projects. The SCORE project in China, which is tied to the harmonization of HSE data, was suspended and the go-live postponed. The AXAPTA pilot project for the United Kingdom (ATRION4AX GB) has not yet been completed. Harmonization of the HSE data has been completed.
7. Improvement in transport safety	Optimization of transport safety in line with the potential analysis performed in 2011	2012	Improvement measures were implemented in 2012 and the project completed successfully.
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	• eMax has been implemented as the document control system for mapping the global management system and its specific variations in the business units and subsidiaries in Germany, Singapore, the U.S.A. and other countries. It is already available as a source of information to all LANXESS readers worldwide. Its roll-out as an actively used system on a department-specific and operational level is continuing on schedule. A technical upgrade of the system will be available in the 2nd quarter of 2013. • Triple A has now been rolled out worldwide as the central audit and activity management tool for LANXESS’s global management system. The Group-wide complaints management system was completed with the integration of the Rhein Chemie business unit into April Star. • In 2012, all sites acquired were integrated into the global data management tool for HSE performance indicators. Because they were only recently included in the system, the sites at Little Rock and Gastonia, U.S.A., and Brilon, Germany, have not submitted any HSE data for 2012.

HSEQ Targets for 2013

Target	Program/Measures	Target Date
1. Improvement in occupational and plant safety – no injuries or environmental incidents	Global implementation of Xact safety program	2014
2. Climate protection	Reduction of the 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 Life-cycle analyses for relevant products	2013
3. Environmental protection	Reduction in absolute emissions of volatile organic compounds (VOC) by 30% (base year: 2010)	2015
4. Energy management	Global implementation and certification of energy management system	2014

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.

Consequently, more than 60 percent of the projects we implemented in 2012 were dedicated to education. We also significantly extended our cultural commitment in 2012. Around 20 percent of our projects now fall into this category. This was one of the reasons why the geographical focus of our activities again shifted slightly more towards the EMEA region in the reporting year. Overall, more than 60,000 mainly young people benefited from our social commitment, which we funded with some €2.6 million in 2012.

The LANXESS education initiative – a success story

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 more than 30 schools close to our sites in Germany. The money was used for a number of purposes including the provision of new laboratory facilities, technical equipment and teaching materials for chemistry, biology, physics and IT classes. 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 2012 were primarily inspired by the LANXESS Year of Green Mobility. “World Class – Green Mobility” was the motto of the project days and project weeks, during which we reached some 600 students at seven schools. The aim was to make the young people aware of the advantages and disadvantages of increasing mobility. In an intensive introduction session, the students looked at current trends such as lightweight construction, green tires, alternative fuels and electromobility. The young researchers also developed their own ideas about how traffic and driving could be made more sustainable in the future.

The aim of a water project week at a high school in Bitterfeld was to raise the awareness of seventh graders for (drinking) water usage and develop innovative ideas for using water more efficiently. To find out about modern chemical and technical water treatment options, the students then visited our new plant for ion exchangers and membrane filtration elements. A representative of the African Medical and Research Foundation (AMREF) also talked to the students about the simple and inadequate living conditions of children in Tanzania.

As announced, this reporting year saw the implementation of our first project aimed at elementary school children – a chemistry experiment kit we developed ourselves. The kit conveys the fascination of science and technology at elementary school level, waking the inventive spirit of both girls and boys as early as possible. One experiment kit can be used by a class together, and includes test setups for conducting basic experiments and research in elementary school chemistry. The experiments, which we designed in cooperation with the Department of Teaching and Didactics of Chemistry at the Technical University of Dortmund, are completely safe and focus primarily on the solubility of substances in water. We plan to provide a total of 1,000 experiment kits worth €360,000 and send them to schools around the world.

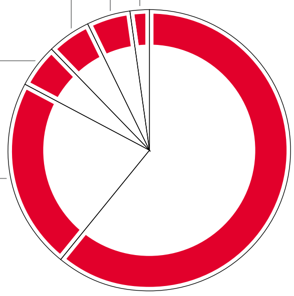
Over the past five years, we have invested around €4 million in the initiative, which was among the winners of Germany’s “365 Landmarks in the Land of Ideas” contest in 2011. Feedback from teachers, principals and school authorities shows that these activities have significantly enhanced the importance of the MINT subjects (mathematics, information technology, natural sciences and technology) in school timetables.

In 2013 we are planning to carry out further project weeks on the subject of green mobility and lightweight construction at schools in North Rhine-Westphalia. We intend to expand our activities in elementary schools and, among other things, develop teaching materials related to the megatrends addressed by LANXESS.

Global commitment to education

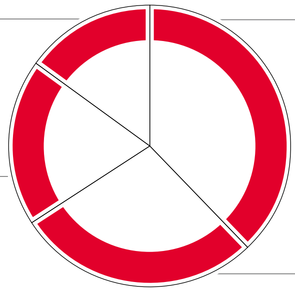
LANXESS has also initiated projects focusing particularly on the promotion of science education at almost all its sites across the globe. We are involved in a wide range of projects and initiatives in Brazil, Argentina, India, China and South Africa especially.

Social Activities by Topic[1)]



1) Basis: 87 projects undertaken in 2012

Social Activities by Region[1)]



1) Basis: 87 projects undertaken in 2012

Our 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.

Since 2010, for example, we have been fostering scientific knowledge with our Green Cycle environmental competition, which was staged again at our Cabo de Santo Agostinho and Porto Feliz sites in Brazil in 2012. The winners receive recognition for the environmental protection projects they develop for the competition and LANXESS fully finances implementation of these projects. Participants additionally receive assistance from an agency that specializes in implementing environmental projects. We also provide financial support to this agency. Since the competition began, we have successfully initiated 23 projects.

Around one fifth of our employees in Brazil participated in a volunteering day on April 14, 2012. As well as contributing eight hours of their time to charitable causes, they also organized activities to raise funds for renovating schools and upgrading their equipment, for example. Some of our customers and suppliers were involved, too.

The "Educar para Crecer" (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. Five schools took part in the fifth year of the program in 2012. More than 6,000 people have already benefited directly or indirectly from the projects implemented since the program was launched in 2007.

In August 2012, we initiated a new environmental program, also in Zárate. The "La Basura Sirve" (Waste is Useful) initiative also seeks to promote responsible environmental practices. The program, which is being implemented in collaboration with a group of schools, encourages the collection and sorting of inorganic household waste. The income from the sale of reusable materials to recycling companies is used by the participating schools to purchase essential items.

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.

In December 2012, a fully equipped library financed by LANXESS opened in Nagda to provide junior and senior high school and university students with completely new opportunities for learning and obtaining information. In addition to books, the library offers numerous magazines and newspapers. Also in Nagda, our donation to the not-for-profit organization Special Need Education Home enabled construction of a new school building for handicapped children. In Jhagadia, we financed the refurbishment and equipping of two state-run schools attended by around 400 students.

Employees at our Thane site used the proceeds from selling old office equipment to provide school materials for 350 orphaned girls in the Ma-Niketan children's village.

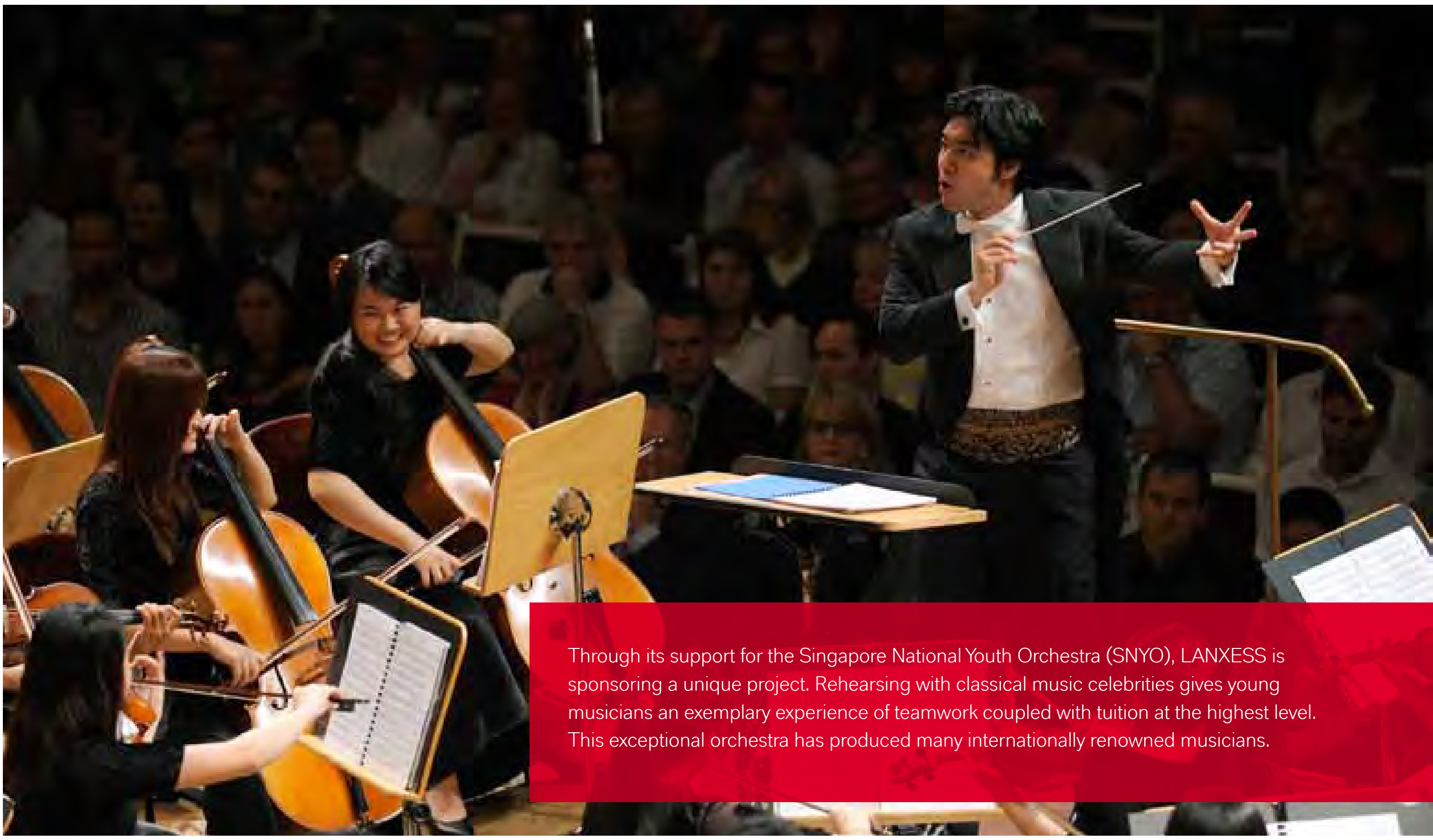
Our first Green Mobility Public Day in China focused on green mobility issues. It gave more than 1,000 local residents and LANXESS employees in Shanghai the opportunity to experience environmentally friendly mobility solutions. Other features of the program were a painting competition for children and a visit to a car museum. In the year under review, we also began supporting students who are particularly gifted or very committed but from low-income families at two schools close to our site in Liyang. 36 young talents have already received a LANXESS scholarship.

We were the main sponsor of the Rally to Read initiative in South Africa, which aims to reduce the significant difference in achievement between students in rural areas and their urban counterparts. Committed LANXESS employees made the journey of some 350 kilometers from Durban to twelve schools in the rural KwaZulu-Natal region to deliver container libraries, sports equipment, educational toys, school bags, writing materials and other items. More than 2,000 children benefited from the campaign. Their progress is regularly monitored by the local education authorities and the READ Trust, partner of the Rally to Read initiative.

Promoting art and culture

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

In June 2012, the LANXESS Young Euro Classic Concert Russia marked the official start of Germany Year in Russia 2012/2013. The orchestra performed for some 1,800 high-ranking guests from both countries at the Tchaikovsky Conservatory in Moscow. Comprising 76 highly talented music students from Berlin University of the Arts and the Moscow Tchaikovsky Conservatory, the orchestra was established specifically for this kick-off event. Musicians from the Young Euro Classic Orchestra China-Germany, on the other hand, have now completed six concert tours, impressing Chinese audiences with dance and music. In view of its huge success, we are looking to extend the Young Euro Classic initiative to South Africa in 2013.



Through its support for the Singapore National Youth Orchestra (SNYO), LANXESS is sponsoring a unique project. Rehearsing with classical music celebrities gives young musicians an exemplary experience of teamwork coupled with tuition at the highest level. This exceptional orchestra has produced many internationally renowned musicians.

Our LANXESS SNYO Classic cultural initiative sponsors an exchange program for the Singapore National Youth Orchestra. Since 2010, more than 1,000 young orchestral musicians have benefited from rehearsing with internationally renowned soloists. In the year under review, we extended our commitment to this program until 2015.

We have also committed to support the Ozawa International Chamber Music Academy (OICMA) until 2015. Led by Japanese star conductor Seiji Ozawa, this ensemble offers talented young musicians from across Asia the chance of a top-quality musical education. Also in Japan, some 6,400 school students enjoyed the Opera for Young People we sponsored during the renowned Saito Kinen Festival.

We entered into a new partnership with the "Kölner Philharmonie," one of Europe's premier cultural institutions. Over the coming years, we will be supporting a range of activities at this venue, including the "Acht Brücken" (Eight Bridges) contemporary music festival.

We will also 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.

Valuable knowledge of water

As part of our social commitment, we are contributing our knowledge of water to charity projects, especially in Africa.

We have been supporting the African Medical and 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.

The same important message is the focus of PHASE (Personal Hygiene and Sanitation Education), a new joint project with AMREF launched at our South African production site in Rustenburg in 2012. The project aims to significantly reduce the incidence of disease caused by contaminated water. Thanks to our financial support, more than 750 sets of PHASE teaching materials have been distributed to eight schools. Some 3,000 students, their teachers and parents are benefiting from the newly acquired knowledge.

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 donated €310,000 to Save the Children Japan. The organization used some of this donation to open a temporary children's center in Yamada in March 2012. The donation will also fund various activities at the children's centers in Yamada, Rikuzentakata and Ishinomaki through to the end of 2014. Our commitment is benefiting some 1,000 children and, indirectly, their families as well.

At our Thane site in India, more than 100 LANXESS employees and their family members responded to an appeal by the Think Foundation to donate blood. This ensured the provision of more than 100 life-saving transfusions to children with thalassemia, a serious blood disorder.

Quality on a world scale

Peter Förster, foreman and HSE officer at our Performance Butadiene Rubbers facility in Dormagen, Germany, supervises the production process for the high-performance rubber used in green tires. Dormagen is the third-largest LANXESS production site in Germany and one of the most important sites for synthetic rubber worldwide.

We also produce the high-performance rubbers that are essential for the manufacture of green tires in Port Jérôme, France; Orange, United States; and Cabo de Santo Agostinho, Brazil. In September 2012, we laid the foundation stone for a new production facility for neodymium-based performance butadiene rubber (Nd-PBR) in Singapore. 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 and will serve the Asian market in particular. We will then be the only supplier to have a high-performance production facility in each of the key sales regions.

LANXESS is already the global market leader for the synthetic high-performance rubber Nd-PBR, which is used in green tires. With annual growth rates of around 10 percent, this is the fastest-growing segment of the world tire industry. Increasing demand for green tires is being driven by the mobility megatrend, especially in Asia and Latin America. Experts forecast that the number of cars in use worldwide will increase by more than 60 percent in the next 15 years. We expect more than 2 billion tires to leave the production lines in 2017 – some 28 percent more than today. Over the same period, the proportion of green tires is likely to increase from around 35 percent at present to just under 50 percent.


Förster

Investor Information

LANXESS can look back on a very gratifying trading year in 2012. The price of our stock increased substantially, gaining about 66 percent over the year. Another highlight was admission to Germany's lead index, the DAX, on September 24.

The world's stock markets posted a positive performance for the full year 2012. The German indices, in particular, rose considerably in value. The DAX, for example, was one of the top-performing indices in the world, with growth of almost 30 percent. The MDAX, which included our stock up until its DAX listing, also recorded a substantial gain, closing around 34 percent higher at year end. Like the German indices, the Dow Jones STOXX 600 Chemicals℠, the LANXESS benchmark index, also posted a gratifying increase in value, growing by slightly more than 29 percent. The euro debt crisis remained a central topic in 2012 and had a substantial impact on the equity markets. However, its effects on the stock markets varied widely from one quarter to the next.

The mood on the markets was more positive again in the first months of the year. Having started 2012 still below 6,000 points, the DAX topped the 7,000-point threshold in March for the first time since 2011 and achieved its highest quarterly gain for 2012 – around 18 percent – in the first quarter. The MDAX also posted its strongest quarterly increase of 20 percent in the first months of the year and climbed back above the 10,000-point threshold. Our benchmark index, the Dow Jones STOXX 600 Chemicals℠, also profited from the good market environment, giving its best performance for 2012 with growth of nearly 16 percent. The easing of the euro debt crisis, resulting in part from the successful haircut on Greek debt, was an important price driver for the stock markets during this time.

In the second quarter, however, the euro crisis and weak economic data triggered renewed corrections in the markets. A further focus of concern, apart from Greece, was the growing economic weakness throughout the euro area, especially in Spain and Italy. In addition, the poor performance of the U.S. economy also made the stock markets nervous. As a result, neither the German indices nor the Dow Jones STOXX 600 Chemicals℠ were able to sustain their substantial prior-quarter gains and closed lower at the end of the second quarter. Although down 7.6 percent, the DAX remained above the 6,000-point threshold, while the MDAX stayed above 10,000 points despite falling by nearly 3.4 percent.

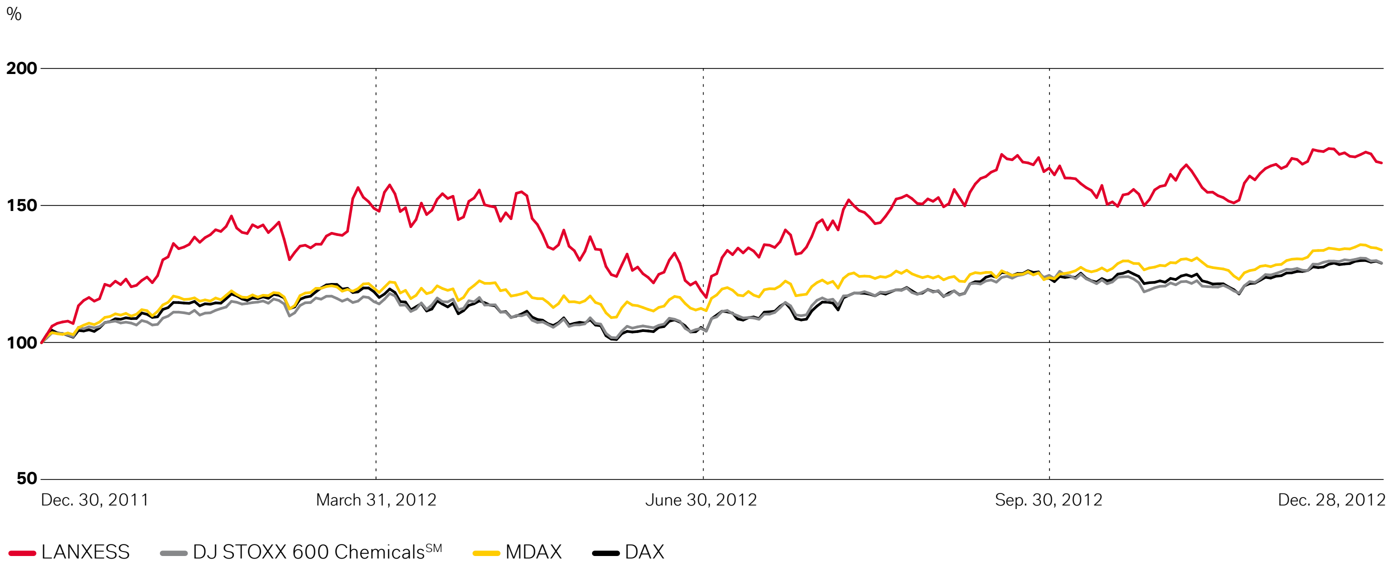
The rest of the year saw a strong recovery on the stock markets, from which all indices benefited. Policy decisions that brought further relief to the euro debt crisis had a particularly bullish effect on stock market performance. The European Central Bank, for example, announced in September that it would allow the purchase of unlimited numbers of government bonds from the euro area's crisis countries. Two months later, the euro countries and the International Monetary Fund agreed on a new aid package for Greece that, among other things, featured lower interest rates on bailout loans. Further positive impetus came from the United States in the second half of the year. In addition to announcing the monthly purchase of mortgage bonds, the U.S. Federal Reserve unveiled plans to buy long-dated U.S. treasury bonds, also on a monthly basis. It maintained its low interest rate policy as well.

In the wake of these developments, Germany's blue-chip DAX index climbed back above the 7,000-point threshold, surpassing it considerably at times and reaching a five-year high of 7,668 points in December. It closed the year at 7,612 points, against 5,898 points at the end of 2011. At more than 11,000 points, the MDAX delivered strong growth of 34 percent. It closed at 11,914 points on the last trading day of the year, breaking the previous record high from 2007. For the Dow Jones STOXX 600 Chemicals℠, the successful year ended on 663 points (December 30, 2011: 513 points).

The overall positive market environment in 2012 supported the strong price trend of our stock, which posted its largest gain of 55 percent in the first quarter. As a result of this significant growth, our shares again reached a price level of more than €60 after trading at just €40 at the end of 2011. In line with market and index trends, our stock also sustained losses in the second quarter, dipping below €50 at times. Then, from mid-July, a clear upward trend emerged. In September, our stock posted its high for the year and a new post-listing record of €68.90 (intraday high).

LANXESS Stock Performance since Listing

LANXESS Stock Performance 2012



Performance Data 2012

		Q1 2012	Q2 2012	Q3 2012	Q4 2012	Year 2012
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	5.16	4.14	5.37	5.51	5.51
High/low for the period	€	63.80/40.17	64.40/45.75	68.90/49.31	68.83/59.33	68.90/40.17
Closing price[1]	€	61.98	49.72	64.53	66.27	66.27
Volatility[2]	%	–	–	–	–	35.98
Trading volume	million shares	38.106	39.490	37.270	33.257	148.123
Average daily trading volume	shares	586,249	636,940	573,383	536,399	583,162
Earnings per share	€	2.32	2.11	1.13	0.62	6.18
Price/earnings ratio[1, 3]		–	–	–	–	10.72
Price/cash flow ratio[1, 3, 4]		–	–	–	–	6.58

1) End of quarter: Q1: March 31, 2012, Q2: June 30, 2012, Q3: September 30, 2012, Q4 and full year: December 31, 2012
2) Source: Bloomberg
3) Data, especially cash flow, are influenced by exceptionals, which restricts the significance accordingly
4) Reference value: operating cash flow

The admission of our stock to the DAX also occurred in September. The main criteria were that LANXESS ranked among the 30 largest publicly traded companies in Germany in terms of the average market capitalization over the 20 trading days leading up to the cut-off date, which was the last trading day in August, and among the 30 most traded companies on the stock exchange in terms of the trading volume reported in the Xetra order book for the previous twelve months. After seven years on the MDAX, our shares started trading on Germany's lead index, the DAX, on September 24, 2012. In the ensuing weeks, the solid price trend continued. Our stock closed at €66.27 on the last trading day of 2012.

In addition to the good stock market environment overall, our own corporate newsflow drew a positive response from the capital market. Key capital market information included the new medium-term earnings target we announced at our Media and Capital Markets Days in mid-September, which is to achieve an EBITDA pre exceptionals of €1.8 billion in 2018. Moreover, we intend to reach the €1.4 billion medium-term earnings target set in 2010 a year earlier than planned, in 2014 (see page 12 in the "Strategy" section).

We also reported on important growth projects targeted at strengthening our business units. One of the largest capital expenditure projects launched in 2012 is our new production facility for Nd-PBR, which we are building in Singapore at a cost of around €200 million and expect to bring on stream in the first half of 2015. In addition, a new €75 million plant for high-tech plastics is under construction in Antwerp, Belgium. A further highlight in 2012 was the groundbreaking for our largest single investment in China to date. In Changzhou, we are building the world's biggest plant for EPDM synthetic rubber at a cost of around €235 million. This plant is also expected to start up in 2015.

Buoyed by an overall positive market environment, the systematic implementation of our strategy and clear communication of our medium-term earnings targets were reflected in the very favorable development of our share price. Up nearly 66 percent for the year, our stock substantially outperformed the solid growth in the DAX, MDAX and Dow Jones STOXX 600 Chemicals℠ indices in 2012. Since its initial listing on January 30, 2005, the value of our stock has increased by some 347 percent.

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	DAX, Dow Jones STOXX 600 Chemicals^{SM}, 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)

Sustainability

Exercising responsibility in our entrepreneurial activities is a key element of our corporate strategy. We therefore continued to raise our sustainability profile in 2012 and underscored our claim to being a sustainable investment.

For the first time, LANXESS was included in the Carbon Disclosure Leadership Index (CDLI) of the world's leading climate protection initiative. This means we ranked in the top 10 percent of the 350 companies surveyed in Germany, Austria and Switzerland which are characterized by particularly transparent reporting about climate protection. LANXESS has participated since 2006 in the Carbon Disclosure Project, which collects climate protection data from companies around the world and uses the results of its analyses to calculate the CDLI.

We were also included once again in the renowned Dow Jones Sustainability World Index (DJSI World) in 2012. Special mention was made of our performance in the dimensions Environmental Policy/Management System, Climate Strategy and Innovation Management, in particular. Moreover, our listing in the FTSE4Good Index, in which we were first included in 2011, was confirmed. We improved our ranking against the previous year especially in the area of environmental responsibility. In addition, leading rating agency oekom research has put our corporate responsibility rating at C+ since 2011.

In June 2011, LANXESS signed the United Nations Global Compact, the world's largest and fastest-growing corporate social responsibility (CSR) initiative. It reaffirmed its commitment to this important platform last year.

Strengthening the sustainability profile will remain a priority for LANXESS in 2013. Detailed information about sustainability is available from page 36 and on our corporate website.

Ownership structure

The majority of LANXESS's stockholders are institutional investors whose strategy is oriented toward growth or value. At December 31, 2012, these investors held around 89 percent of the stock, which was unchanged from the previous year.

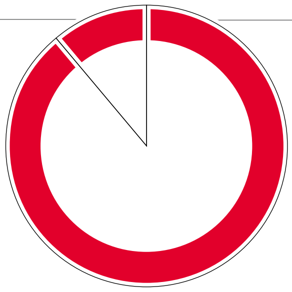
In 2012, some of our institutional investors again issued mandatory notices in which they reported ownership of at least 3 percent of LANXESS's outstanding shares. They included international investors such as BlackRock, Norges and Fidelity. A summary of all previous voting rights announcements can be found in the "Investor Relations" section of our website under the Shares menu item.

In addition to the stakes held by institutional investors, an unchanged holding of around 11 percent of our shares is in the hands of private investors and LANXESS employees, who collectively own some 1 percent. These investors are primarily located in Germany.

The United States, United Kingdom and Germany remain the top countries in the regional breakdown of LANXESS's institutional investors. With a share of about 29 percent last year (2011: roughly 36 percent), the United States has held the lead since LANXESS's initial listing. The share held by our stockholders in Germany stood at around 24 percent as of December 31, 2012 (2011: roughly 27 percent). Investors in the United Kingdom held around 19 percent of our stock (2011: around 17 percent). Institutional investors in other regions, especially other European countries, increased their share to 28 percent (2011: roughly 20 percent). Here, LANXESS is represented in the portfolios of institutional investors in Denmark, Norway and France, in particular.

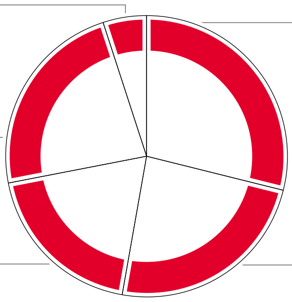
Stockholder Profile as of December 31, 2012

%



Geographical Breakdown as of December 31, 2012 1)

%



1) Based on the stockholders identified

Analysts

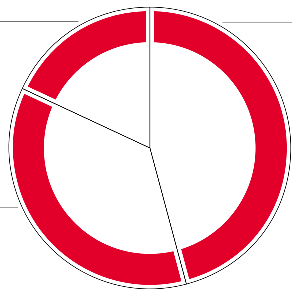
In fiscal 2012, numerous analysts issued reports on the current and future performance of the LANXESS Group. Around 30 sell-side analysts, most of them from Germany and the United Kingdom, regularly issued their appraisals of LANXESS. Focal points of the dialogue with analysts were our growth in the current economic environment and the strategic alignment with which we intend to achieve our short- and medium-term earnings targets.

A majority of the analysts evaluated the current and future alignment of the LANXESS Group positively in 2012 and recommended buying LANXESS shares. As of January 31, the number issuing a buy recommendation on LANXESS shares stood at 46 percent (2011: 69 percent). A further 36 percent (2011: 21 percent) said to hold our shares, while 18 percent (2011: 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 January 31, 2013

%



Annual Stockholders’ meeting

As in previous years, LANXESS stockholders were well represented at the Annual Stockholders’ Meeting in Cologne on May 15, 2012, with 60.54 percent of the voting capital present (2011: 56.21 percent), corresponding to 50,371,492 shares and the same number of votes. Our Annual Stockholders’ Meetings have been well attended to date, and we succeeded again in raising the number of voting stockholders represented. Our stockholders passed all the agenda items by solid majorities. Detailed voting results and additional information about LANXESS’s Annual Stockholders’ Meeting are available in the “Investor Relations” section of our website under the “Events & Presentations” menu item.

The next Annual Stockholders’ Meeting takes place on May 23, 2013, in the LANXESS arena at Willy-Brandt-Platz 1, Cologne.

Dividend

LANXESS follows a consistent dividend policy. We aim for our stockholders to share in our business performance in an appropriate and sustainable way. In light of our success in 2012, we are seeking another increase in our dividend compared to the previous year. Therefore, the Board of Management and Supervisory Board of LANXESS AG will propose to the Annual Stockholders' Meeting on May 23, 2013, that a dividend of €1.00 per share be declared for fiscal 2012, an increase of almost 18 percent against the previous year. Relative to the price at which LANXESS shares ended 2012, this equates to a dividend yield of 1.5 percent. Subject to approval of the corresponding resolution by the Annual Stockholders' Meeting, the dividend will be paid on May 24, 2013.

Bonds

LANXESS successfully placed another Eurobond on the European capital market in fiscal 2012. Issued in November, the bond has a volume of €500 million, a term of ten years (November 21, 2012 to November 21, 2022) and an annual interest coupon of 2.625 percent.

Additionally, in April 2012, we made two private placements in Europe with a volume of €100 million each. The terms of these bonds are ten and 15 years with an annual interest coupon of 3.5 percent and 3.95 percent, respectively.

We placed our first bond on the Asian market in February 2012. This Dim Sum Bond has a volume of CNH 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.

The successful placement of these bonds in 2012 has further improved our financial flexibility and successfully extended the maturity profile of our financial liabilities.

All of the bonds placed in 2012 were issued by LANXESS Finance B.V. 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.

LANXESS's first bond, issued in 2005, matured in June 2012 and was repaid. It had a volume of €400 million and an annual interest coupon of 4.125 percent with a term of seven years (June 21, 2005 to June 21, 2012).

Further information about our bonds can be found on page 101ff. of this Annual Report.

Overview of LANXESS's Main Bonds

ISIN/WKN	Volume	Term	Coupon
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	CNH 500 million (around €60 million)	February 16, 2012 – February 16, 2015	3.950%
XS0855167523	€500 million	November 21, 2012 – November 21, 2022	2.625%

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 2012.

In their analyses, the rating agencies highlighted, among other things, LANXESS's strong operational performance and its leading market positions with synthetic rubber products, intermediates and specialty chemicals. In addition to the company's diversified product portfolio, its favorable technological position was mentioned. The agencies also noted LANXESS's strong liquidity, moderate debt and prudent financial policy.

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

Maintaining an active, broad and ongoing dialogue with investors and analysts is a top priority in our investor relations activities. Our declared objective is to provide a continuous and sustained flow of information about the LANXESS Group. Roadshows, conferences and the LANXESS Capital Markets Day 2012 were among the main activities for communicating with our IR target groups in 2012. Altogether, we again hosted more than 70 days of roadshows and capital market conferences, thus continuing our comprehensive investor relations activities in these areas. The Chairman of the Board of Management and the Chief Financial Officer participated in most of the roadshows and conferences, but others were carried out by the Investor Relations team. Our activities in 2012 continued to focus on our stockholders. However, we also expanded our dialogue with fixed income investors and with investors who are focused on sustainability.

In-depth exchanges at roadshows

Last year, too, we continued to use our roadshows to engage in a broad and personal dialogue with institutional investors. Not only did LANXESS management and the Investor Relations team maintain the high frequency of roadshows in international capital market centers like Boston, New York, London, Paris, Frankfurt and Zurich, they also stepped up the dialogue in other regions where there is an interest in our shares. In Europe, this included the Benelux and Scandinavian countries as well as Eastern Europe. Asia was also a focus, and we held roadshows in Singapore and Hong Kong. In North America, we sought contact with investors in Chicago, Los Angeles, San Francisco and Toronto in addition to the U.S. cities already mentioned.

We additionally gave investors the opportunity to gain a detailed insight into our company at individual LANXESS sites with, for example, plant tours. Participating locations included our company headquarters in Leverkusen, Germany, our site in Shanghai, China, and our production facility in Orange, United States.

New growth targets announced at LANXESS Media and Capital Markets Day

Reporting on our new corporate targets was the focus of the LANXESS Media Day and LANXESS Capital Markets Day events that we hosted in New York on September 19 and 20. Another focal point, apart from the company's medium-term alignment, was our Performance Polymers segment, whose business units boast a product portfolio that allows them to participate in the key global mobility megatrend. Accordingly, the heads of our Butyl Rubber, Performance Butadiene Rubbers and High Performance Materials business units explained, for example, how LANXESS products will individually contribute to our growth, today and in the future.

The presentations from the LANXESS Capital Markets Day are available in the "Investor Relations" section of our website.

Strong presence at conferences

In 2012, LANXESS again participated in many global conferences as an important means of communicating with analysts and investors. In addition to conferences held in global financial centers like Frankfurt, London and New York, the LANXESS Board of Management and the Investor Relations team used events in Singapore and Tokyo as a platform for providing information about LANXESS's performance and growth strategy to audiences in the Asia region. We also participated in special forums for private investors in order to present the company's alignment to this important target group. In 2013, we intend to again show a strong presence at international conferences. One of our goals in this regard is to strategically expand our dialogue with institutional investors in Asia. We also aim to increase our participation at events for private investors.

Further IR activities support exchange of information

Conference calls remain another important means of providing capital market participants with timely and extensive information updates. In these calls, LANXESS's Board of Management explains our published results or reports on current strategic measures like major growth initiatives. Conference calls are streamed live in the "Investor Relations" section of the LANXESS 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 conferences, financial reports, publications like the LANXESS Fact Book, investor news and details about our shares and bonds. In addition, there is a contact form for ordering copies of our financial reports, for example.

LANXESS earns top ratings for its capital market communications

Maintaining a broad, timely and transparent dialogue with the capital markets has always been a priority for us. That is why we are very pleased that LANXESS’s capital market communications have been recognized by portfolio managers and analysts in prestigious rankings and that last year it once again received many awards. The credibility and transparency of communications, the focus on target groups and access to top management were again important criteria for the capital market participants polled in 2012.

Our investor relations activities received several first-place honors from the U.K.’s respected IR Magazine, for example. Chairman of the Board of Management, Dr. Axel C. Heitmann, was honored for best investor relations by a CEO in Europe, while our IR team ranked top for investor relations work by a mid-cap company. The awards were based on a survey of some 500 European portfolio managers and analysts.

For the first time, LANXESS also took top honors from the buy side of the European chemical sector in the annual survey of investors conducted by U.S. magazine Institutional Investor. In the previous year, the sell-side analysts had ranked LANXESS's IR team first among European chemical companies. Here we took second place in 2012. In compiling its rankings, Institutional Investor asked more than 800 fund managers, some 400 brokerages and nearly 1,500 analysts to rate the investor relations work of European companies.

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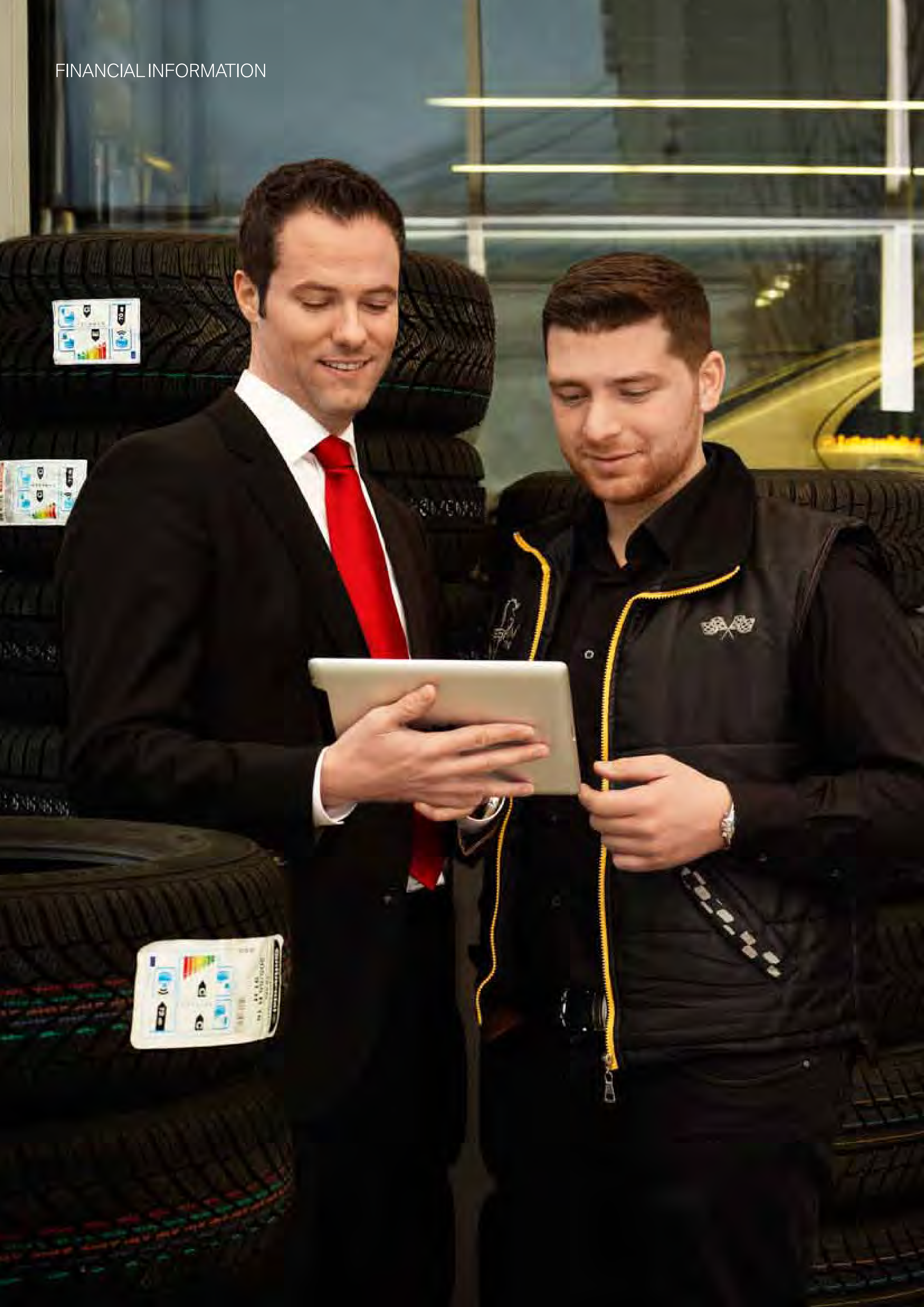


Destination: the global market

Markus Brückner, our Public Affairs Manager, explains the LANXESS fuel savings app to Ibrahim Erdogmus of Reifen4.me. This app allows drivers to quickly and easily calculate how much money and CO_2 they can save by using green tires. It has been tested and certified by the TÜV Rheinland inspection agency. Around 180,000 users have already accessed the app on the Internet or downloaded it (http://app.green-mobility.de).

A study conducted by the Technical University of Munich on behalf of LANXESS found that, thanks to a reduction in fuel consumption coupled with only slightly higher costs, the switch to green tires is amortized far more quickly than, for example, changing to a start-stop system or a hybrid engine. Drivers also achieve a higher CO_2 reduction for each additionally invested euro than for other green investments. If all the vehicles in the world were fitted with these modern high-performance 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 E.U. tire label introduced in November 2012 also makes it easier to choose the right tires. The label classifies the rolling resistance (fuel consumption) and wet grip (safety) of new tires using a scale ranging from A (best performance) to G. It also indicates the level of rolling noise. The E.U. model gives green tires a particularly good rating and is familiar to consumers from the similar system used for refrigerators and washing machines. Outside the European Union, tire labeling is also compulsory in South Korea. Some countries have so far opted for voluntary labeling, while others are currently debating or planning mandatory requirements.

Combined Management Report of the LANXESS Group and LANXESS AG; 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

Additions to the Group portfolio In March 2012, we acquired U.S. company Tire Curing Bladders, LLC, Little Rock, Arkansas. The company is a leading manufacturer of vulcanization bladders for the tire industry and primarily serves the North American market. The acquisition, which has been assigned to the Performance Chemicals segment, represents a next step in our Rhein Chemie business unit's strategy of building on its position as a premium supplier to the tire industry by moving into the manufacture of vulcanization bladders for the tires used on trucks, agricultural vehicles and construction machinery.

In September 2012, we strengthened our innovative product portfolio of lightweight materials for the automotive industry by acquiring Bond-Laminates GmbH, which is based in Brilon, Germany. The company specializes in developing and producing customized continuous fiber-based composite sheets. The business, which has some 80 employees, was assigned to the High Performance Materials (formerly Semi-Crystalline Products) business unit of the Performance Polymers segment. Alongside the automotive sector, other key customer markets are the sporting goods and electronics industries.

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.

Business

Business organization The LANXESS Group is structured in three segments with, as of January 1, 2013, 14 business units. Each of these conducts its own operations and has global profit responsibility. In response to the growing significance of the global EPDM rubber business, we divided the Technical Rubber Products business unit in the Performance Polymers segment into two new units. The newly formed Keltan Elastomers business unit will focus exclusively on synthetic ethylene-propylene-diene rubber (EPDM). The remaining Technical Rubber Products portfolio has been renamed the High Performance Elastomers business unit. This change has had no impact on the reporting for fiscal 2012.

Group functions and service companies assigned to them support our 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 other material changes to the legal or organizational structures described above in fiscal 2013.

The segments in brief We have combined our high-performance 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 [1]
	High Performance Materials
Sites	Brilon, Dormagen, Hamm-Uentrop, Krefeld-Uerdingen, Leverkusen and Marl, Germany
	Antwerp and Zwijndrecht, Belgium
	Sittard-Geleen, Netherlands
	La Wantzenau and Port Jérôme, France
	Sarnia, Canada
	Gastonia and Orange, U.S.A.
	Cabo, Duque de Caxias and Triunfo, Brazil
	Wuxi, China
Applications	Tires
	Automotive
	Electronics
	Electrical engineering
	Medical equipment

1) Since January 1, 2013: divided into Keltan Elastomers and High Performance Elastomers

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 custom synthesis and manufacturing of chemical precursors and specialty active ingredients.

Advanced Intermediates

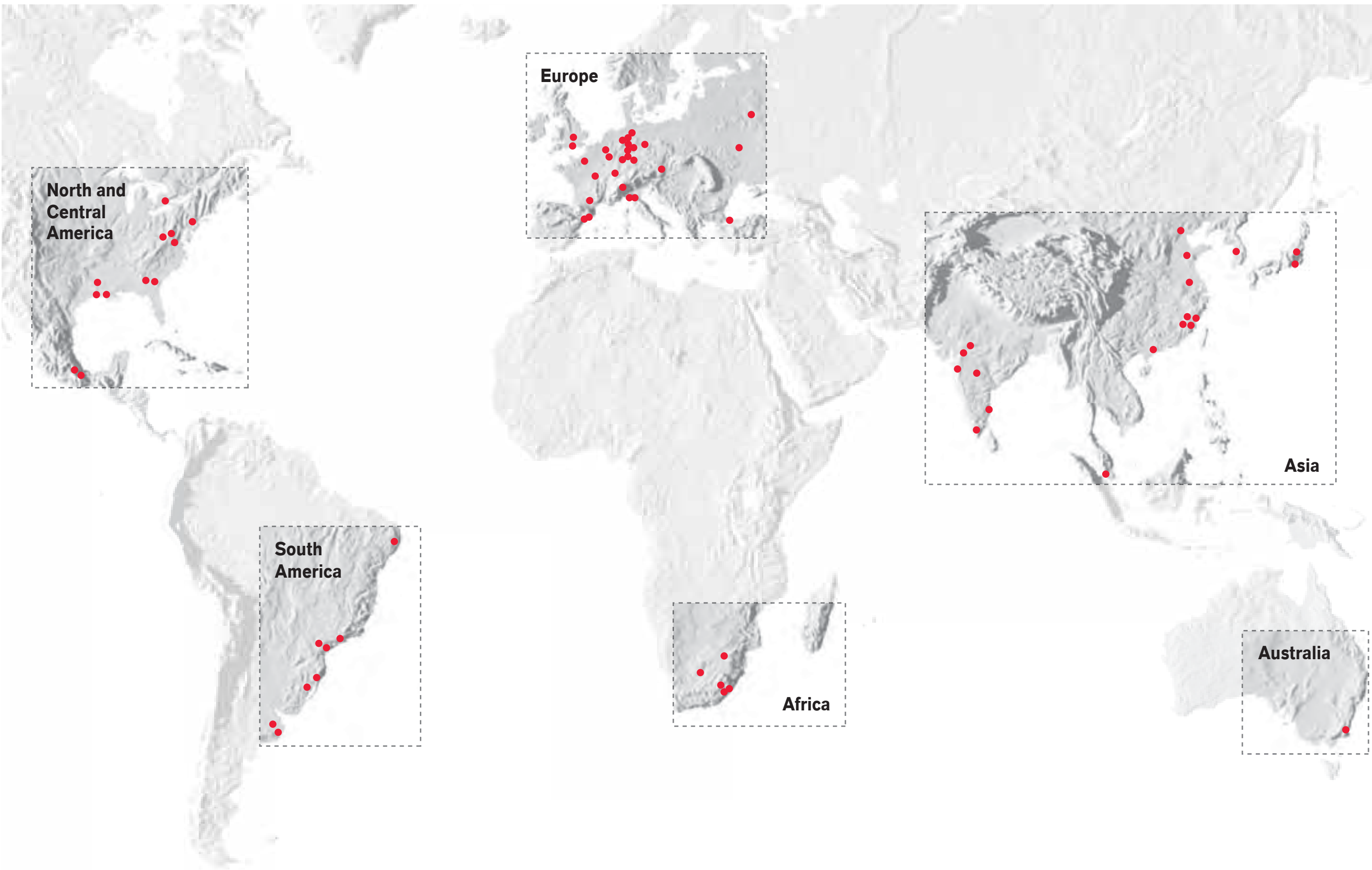
Business units	Advanced Industrial Intermediates
	Saltigo
Sites	Brunsbüttel, Dormagen, Krefeld-Uerdingen and Leverkusen, Germany
	Baytown, U.S.A.
	Liyang, China
	Nagda, India
Applications	Agrochemicals
	Automotive
	Construction
	Dyestuffs
	Coatings
	Pharmaceuticals

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
	Branston, United Kingdom
	Filago, Italy
	Vilassar de Mar, Spain
	Isithebe, Merebank, Newcastle and Rustenburg, South Africa
	Burgettstown, Bushy Park, Chardon, Greensboro, Little Rock and Pittsburgh, U.S.A.
	Burzaco, Merlo and Zárate, Argentina
	Porto Feliz, Brazil
	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
	Polymer additives
	Leather processing products
	Tire chemicals
	Water treatment products

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 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 for them. This enables us to strengthen customer loyalty, clearly 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 megatrends:

- The growing demand for mobility, particularly in China, India and other large emerging economies, and the simultaneous need to make mobility more environmentally friendly.
- Agriculture, which will have to satisfy 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. All these people will need living space, offices and a robust infrastructure. According to current forecasts, nearly 70% of the world population will be city-dwellers in 2050.
- 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. We have always safeguarded our profitability with our price-before-volume strategy, which involves passing the volatility in raw material prices on to the market.

In September 2012, we announced a new mid-term corporate target. We aim to raise our key controlling parameter – EBITDA pre exceptionals – to €1.8 billion in 2018. Our previous target of €1.4 billion in 2014 is to be achieved one year earlier than originally planned. We intend to achieve our mid-term targets through organic growth as well as through targeted acquisitions, with our focus on organic growth.

Capital expenditure strategy We make 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 expanding 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, at a minimum, preserve the Group's average return on capital employed 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 securing long-term 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

		2008	2009	2010	2011	2012
EBITDA pre exceptionals	€ million	722	465	918	1,146	1,225
EBITDA margin pre exceptionals	%	11.0	9.2	12.9	13.1	13.5
Capital employed	€ million	2,989	3,475	3,750	4,784	5,442
ROCE	%	15.4	5.9	17.0	17.2	15.6
Days of sales in inventories (DSI)	Days	66.9	55.1	53.7	60.1	64.7
Days of sales outstanding (DSO)	Days	44.6	47.0	46.3	49.9	47.4
Net financial liabilities	€ million	864	794	913	1,515	1,483
Net debt ratio		1.2x	1.7x	1.0x	1.3x	1.2x
Investment ratio	%	5.4	6.8	7.4	8.0	8.1

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 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 of this combined 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 set no sales targets, either for the short term or medium term.

Company-specific lead indicators

Lead indicators support the timely identification of material changes in assets and liabilities, financial condition and earnings performance and the initiation of appropriate measures.

Our annual budget and planning process delivers key values for the Group's profitability and our ability to finance operations from our own funds as the starting point for steering the company. This information is used, for example, to make financing and capital expenditure decisions. To ensure a timely response to changes in market conditions and the competitive environment, operational forecasts are prepared twice each year as the basis for updating the full-year budget and the associated key values we use to control the Group. In addition, regular forecasts of the key controlling parameters are prepared.

Certain parameters used in the forecasts are defined centrally and applied uniformly because they have a major influence on the key values. Strategic raw materials, like butadiene, play a crucial role in forecasting. The ongoing development of procurement prices has a significant impact on the timely adjustment of selling prices in line with our price-before-volume strategy. Even regional differences in the availability of raw materials over a specific period of time may become significant. Given the regional diversification of our production sites and customer markets, exchange rate development also affects the profitability resulting from sales and cost trends, with corresponding repercussions for pricing and hedging strategies. In addition, we draw on continuously updated growth forecasts for our customer industries and the regions where we do business in order to prepare and review sales and capital expenditure decisions.

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 capital expenditure decisions, for example. All new capital expenditure projects must at least meet 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.

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 with that of the market as a whole.

At 15.6%, ROCE in 2012 (2011: 17.2%) was well above our weighted average cost of capital (WACC), which was adjusted for comparability. After adjustment for the €500 million bond issued at the end of the reporting year to secure our long-term financing needs, ROCE was exactly the same as the previous year at 17.2%. The after-tax WACC, which is used for steering purposes, amounted to 8.4% and was unchanged from the previous 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 for the previous quarter. In 2012, DSI was at 64.7 days (2011: 60.1 days) and DSO at 47.4 days (2011: 49.9 days). 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. For more detailed information about our capital expenditure guidelines, please see the "Capital expenditure strategy" section above.

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. Due to the solid result for the reporting year and lower net financial liabilities at December 31, 2012, we were able to reduce the net debt ratio to 1.2, against 1.3 at the previous year's reporting date. We achieved a slight reduction in net financial liabilities despite continued high capital expenditures made in the implementation of our growth strategy.

Net Financial Liabilities

€ million	2008	2009	2010	2011	2012
Non-current financial liabilities	959[1]	1,462	1,302	1,465	2,167
Current financial liabilities	168	94	176	633	167
Less					
Liabilities for accrued interest	(14)	(47)	(41)	(55)	(54)
Cash and cash equivalents	(249)	(313)	(160)	(178)	(386)
Near-cash assets	0	(402)	(364)	(350)	(411)
	864	**794**	**913**	**1,515**	**1,483**

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

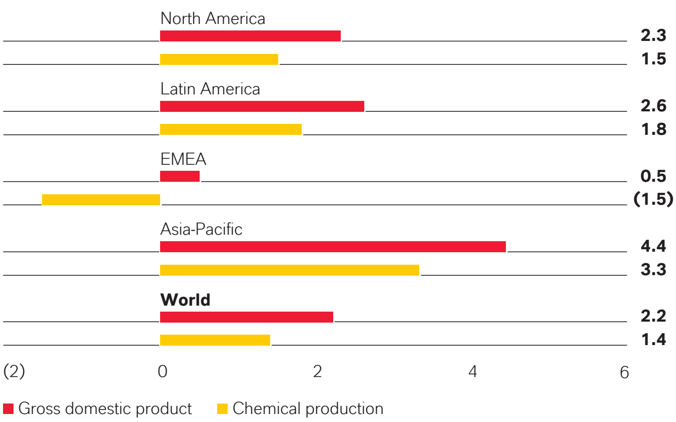
Legal environment

There were no changes in the legal environment in 2012 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 2012

Change vs. prior year in real terms (%), projected



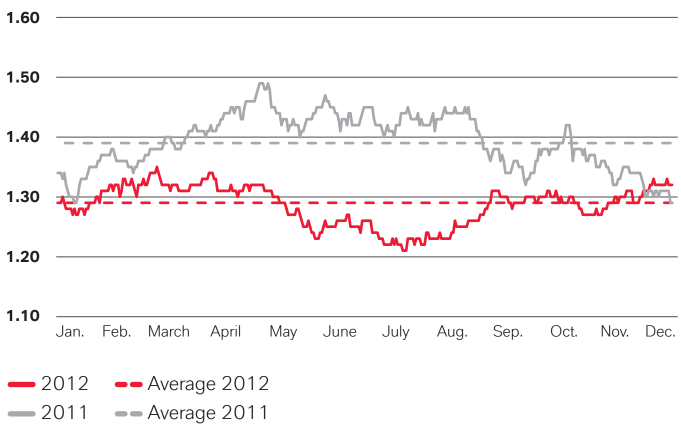
The economic environment

The public debt crisis of the established economies remained the dominant economic force in 2012. The U.S. economy was harmed by the debate about a higher debt ceiling and the length of time it took for a deal on the "fiscal cliff." North America posted growth of 2.3% in 2012. In Europe, the debt situation in several countries worsened, with the result that more aid was requested from the European bailout facility. There was no economic stimulus in many countries because of the austerity measures. Against this background, large parts of Western Europe slipped into recession with contraction of 0.2%. Germany posted growth of 0.9% in 2012, which was much better than the overall trend in Western Europe. The emerging economies likewise lost momentum. At 7.8%, growth in China was relatively weak but improved again at the end of the year. Overall, global economic growth slowed over the course of the year to 2.2%.

With sometimes high gains, the global capital markets – though volatile – broke free of the sluggish economic trend in 2012. The stock markets benefited from growing hope in the second half of the year in particular that lasting progress was being made in addressing the European public debt crisis. Germany's lead index, the DAX, gained nearly 30% for the year, putting it among the world's strongest indices. Japan's Nikkei Index, up about 23%, also posted considerable growth, some of which, of course, was attributable to the country's domestic economic recovery following the natural disaster in spring 2011. The U.S. Dow Jones Index and the British FTSE 100 also showed positive growth of a good 7% and nearly 6%, respectively.

The exchange rate between the euro and the U.S. dollar was slightly less volatile in 2012 than in the previous year. Against the backdrop of the European public debt crisis, the U.S. dollar gained tangibly on the euro up until around the middle of the year. In the second half, however, it gave back all those gains as a result of the stabilizing measures taken by the European Central Bank and the International Monetary Fund. At the end of the year, the euro was worth US$1.32, which represented a decrease in the value of the U.S. currency of about 2.3% in 2012. Its average price for the year was US$1.29, down sharply from the prior-year price of US$1.39. Due to the regional 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 further declines in economic momentum, the volatility of the raw material markets during the year gave way to a more stable price level at year-end. As a purchaser, we are particularly affected by the price trend for petrochemical raw materials, as it has a material impact on our production costs. Our most important strategic raw material, butadiene, was far more volatile than usual over the course of the year, with prices increasing sharply in the first few months, in particular. This trend reversed later in the year. By the end of 2012, butadiene was actually trading slightly below the prior-year level.

The chemical industry

The general economic trends had an impact on the chemical industry as well, where production growth was much lower than we expected, at 1.4%. The individual regions also lagged behind our forecasts. The growth rates of 6.0% in China and 1.5% in the NAFTA region reflected the weak economic development. The Asia-Pacific region was the industry's growth engine with a gain of 3.3%. In Europe, however, the industry could not escape the recession, shrinking by 2.0%. Production in Germany receded even further, down 3.3% on a strong prior year.

Evolution of major user industries

There was a slight decrease of 0.2% in global tire production. This decline was centered on Europe, down 5.0%, and the Americas, down 3.8%. In Asia, by contrast, output was up by 3.4%. China and India were the main drivers of this trend, with growth of 5.5% and 5.3%, respectively. In the heavy-duty commercial vehicle sector, the original equipment business was satisfactory only in North America and Japan. Elsewhere, the economic situation resulted in a downward trend in truck tire production. The demand for replacement tires receded worldwide in 2012. OEM tires for cars and lightweight commercial vehicles developed in line with automobile production. Customers spent noticeably less on replacement tires.

Global automobile production rose 4.9% in 2012. At 16.8%, most of this growth was in the NAFTA region, where a substantial backlog had built up in the several years since the financial crisis. Japan and Southeast Asia likewise posted high growth rates of 20.5% and 31.5%, respectively. Of course, these were attributable to the exceptionally low production levels in the previous year resulting from the natural disaster in early 2011. Overall, Asian automotive production rebounded with strong growth of 9.2%. In Europe, a particularly important market for LANXESS, the automotive sector was also impacted by the macroeconomic problems, with production down by 7.6%. In Germany, too, output declined by a steep 7.1%. Likewise, production in South America was impacted by the economic situation, decreasing by 2.0%.

Global production of chemicals for the agricultural industry expanded by 3.0% due to continued high demand for agricultural products. The drought in the NAFTA region caused a slight decrease of 0.6% there. By contrast, growth of 3.9% was recorded in Western Europe, with production in Germany expanding by 6.1%.

The construction industry worldwide posted growth of 3.0%. Europe was the biggest drag on the global trend, with contraction of 4.6% in Western Europe. Germany showed a slightly positive trend with an increase of 0.4%. The main growth engine was Asia, especially China and India where business was up 8.7% and 7.4%, respectively. Construction in the NAFTA region remained slow, with a gain of 2.0%.

Evolution of Major User Industries in 2012

Change vs. prior year in real terms (%) (projected)	Tires	Automotive	Agrochemicals	Construction
Americas	(3.8)	12.1	(0.2)	2.8
NAFTA	(3.7)	16.8	(0.6)	2.0
Latin America	(3.9)	(2.0)	0.4	6.7
EMEA	(5.0)	(7.6)	4.3	(3.1)
Germany	(7.8)	(7.1)	6.1	0.4
Western Europe	(7.7)	(9.8)	3.9	(4.6)
Central and Eastern Europe	(1.5)	4.4	8.8	8.8
Asia-Pacific	3.4	9.2	3.8	3.8
World	**(0.2)**	**4.9**	**3.0**	**3.0**

Key events influencing the company's business

Fiscal 2012 was characterized, in particular, by the development of Europe's debt crisis and the associated slump in demand, especially in the automotive and construction sectors. This trend spread to other regions as the year progressed, and contrasted with the momentum from further growth in the demand for agricultural products. The extremely low to negative growth rates posted by the tire and automotive industries in some regions had a tangible effect on our Performance Polymers segment. The volatility in raw material prices during the reporting year did not negatively impact our business due to the consistent application of our price-before-volume strategy.

Declining demand over the course of 2012, particularly from the European and Latin American automotive sectors, hampered sales growth in our Performance Polymers segment primarily because of lower volumes. The segment achieved a modest improvement in earnings compared with the previous year, in part because of the price adjustments driven by the volatility of raw material prices. The situation in the European automotive industry held back development in some of the business units of our Performance Chemicals segment as well.

Continuing growth in demand for agricultural products increased sales of our agrochemical precursors.

Performance varied from region to region. North America and Asia-Pacific were our most successful reporting regions with nearly double-digit growth rates in sales. Sales in all of the other regions were essentially level with the previous year. Adjusted for currency and portfolio effects, the sharpest decline in business was seen in Latin America. This was partly due to the decrease in the price of a key raw material as well as to lower demand from the tire and automotive-related industries.

Comparison of forecast and actual business

Fiscal 2012 was dominated by opposing developments in the mobility and agriculture megatrends. While mobility was affected by lower business volumes for the automotive industry and its suppliers, agriculture recorded dynamic growth due to the rising demand for agricultural products.

At the beginning of 2012, we had assumed that our key customer industries would continue to perform well, albeit with regional differences. In retrospect, our business with the automotive industry and its suppliers trended positively in North America, in particular, but negatively in Europe. Agrochemicals profited from stable demand in all regions. The construction sector performed satisfactorily in North America and parts of Eastern Europe, but was depressed especially in those countries severely affected by the European public debt crisis.

In our half-year financial report, we had confirmed the forecast quantified in our reporting for the first quarter of an increase in EBITDA pre exceptionals of 5% to 10% for 2012 compared with 2011. We had also assumed that EBITDA pre exceptionals in the second half of 2012 would match the level of the second half of 2011. A result of €1,225 million was posted in the year under review, which is about 7% higher than the prior year and within the guidance range.

Our segments posted a gratifying performance, which was driven largely by positive price, portfolio and currency effects and negative volume effects.

Based on the assumption that the trend toward higher procurement costs, especially for petrochemical raw materials, would also continue beyond 2012, we had forecast volatile raw material prices. While raw material prices initially rose in the first months of the year, this trend reversed toward the end of the second quarter, with the result that the weighted index of our raw material prices was just below the level seen at the end of December 2011. Declining prices for the raw material butadiene drove this development, while other raw materials were slightly more expensive. Developments thus far are therefore consistent with our initial assumptions as we still expect raw material prices to increase over the long term.

In connection with our focused research and development activities, which are designed to facilitate our own customer- and market-oriented innovations and process improvements, research and development spending increased by 33% during the year. This percentage growth is below what was expected for the full year, because the costs for some projects accrued at different points in time than originally planned. The focus was on the Performance Polymers segment, with a share of about 59%.

In fiscal 2012, the cash outflow for capital expenditures totaled €696 million, which was at the upper end of the range of €650 million to €700 million we had forecast in the 2012 half-year financial report. Due to the implementation of a number of strategic investment projects and the launch of promising new growth initiatives, cash outflow for capital expenditures was thus €96 million higher in the reporting year than the figure of €600 million projected in the Annual Report 2011.

Comparison of Forecast and Actual Business 2012

	Forecast for 2012 in Annual Report 2011/ Q1 Interim Report	Forecast for 2012 in H1 Interim Report	Forecast for 2012 in Q3 Interim Report	Actual 2012
Business development: Group				
EBITDA pre exceptionals	5% to 10% increase	5% to 10% increase	5% to 10% increase	€1,225 million (= +7%)
Business development: segments				
Performance Polymers	solid business performance	solid business performance	solid business performance	Sales +2%
Advanced Intermediates	solid business performance	solid business performance	solid business performance	Sales +8%
Performance Chemicals	solid business performance	solid business performance	solid business performance	Sales +3%
Raw material prices	volatile, long-term trend upward	volatile, long-term trend upward	volatile, long-term trend upward	volatile, in some cases higher
Research and development				
Research and development expenses	+40%	+40%	+40%	+33%
Financial condition: Group				
Cash outflows for capital expenditures	€600 million	€650–700 million	€650–700 million	€696 million

Business performance of the LANXESS Group

- Slight sales growth of 3.6%, largely due to currency and portfolio effects with offsetting volume effect
- Substantial sales growth in North America and Asia-Pacific regions
- EBITDA pre exceptionals up 6.9% to €1,225 million
- EBITDA margin pre exceptionals up to 13.5% from 13.1% the previous year
- Net income of €514 million slightly above prior-year level
- Earnings per share of €6.18, up from €6.08
- Statement of financial position and financing structure still solid
- Net debt ratio improves from 1.3 to 1.2

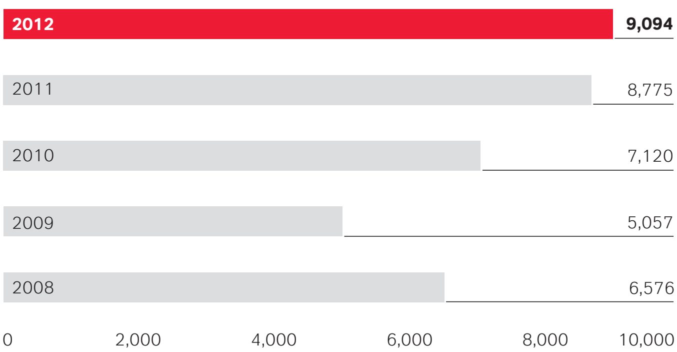
Key Financial Data

€ million	2011	2012	Change %
Sales	8,775	9,094	3.6
Gross profit	2,010	2,108	4.9
EBITDA pre exceptionals	1,146	1,225	6.9
EBITDA margin pre exceptionals	13.1%	13.5%	–
EBITDA	1,101	1,188	7.9
Operating result (EBIT) pre exceptionals	826	849	2.8
Operating result (EBIT)	776	810	4.4
EBIT margin	8.8%	8.9%	–
Financial result	(121)	(141)	(16.5)
Income before income taxes	655	669	2.1
Net income	506	514	1.6
Earnings per share (€)	6.08	6.18	1.6

Sales and earnings

Group Sales

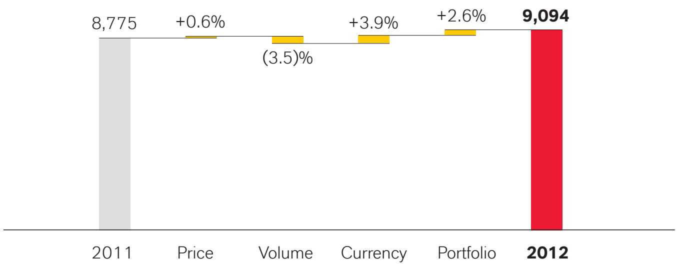
€ million



LANXESS Group sales rose by 3.6% from €8,775 million in the prior year to €9,094 million. The course of business was shaped by a portfolio effect of 2.6% relating, in particular, to the acquisition of the Keltan EPDM business in 2011 as well as by positive currency effects of 3.9% resulting mostly from movement in the U.S. dollar. Declining volumes, down 3.5% from the strong prior-year level, had an offsetting effect. Selling prices were raised by a slight 0.6% over the prior year.

Effects on Sales

€ million/%



Sales in our Performance Polymers segment expanded by 2.3% in the reporting year. Alongside the favorable movement in exchange rates, this was due particularly to the tangible contribution to sales by the Keltan EPDM business acquired from DSM in May 2011. The two effects offset a mid-single-digit percentage drop in volumes. Selling prices in this segment remained at the prior-year level.

The Advanced Intermediates segment posted a sales increase of 8.3%, largely resulting from the increase in volumes attributable to the continued strong demand for agrochemicals. High purchase prices for raw materials were offset by selling price adjustments. This, as well as the positive exchange rate trend, contributed to the gratifying business performance.

Our Performance Chemicals segment also grew sales, achieving an increase of 3.4% on the previous year. Lower volumes were offset by positive currency effects and a slight adjustment in selling prices. In addition, there was a positive portfolio effect from the acquisitions made in 2011 and 2012. These activities were assigned to the Rhein Chemie, Material Protection Products and Functional Chemicals business units.

Sales by Segment

€ million	2011	2012	Change %	Proportion of Group sales %
Performance Polymers	5,059	5,176	2.3	56.9
Advanced Intermediates	1,545	1,674	8.3	18.4
Performance Chemicals	2,130	2,203	3.4	24.2
Reconciliation	41	41	0.0	0.5
	8,775	**9,094**	**3.6**	**100.0**

We grew sales by around 10% in both the North America and Asia-Pacific regions. The Performance Chemicals segment was the main growth driver in the North American market in both absolute and relative terms. Business in the Asia-Pacific region was still dominated by the Performance Polymers segment, which posted sales growth in the low-double-digit percentage range. Sales in the other regions were essentially level with the previous year.

Order book status

Most of our business is not subject to long-term agreements on fixed volumes or 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 did not rise as steeply as sales, increasing by 3.3% from the prior year to €6,986 million. Gross profit advanced by €98 million to €2,108 million. The gross profit margin improved slightly, up 0.3% to 23.2%. The softer demand led to a corresponding drop in volumes. This was offset by a significant positive net effect from exchange rates as well as portfolio effects from the prior-year acquisitions, including, in particular, the Keltan EPDM business. Changes in raw material prices were passed on to the market at Group level, which had a positive net effect on gross profit. There was a deflationary effect on the price of butadiene, in particular, over the course of the year, which contrasted with price increases, some substantial, for nearly all of our other strategic raw materials, including isobutylene, benzene, toluene and cyclohexane. Capacity utilization, at roughly 81%, was 5 percentage points below the level for 2011 due to the decline in demand over the course of the year and the associated adjustments to inventory management. The resulting idle capacity costs adversely affected earnings.

EBITDA and operating result (EBIT)

Selling expenses rose by €31 million to €763 million in 2012, mainly due to portfolio and currency effects. The ratio of selling expenses to sales edged up from 8.3% to 8.4%.

Research and development costs increased by 33.3% to €192 million, underscoring the continued expansion of research activities as part of the LANXESS Technology Initiative. As a percentage of sales, they were higher than the prior-year level of 1.6%, at 2.1%. The number of employees in R&D grew to 843 as of December 31, 2012, up substantially from 731 on December 31, 2011.

General administrative expenses climbed from €325 million to €339 million in 2012. Reasons for this included portfolio effects from acquisitions made in the past. Their share in sales was 3.7%, which was unchanged from the prior year.

The other operating result, which is the balance between other operating income and expenses, improved by €29 million to minus €4 million. Adjusted for exceptional items, the other operating result would have been €18 million higher. This was partly due to the absence of one-off expenses from the previous year. The net exceptional charges of €39 million incurred in the reporting year, €37 million of which impacted EBITDA, related to reorganization projects and portfolio measures as well as expenses associated with improvements to the IT infrastructure. In the prior year, exceptional charges amounted to €50 million, €45 million of which impacted EBITDA. These were also associated primarily with restructuring and portfolio measures.

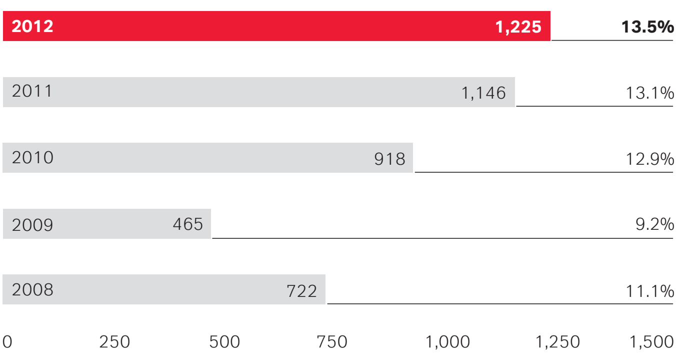
EBITDA Pre Exceptionals by Segment

€ million	2011	2012	Change %
Performance Polymers	768	817	6.4
Advanced Intermediates	264	305	15.5
Performance Chemicals	289	281	(2.8)
Reconciliation	(175)	(178)	(1.7)
	1,146	**1,225**	**6.9**

We increased our operating result before depreciation and amortization (EBITDA) pre exceptionals by €79 million, or 6.9%, to €1,225 million in 2012, from €1,146 million the year before. This improvement was primarily due to positive exchange rate effects, selling price adjustments made in response to raw material costs, and portfolio effects, especially from the acquisition of the Keltan EPDM business. These effects outweighed the negative effects, particularly from lower demand. The Group's EBITDA margin pre exceptionals improved from 13.1% to 13.5%.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



EBITDA pre exceptionals in our Performance Polymers segment grew by 6.4% against the previous year. Positive portfolio and currency effects more than compensated for the decrease in volumes. The positive portfolio effect from the acquisition of the Keltan EPDM business in May 2011 also offset further cost increases, for example in production. Earnings rose by a substantial 15.5% in the Advanced Intermediates segment due largely to the growth in volumes. In addition, higher prices for raw materials were passed on to the market in full. By contrast, the Performance Chemicals segment posted a decrease in EBITDA pre exceptionals of 2.8%. A slight increase in raw material prices was offset by corresponding selling price adjustments. The negative earnings impact of lower sales volumes was neutralized by positive currency changes of a comparable magnitude. Taken together, however, these effects and a portfolio effect were not sufficient to fully offset the segment's higher costs in areas like production and energies, with the result that segment earnings were below 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 from the expansion of centrally led cross-segment research activities and to a slight increase in personnel expenses.

The operating result (EBIT) improved tangibly in the reporting year, from €776 million to €810 million.

Reconciliation of EBIT to Net Income

€ million	2011	2012	Change %
Operating result (EBIT)	**776**	**810**	**4.4**
Income from investments accounted for using the equity method	7	1	(85.7)
Net interest expense	(93)	(96)	(3.2)
Other financial income and expenses – net	(35)	(46)	(31.4)
Financial result	**(121)**	**(141)**	**(16.5)**
Income before income taxes	**655**	**669**	**2.1**
Income taxes	(148)	(154)	(4.1)
Income after income taxes	**507**	**515**	**1.6**
of which:			
attributable to non-controlling interests	1	1	0.0
attributable to LANXESS AG stockholders (net income)	506	514	1.6

Financial result

The financial result came in at minus €141 million in fiscal 2012, compared with minus €121 million for the prior year. The pro-rated income from investments accounted for using the equity method, primarily Currenta GmbH & Co. OHG, Leverkusen, Germany, came to €1 million, against €7 million the previous year. Interest expense was nearly level year on year. The capitalization of a portion of borrowing costs, mainly relating to the construction of the new butyl rubber plant in Singapore, had a positive effect on the financial result. The amount capitalized was higher than the previous year and offset the slight decline in interest income. In total, net interest expense was €3 million higher than in the previous year at €96 million. The balance of other financial income and expense items was impacted by a value adjustment of €18 million of the carrying amount of the interest in Gevo Inc., Englewood, United States, in light of that company's share price performance. This figure included the accumulated losses of €10 million previously reported in other comprehensive income that were removed from equity and reclassified to the financial result during the reporting year.

Income before income taxes

Due to the positive EBIT trend, income before income taxes rose by €14 million to €669 million.

Income taxes

In fiscal 2012, the Group had tax expense of €154 million, compared with €148 million the year before. The Group's tax rate was 23.0%, after 22.6% in the previous year.

Net income, earnings per share

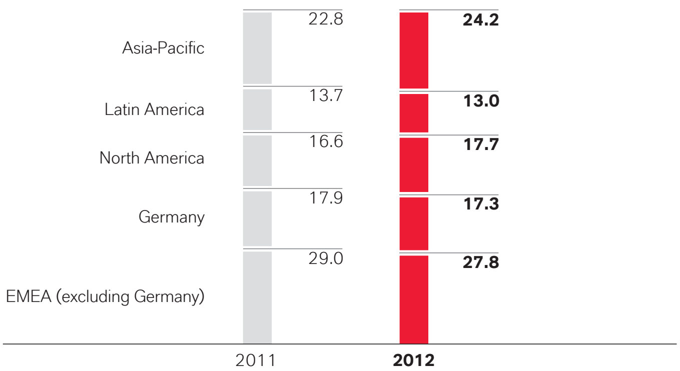
The LANXESS Group's net income increased by €8 million year on year to €514 million. As in the previous year, income of €1 million was attributable to non-controlling interests.

With the number of LANXESS shares in circulation unchanged, earnings per share increased by €0.10, or 1.6%, to €6.18, compared with €6.08 in 2011.

Business trends by region

Sales by Market

%



Sales by Market

	2011		2012		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	2,546	29.0	2,526	27.8	(0.8)
Germany	1,569	17.9	1,577	17.3	0.5
North America	1,458	16.6	1,611	17.7	10.5
Latin America	1,201	13.7	1,185	13.0	(1.3)
Asia-Pacific	2,001	22.8	2,195	24.2	9.7
	8,775	**100.0**	**9,094**	**100.0**	**3.6**

EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) receded by €20 million, or 0.8%, to €2,526 million in 2012. Adjusted for portfolio and currency effects, sales decreased by 4.1%. The Advanced Intermediates segment saw growth in the mid-single-digit range. Our Performance Polymers and Performance Chemicals segments, by contrast, posted sales declines in the high- and mid-single-digit percentage range. Sales in Eastern Europe and the Middle East decreased by a low-single-digit percentage compared to the previous year, whereas Western Europe recorded relative sales declines in the mid-single-digit range and with that dominated the operating performance in absolute terms. The region's sales decreased particularly in the Czech Republic, Italy, Spain, Switzerland and the United Kingdom. By contrast, the BRICS countries Russia and South Africa generated higher sales compared to the prior year.

The EMEA region (excluding Germany) accounted for 27.8% of Group sales, down 1.2 percentage points on the prior-year level.

Germany

In Germany, our sales came to €1,577 million in 2012, up €8 million, or 0.5%, over the previous year. However, when adjusted for portfolio effects, mostly from the Keltan EPDM business acquired in May of the previous year, sales receded by 1.2%. Performance Polymers and Performance Chemicals saw sales declines in the mid-single-digit range, while our Advanced Intermediates segment achieved growth of the same magnitude.

Germany's share of Group sales fell slightly from 17.9% to 17.3%.

North America

In this region, we generated sales of €1,611 million, up €153 million, or 10.5%, from the previous year. Adjusted for positive currency and portfolio effects, sales were down by 1.9%. This decrease was mainly the result of the development of business in the Performance Polymers segment, which posted a sales decline in the mid-single-digit percentage range against a strong prior year. The positive performance of the Advanced Intermediates and Performance Chemicals segments only partially offset this decrease.

At 17.7%, North America's share of Group sales was 1.1 percentage points higher than the prior-year level.

Latin America

Sales in Latin America receded by €16 million, or 1.3%, to €1,185 million in the reporting period. After adjusting for positive currency and portfolio effects, sales declined by 9.1%. This trend was due to weaker business performance in the Performance Polymers segment, which saw a sales decline in the low-double-digit percentage range as a result of the demand situation and the price of raw materials. By contrast, our Advanced Intermediates segment grew sales by a double-digit percentage. The Performance Chemicals segment also performed well, with sales growth in the high-single-digit range. The region's sales were mainly influenced by the course of business in Brazil.

Latin America's share of Group sales dropped slightly from 13.7% to 13.0%.

Asia-Pacific

Sales in this region advanced by €194 million, or 9.7%, to €2,195 million in 2012. After adjustment for currency and portfolio effects, sales grew by 0.4%. Our Performance Polymers and Advanced Intermediates segments achieved operational growth in the low-single-digit range, while sales in the Performance Chemicals segment declined by a mid-single-digit percentage.

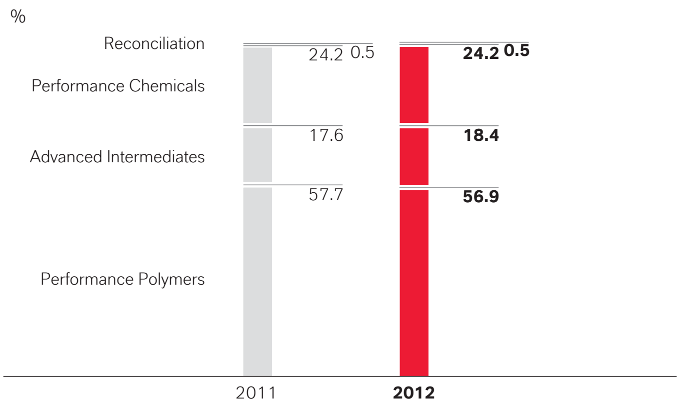
Our business in Thailand and Vietnam showed pleasing development but decreased slightly in China and Japan.

Asia-Pacific's share of Group sales increased year on year, from 22.8% to 24.2%. Thus, it remained the Group's second-strongest region in terms of sales.

Segment information

- Performance Polymers: portfolio and currency effects offset the effect of lower volumes on sales and earnings
- Advanced Intermediates: price adjustments in response to raw material prices drive sales; demand for agrochemicals lifts earnings
- Performance Chemicals: slight price increases as well as currency and portfolio effects offset the effect of lower volumes on sales; higher manufacturing costs impact earnings

Sales by Segment



Performance Polymers

Overview of Key Data

	2011 € million	2011 Margin %	2012 € million	2012 Margin %	Change %
Sales	5,059		5,176		2.3
EBITDA pre exceptionals	768	15.2	817	15.8	6.4
EBITDA	759	15.0	808	15.6	6.5
Operating result (EBIT) pre exceptionals	607	12.0	608	11.7	0.2
Operating result (EBIT)	598	11.8	599	11.6	0.2
Cash outflows for capital expenditures[1]	437		434		(0.7)
Depreciation and amortization	161		209		29.8
Employees as of Dec. 31	4,977		5,348		7.5

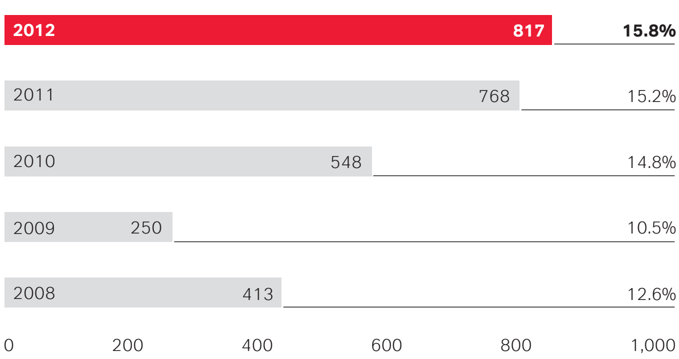
1) Intangible assets and property, plant and equipment

Our Performance Polymers segment posted a very solid performance compared to the strong prior year. Sales increased slightly by 2.3% to €5,176 million. Compared to the previous year, raw material prices were volatile and displayed differing trends, which led to timely adjustments in selling prices. The price for butadiene, in particular, one of this segment's key raw materials, trended sharply higher in the first half of the year, before declining significantly to below its initial price for the period, which resulted in a negative but insignificant price effect of 0.3% for the full year. Lower demand attributable to the weaker development of the automotive industry led to a decrease in volumes, especially in the second half of the year. This resulted in a volume decline of 5.5% for the full year. Positive currency effects of 4.7% and a portfolio effect of 3.4% lifted sales.

All of the segment's business units saw declining demand from their principal customer industries. Our Butyl Rubber and Performance Butadiene Rubbers business units, which are closely allied with the tire industry, posted slight declines in volumes in light of the weak sales in the automotive industry. In the Technical Rubber Products business unit, volumes decreased significantly for nearly all products because of restrained demand, especially in Asia. The High Performance Materials (formerly Semi-Crystalline Products) business unit reported largely unchanged volumes compared to the prior year. Sales declined, in part substantially, in nearly all reporting regions. In the Asia-Pacific region, we were able to slightly expand business.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



EBITDA pre exceptionals in the Performance Polymers segment rose by €49 million, or 6.4%, to €817 million. The price adjustments resulting from the change in raw material prices contributed a positive earnings effect at segment level. A drop in marginal income due to the decrease in volumes tangibly depressed earnings. Positive currency effects, particularly relating to the U.S. dollar, lifted earnings and offset rising production costs and increased research expenditures. Portfolio effects from the Keltan EPDM business acquired in May of the previous year were also accretive to earnings. The segment's EBITDA margin pre exceptionals rose from 15.2% to 15.8%.

The exceptional charges of €9 million that fully impacted the segment's EBITDA included expenses relating to the integration of acquired business activities. The exceptional charges of €9 million from the previous year that also fully impacted EBITDA related to corporate transactions and remediation measures at our site in Canada.

Advanced Intermediates

Overview of Key Data

	2011		2012		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,545		1,674		8.3
EBITDA pre exceptionals	264	17.1	305	18.2	15.5
EBITDA	245	15.9	311	18.6	26.9
Operating result (EBIT) pre exceptionals	198	12.8	238	14.2	20.2
Operating result (EBIT)	175	11.3	244	14.6	39.4
Cash outflows for capital expenditures[1]	107		92		(14.0)
Depreciation and amortization	70		67		(4.3)
Employees as of Dec. 31	2,883		2,841		(1.5)

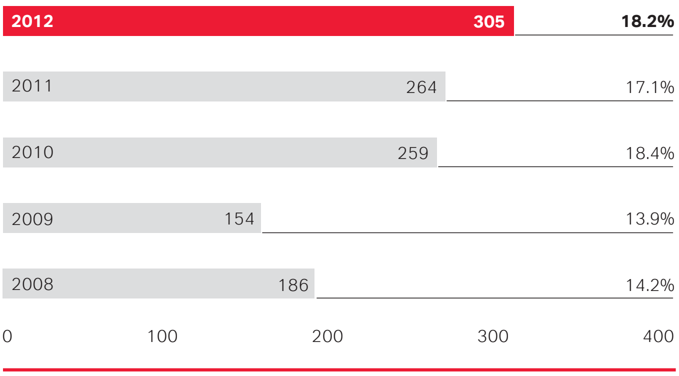
1) Intangible assets and property, plant and equipment

Sales in our Advanced Intermediates segment grew by €129 million, or 8.3%, to €1,674 million in 2012. Price increases implemented to compensate for higher raw material prices yielded a 3.9% price effect. Volumes rose by 2.2% due to improved demand. Exchange rates had a positive effect on sales of 2.2%.

Demand for agrochemicals provided the main impetus in the reporting period. Both of the segment's business units profited from this development. The Advanced Industrial Intermediates business unit posted year-on-year volume growth, especially with products from the aromatics network for the agrochemical industry. In addition, the market accepted our new production capacities for menthol. In relative terms, growth was strongest in Latin America, while the highest absolute growth was seen in Germany.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



EBITDA pre exceptionals in the Advanced Intermediates segment increased by €41 million, or 15.5%, to €305 million. Higher raw material prices, especially for petroleum derivatives like toluene and benzene, were offset at segment level with corresponding selling price adjustments. Solid demand in the agricultural sector led to a positive volume effect in both business units. Product mix effects and production process optimization compensated for rising energy costs, yielding a positive earnings effect overall. The favorable exchange rates also had a slightly positive effect. The EBITDA margin pre exceptionals increased as a result, from 17.1% to 18.2%.

Exceptional income of €6 million in 2012 related to the adjustment of a provision set up for a proactive and market-oriented realignment of the Saltigo business unit. This realignment was initiated in the prior year with the goal of gradually converting infrastructure and resources from the pharmaceuticals area for use by the growing agrochemicals business.

Performance Chemicals

Overview of Key Data

	2011		2012		Change
	€ million	Margin %	€ million	Margin %	%
Sales	2,130		2,203		3.4
EBITDA pre exceptionals	289	13.6	281	12.8	(2.8)
EBITDA	289	13.6	264	12.0	(8.7)
Operating result (EBIT) pre exceptionals	211	9.9	196	8.9	(7.1)
Operating result (EBIT)	211	9.9	177	8.0	(16.1)
Cash outflows for capital expenditures[1]	112		135		20.5
Depreciation and amortization	78		87		11.5
Employees as of Dec. 31	5,819		6,031		3.6

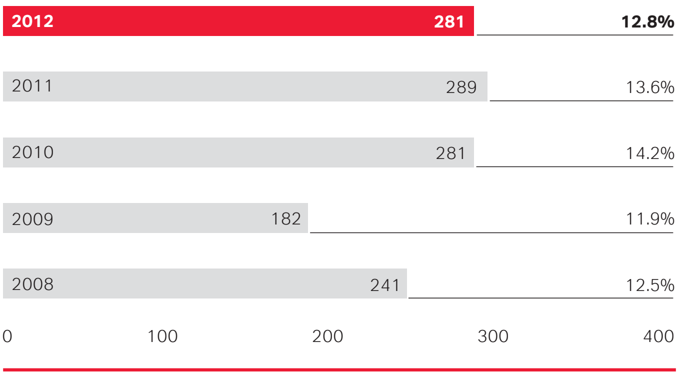
1) Intangible assets and property, plant and equipment

Sales in our Performance Chemicals segment rose 3.4% in fiscal 2012, from €2,130 million to €2,203 million. The growth was mainly attributable to currency effects of 3.3% and portfolio effects of 2.5%. Volumes, by contrast, receded by 3.0%. The portfolio effects related to businesses that had been acquired for our Material Protection Products, Functional Chemicals and Rhein Chemie business units. A price effect of 0.6% contributed to the sales growth.

Nearly all the segment's business units, but especially Rhein Chemie, raised selling prices. The exception was the Leather business unit, where prices decreased substantially in light of low prices on the chrome ore market. The segment's volumes were below the prior-year level, with almost all business units experiencing declines. Volumes were down sharply in both absolute and percentage terms in the Rubber Chemicals and Rhein Chemie business units especially, which generate a substantial portion of their sales with automotive-related industries and were affected by weak demand from their main customer industries. Moreover, the weaker macroeconomic environment noticeably impacted the segment. The restrained demand had a tangible effect in the EMEA region (excluding Germany) and in Germany, while Latin America went against the trend to post a significant percentage gain.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



EBITDA pre exceptionals for the Performance Chemicals segment receded by €8 million, or 2.8%, from the prior year to €281 million. This decline was largely attributable to higher energy and other production costs as well as slightly higher research expenditures. Higher raw material costs were passed on in full to the market at segment level. In addition, there was a slightly positive portfolio effect from the acquisitions made and the supporting effect of exchange rates. In sum, however, these were not enough to offset the higher costs. Segment earnings were also impacted by production limitations arising from an instable CO_2 supply at a manufacturing facility in South Africa. On account of the effects described, the EBITDA margin pre exceptionals decreased from 13.6% to 12.8%.

The segment had exceptional items of €19 million in the reporting year, €2 million of which did not impact EBITDA. These exceptional items related mainly to restructuring expenses in the Rubber Chemicals business unit.

Reconciliation

Overview of Key Data

€ million	2011	2012	Change %
Sales	41	41	0.0
EBITDA pre exceptionals	(175)	(178)	(1.7)
EBITDA	(192)	(195)	(1.6)
Operating result (EBIT) pre exceptionals	(190)	(193)	(1.6)
Operating result (EBIT)	(208)	(210)	(1.0)
Cash outflows for capital expenditures[1)]	23	35	52.2
Depreciation and amortization	16	15	(6.3)
Employees as of Dec. 31	2,711	2,957	9.1

1) Intangible assets and property, plant and equipment

The EBITDA pre exceptionals of minus €178 million reported in the Reconciliation (against minus €175 million in the prior year) was influenced in part by a planned expansion of central research activities. The exceptional charges of €17 million, which fully impacted EBITDA, primarily related to expenses for the design and implementation of IT projects and for portfolio adjustments, to the extent that these expenses could not be allocated to specific segments or business units. The exceptional charges of €17 million reported in the Reconciliation in 2011, all of which impacted EBITDA, also related to expenses for IT projects 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 capital expenditures and business-related increase in working capital
- Cash and cash equivalents grow following successful placement of €500 million bond
- Equity ratio improves against prior year
- Net financial liabilities of €1,483 million slightly below prior year

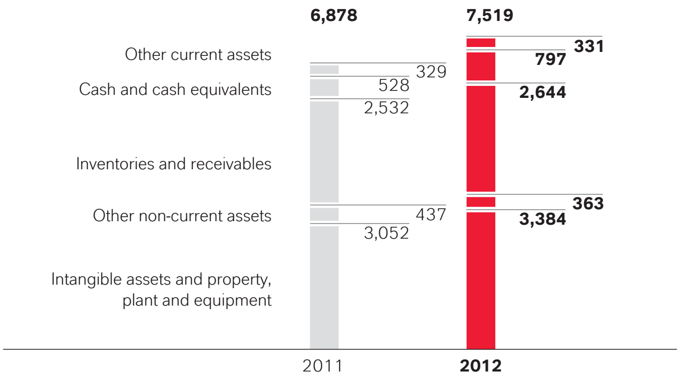
Structure of the Statement of Financial Position

	Dec. 31, 2011		Dec. 31, 2012		Change
	€ million	%	€ million	%	%
Assets					
Non-current assets	3,489	50.7	3,747	49.8	7.4
Current assets	3,389	49.3	3,772	50.2	11.3
Total assets	**6,878**	**100.0**	**7,519**	**100.0**	**9.3**
Equity and liabilities					
Equity (including non-controlling interests)	2,074	30.2	2,331	31.0	12.4
Non-current liabilities	2,715	39.5	3,558	47.3	31.0
Current liabilities	2,089	30.3	1,630	21.7	(22.0)
Total equity and liabilities	**6,878**	**100.0**	**7,519**	**100.0**	**9.3**

Structure of the statement of financial position Total assets of the LANXESS Group amounted to €7,519 million as of December 31, 2012, an increase of €641 million, or 9.3%, on the prior-year figure. This was primarily due to capital expenditures for property, plant and equipment made during the year, the increase in cash and cash equivalents, and the rise in working capital. The ratio of non-current assets to total assets decreased from 50.7% to 49.8%. On the equity and liabilities side, non-current liabilities especially were higher due to the bonds issued during 2012. At the end of 2012, the equity ratio was 31.0%, after 30.2% in the previous year.

Structure of the Statement of Financial Position – Assets

€ million



Non-current assets rose by €258 million, or 7.4%, to €3,747 million. Intangible assets and property, plant and equipment increased by €332 million to €3,384 million, above all due to capital expenditures and acquisitions. Cash outflows for purchases of property, plant, equipment and intangible assets, at €696 million, were above the prior-year figure of €679 million. Depreciation and amortization totaled €378 million, against €325 million in the previous year. The carrying amount of investments accounted for using the equity method decreased by €4 million, or 33.3%, to €8 million. The change resulted mainly from the net asset-driven adjustment to the carrying amount in Currenta GmbH & Co. OHG. The earnings performance of the joint venture company LANXESS-TSRC (Nantong) Chemical Industrial Co. Ltd., China, was also a factor. The change in investments in other affiliated companies was mostly influenced by the purchase of a strategic minority interest in BioAmber, Inc., Minneapolis, United States, and a compensating effect from the fair-value adjustment of the investment in Gevo Inc., Englewood, United States, in light of that company's recent share price development. Other non-current financial assets declined by €74 million, or 90.2%, to €8 million due especially to the sale of other securities.

Current assets increased by €383 million, or 11.3%, against the prior year, to €3,772 million. The ratio of current assets to total assets rose to 50.2% from 49.3% in the previous year. Inventories grew by €141 million to €1,527 million. With the currency effect slightly negative, this was primarily due to a modest increase in inventory levels, in part to prepare for a technology conversion in early 2013 at our site in Geleen, Netherlands. Days of sales in inventories (DSI) increased to 64.7 from 60.1 in 2011. Trade receivables decreased by €29 million to €1,117 million against the previous year, mainly due to slightly negative currency effects. Days of sales outstanding (DSO) came in at 47.4, compared with 49.9 in the previous year. Minimal portfolio effects from the acquisitions made during the reporting year had no significant influence on working capital. As a result of the financing measures undertaken in 2012, the total of cash, cash equivalents and near-cash assets increased by €269 million against the end of 2011, to €797 million.

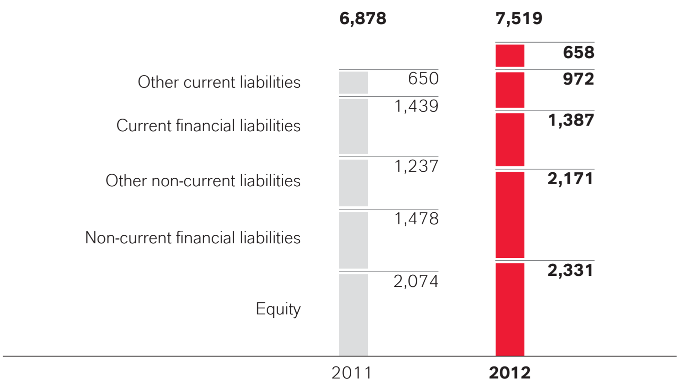
The LANXESS Group has significant internally generated intangible assets that are not reflected in the statement of financial position due to accounting rules. These include the brand equity of LANXESS and the value of the Group's other brands. A variety of measures was deployed in the reporting period to continually enhance these assets, which contributed to our continued 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 central pillars of our corporate success. In addition, we have sophisticated production and business processes that create competitive advantages for us in the relevant markets.

Structure of the Statement of Financial Position – Equity and Liabilities

€ million



Equity, including non-controlling interests, amounted to €2,331 million, up from €2,074 million in the previous year. The equity ratio was 31.0% after 30.2% at the end of 2011. A prominent factor in the equity increase was the high net income for the year. This was partly offset by negative currency translation adjustments in other equity components and by the dividend payout of €71 million to LANXESS AG stockholders in May 2012.

Non-current liabilities rose by €843 million to €3,558 million as of December 31, 2012. This resulted mainly from the other non-current financial liabilities, which were €702 million higher than the previous year at €2,167 million. The increase was due to the issue of a €500 million Eurobond in November 2012. In addition to a three-year CNH 500 million (roughly €60 million) Chinese off-shore renminbi bond, we issued two further bonds with a volume of €100 million each and maturities of 10 and 15 years, respectively. Provisions for pensions and other post-employment benefits increased by €213 million as against the end of 2011, to €892 million. This was mainly due to a decrease in the interest rates used to measure the provisions. The ratio of non-current liabilities to total assets was 47.3%, up substantially from 39.5% at the end of 2011.

Current liabilities decreased by €459 million, or 22.0%, to €1,630 million against December 31, 2011. This was due primarily to the scheduled redemption of the Eurobond issued in 2005. At €795 million, trade payables were slightly higher than the €766 million reported at year end 2011 due to a small increase in purchasing volumes. The ratio of current liabilities to total assets was 21.7% as of December 31, 2012, down from 30.3% at year end 2011.

Net financial liabilities decreased by €32 million from the previous year to €1,483 million. High cash inflows from operating activities more than offset the cash outflows for capital expenditures, interest and dividends as well as the working capital.

The Group's key ratios developed as follows:

Ratios

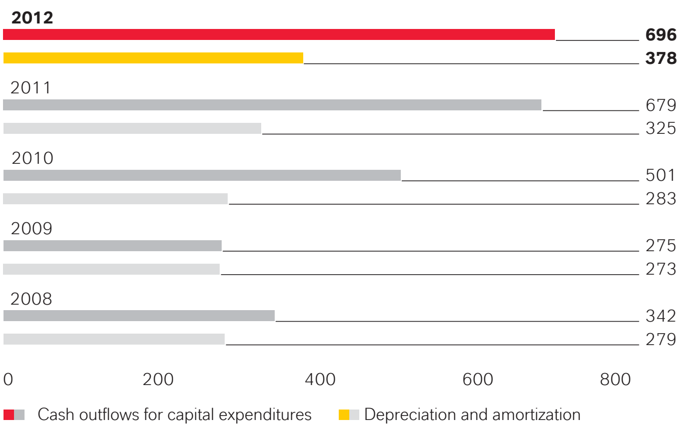
%		2008	2009	2010	2011	2012
Equity ratio	Equity[1] / Total assets	29.2	28.5	31.1	30.2	31.0
Non-current asset ratio	Non-current assets / Total assets	47.2	47.0	48.3	50.7	49.8
Asset coverage I	Equity[1] / Non-current assets	61.7	60.7	64.3	59.4	62.2
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	151.8	165.8	153.9	137.3	157.2
Funding structure	Current liabilities / Total liabilities	40.0	30.9	37.2	43.5	31.4

1) Including non-controlling interests

Capital expenditures In 2012, capital expenditures for property, plant and equipment and intangible assets came to €734 million, compared with €700 million the year before, and led to cash outflows of €696 million (2011: €679 million). Depreciation and amortization totaled €378 million in the same period (2011: €325 million). This figure included €2 million in impairments reported as exceptional items (2011: €5 million). Adjusted for these impairments, capital expenditures in support of our growth strategy exceeded depreciation and amortization by a substantial 95% (2011: 118%).

Cash Outflows for Capital Expenditures vs. Depreciation and Amortization

€ million



In the reporting year, capital expenditures focused on the following areas:

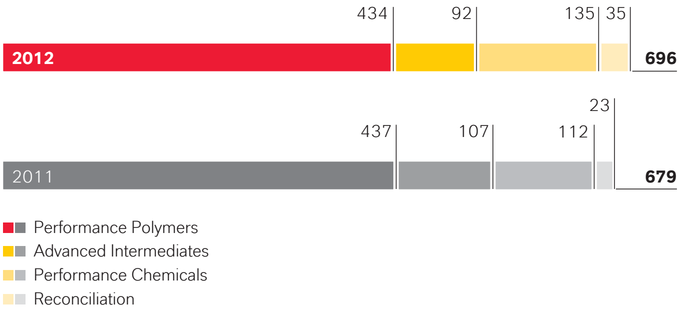
- construction of new facilities, expansion and maintenance of existing facilities;
- measures to increase plant availability;
- projects to improve plant safety, enhance quality and comply with environmental protection requirements.

Roughly two-thirds of the capital expenditures in 2012 went toward expansion or efficiency improvement measures, while the rest went to modify and maintain existing facilities. This underlines our goal of generating further organic growth through investment, as described under "Earnings strategy" in the "Strategy" section of this combined management report.

In regional terms, 29% of capital expenditures in 2012 were made in Germany, 22% in the EMEA region (excluding Germany), 9% in North America, 6% in Latin America and 34% in Asia-Pacific. Major capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in all segments, especially capacity improvements for the Advanced Industrial Intermediates business unit and the expansion of several plants for the Technical Rubber Products 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 so far in our company's history.

Cash Outflows for Capital Expenditures by Segment

€ million



In the Performance Polymers segment, capital expenditures amounted to €455 million (2011: €447 million), €434 million (2011: €437 million) of which were cash outflows. Depreciation and amortization amounted to €209 million (2011: €161 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 €104 million (2011: €117 million). Cash outflows came to €92 million (2011: €107 million), exceeding the depreciation and amortization of €67 million (2011: €70 million). This figure includes capital expenditures in the Advanced Industrial Intermediates business unit for expansion of the formalin plant in Leverkusen, Germany, and expansion of menthol production in Krefeld-Uerdingen, Germany. In the Performance Chemicals segment, capital expenditures came to €139 million (2011: €113 million), €135 million (2011: €112 million) of which were cash outflows. Depreciation and amortization stood at €87 million (2011: €78 million). Key capital expenditures were the start of construction of a new CO_2 concentration unit in Newcastle, South Africa, and construction of a production facility for leather chemicals in Changzhou, China, for the Leather business unit.

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

Selected Capital Expenditure Projects 2012

Segment	Site	Description
Performance Polymers		
Butyl Rubber	Singapore	Construction of a new butyl rubber plant, start-up in the first quarter of 2013
Performance Butadiene Rubbers	Singapore	Construction of a new neodymium polybutadiene rubber plant, start-up in the first half of 2015
Technical Rubber Products	Dormagen, Germany	Expansion of production capacities for chloroprene and ethylene vinyl acetate rubbers
Technical Rubber Products	Geleen, Netherlands	Investment to convert EPDM rubber production to the innovative Keltan ACE technology, completion in 2013
Technical Rubber Products	Changzhou, China	Construction of an EPDM rubber plant, start-up in 2015
High Performance Materials	Jhagadia, India; Gastonia, U.S.A.; Porto Feliz, Brazil	Construction of three new compounding plants for high-tech plastics, completion in Brazil in 2013
High Performance Materials	Antwerp, Belgium	Expansion of glass fiber capacities
High Performance Materials	Antwerp, Belgium	Construction of a new polyamide plastics plant, start-up in the first quarter of 2014
Advanced Intermediates		
Advanced Industrial Intermediates	Leverkusen, Germany	Expansion of cresol production, completion mid-2013
Advanced Industrial Intermediates	Krefeld-Uerdingen, Germany	Expansion of menthol production
Performance Chemicals		
Rhein Chemie	Porto Feliz, Brazil	Construction of a plant for curing bladders, start-up in 2013
Rhein Chemie	Lipetsk, Russia	Construction of a new plant for rubber additives and release agents, start-up in the first half of 2013
Inorganic Pigments	Krefeld-Uerdingen, Germany	Modernization and expansion of the water treatment plant
Leather	Changzhou, China	Construction of a new plant for leather chemicals, start-up in the first half of 2013
Leather	Newcastle, South Africa	Construction of a CO_2 concentration unit, start-up in the second half of 2013

Expansion of investment portfolio Please see "Additions to the Group portfolio" in this combined management report for more information on the subsidiaries and affiliates added to our portfolio in fiscal 2012.

Financial condition

- High operating cash flow thanks to solid business performance
- Business-related increase in cash tied up in working capital
- Cash used for investing activities reflects extensive capital expenditures for growth projects
- Maturity profile of financial liabilities significantly extended
- High level of liquidity to support growth strategy

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

Cash Flow Statement

€ million	2011	2012	Change
Income before income taxes	655	669	14
Depreciation and amortization	325	378	53
Other items	(52)	(91)	(39)
Net cash provided by operating activities before change in working capital	**928**	**956**	**28**
Change in working capital	(256)	(118)	138
Net cash provided by operating activities	**672**	**838**	**166**
Net cash used in investing activities	**(923)**	**(674)**	**249**
Net cash provided by financing activities	**276**	**46**	**(230)**
Change in cash and cash equivalents from business activities	25	210	185
Cash and cash equivalents as of December 31	178	386	208

Cash provided by operating activities, before changes in working capital, increased by a slight €28 million to €956 million in fiscal 2012 compared to the year before. This was mainly due to the €14 million increase in income before income taxes to €669 million. The LANXESS Group's asset base has expanded due to our extensive investment and acquisition activities in recent years, and depreciation and amortization increased as a result from €325 million to €378 million. The other items include payments that had to be made to counterparties under roll-over hedges for intra-Group foreign currency loans due to the marked decrease in the value of the euro at times during the year. These payments did not affect earnings.

The increase in working capital compared with December 31, 2011 resulted in a cash outflow of €118 million. The outflow from the change in working capital in 2011 was €256 million. The development in both periods was mainly attributable to the replenishment of inventories and increase in receivables, as well as to higher raw material costs. This was financed from the high cash inflows yielded by operating activities.

LANXESS's investing activities in fiscal 2012 resulted in a cash outflow of €674 million, down from €923 million in the previous year. Disbursements for intangible assets and property, plant and equipment came to €696 million, which was just above the prior-year level of €679 million. The cash outflows for the acquisition of subsidiaries and other businesses, net of acquired cash and subsequent purchase price adjustments, amounted to €44 million, against €285 million the previous year. The companies acquired in the reporting year included, in particular, Tire Curing Bladders, LLC, Little Rock, United States, and Bond-Laminates GmbH, Brilon, Germany. Cash inflows from financial assets came to €41 million and mainly comprised the proceeds from the sale of short-term money market investments and a partial repayment of contributions by Currenta GmbH & Co. OHG. These were partially offset by cash outflows for the purchase of a 3.4% interest in BioAmber Inc.

Free cash flow – the difference between the cash inflows from operating activities and the cash used in investing activities – increased by €415 million from minus €251 million in 2011 to €164 million. The previous year's negative free cash flow was attributable to the acquisition of the Keltan EPDM business in May 2011.

Net cash provided by financing activities came to €46 million, against a net inflow of €276 million the year before. Cash inflows of €893 million comprised proceeds from borrowings, including, in particular, the issuance of bonds and private placements with a total volume of €760 million. A large portion of the outflows of €652 million for the repayment of borrowings was attributable to the repayment in the second quarter of 2012 of the remaining €402 million owed under a bond that was issued in 2005. Interest payments were comparable with the previous year's amounts. An outflow of €71 million was accounted for by the dividend paid to the stockholders of LANXESS AG in May (2011: €58 million).

The net change in cash and cash equivalents from business activities in fiscal 2012 was €210 million, against €25 million the previous year. After taking into account other changes in cash of minus €2 million, cash and cash equivalents at the closing date amounted to €386 million, against €178 million at the previous year's closing date.

Taken together with near-cash assets (short-term investment of liquid assets in money market funds) of €411 million, against €350 million the previous year, the Group retained a sound liquidity position of €797 million as of December 31, 2012, compared to €528 million at the end of 2011.

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, as an expression of the company's forward-looking debt management, LANXESS defined its first targeted leverage range in 2012. Measured as the ratio of net financial debt to EBITDA pre exceptionals, the debt level should stay between 1.0 and 1.5 through a normal business cycle. 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 2012, as in previous years. The ongoing volatility of the capital markets in the year under review had no negative impact on our solid financial position or our rating. This stable financial condition reliably supported our growth strategy and the attainment of 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 2012, the latter continued to assess LANXESS's creditworthiness with ratings of BBB and Baa2 with stable outlook. They emphasized the improved positioning of our businesses and the importance of our conservative financial policy in the retention of these ratings.

Financing analysis LANXESS started fiscal 2012 with a very sound financial and liquidity position.

Our financial portfolio improved over the course of 2012, especially due to capital market financings and the refinancing of our syndicated credit facility in the amount of €1.25 billion. We funded our organic growth with the increased earnings from business operations and financed additional growth using existing liquidity and credit lines. The issuance of a three-year Chinese offshore renminbi bond with a volume of CNH 500 million (equivalent to €60 million) and the first-ever issuance of two private placements with a volume of €100 million each have contributed to safeguarding the long-term liquidity. The private placements were made at the beginning of April 2012 under our debt issuance program and have terms of 10 and 15 years and coupons of 3.5% and 3.95%, respectively. In addition, in November 2012 we took advantage of the very positive market climate to issue our first-ever ten-year €500 million bond with a coupon of 2.625%. This helped us strengthen our liquidity position at favorable terms and created financial reserves for redemption of the €500 million bond that matures in 2014. These financing measures have improved the maturity profile of our financial liabilities. In the period under review, the remaining €402 million from the Eurobond issued in 2005 was repaid from existing liquidity. Accordingly, the cash and cash equivalents and near-cash assets items in the statement of financial position as of December 31, 2012 were €208 million and €61 million above prior-year levels at €386 million and €411 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 on the capital market very flexibly with respect to timing and volume. Each of the aforementioned bond issuances and private placements was based on this documentation. As of December 31, 2012, just under €2.0 billion of the €2.5 billion financing facility had been utilized to issue bonds and private placements.

Development of LANXESS Ratings and Rating Outlook Since 2008

	2008	2009	2010	2011	2012
Standard & Poor's	BBB/stable May 16, 2008	BBB/stable May 28, 2009	BBB/stable Sep. 1, 2010	BBB/stable Aug. 23, 2011	BBB/stable Aug. 31, 2012
Moody's Investors Service	Baa2/stable July 25, 2008	Baa2/stable May 26, 2009	Baa2/stable May 19, 2010	Baa2/stable Nov. 23, 2011	Baa2/stable Sep. 26, 2012
Fitch Ratings	BBB/stable Dec. 4, 2008	BBB/stable July 20, 2009	BBB/stable Dec. 17, 2010	BBB/stable Nov. 22, 2011	BBB/stable Sep. 13, 2012

In December 2012, we took early action to refinance our syndicated credit facility that is due to mature in 2014. The new syndicated credit facility, which amounts to €1.25 billion, runs until February 2018 and contains two one-year extension options. This proactive refinancing has enabled us to safeguard LANXESS's liquidity for the long term. The reduction in the amount of the facility from €1.408 billion to €1.25 billion is due to the higher weighting of capital market financing, while simultaneously preserving our strong liquidity position.

In total, we successfully obtained new financing of around €2.0 billion in 2012 through the issuance of the aforementioned bonds and private placements and through refinancing the syndicated credit facility. These measures will contribute sustainably to improving our financing costs and to optimizing our maturity profile. Moreover, they are important building blocks in the financing of our company's growth.

Current financial liabilities decreased from €633 million to €167 million, primarily due to the repayment of the remaining €402 million bond that matured in 2012.

We made only limited use of finance leases, which are reported as financial liabilities in the statement of financial position. As of December 31, 2012, the financial liabilities from finance leases amounted to €78 million, against €84 million in the previous year. The LANXESS Group uses operating leases mainly for operational reasons and not as a means of financing. Minimum future payments relating to operating leases totaled €496 million, against €418 million the previous year. The increase over the prior year is principally due to the construction of the new production facility in Singapore and to our new Group headquarters in Cologne.

As of December 31, 2012, 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 €2,043 million in 2011 to €2,280 million at December 31, 2012. Net financial liabilities – the total financial liabilities net of cash and near-cash assets – decreased by €32 million, from €1,515 million to €1,483 million.

Of the total financial liabilities, some 99% 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 proportion of loans and bonds denominated in euros averaged 97% in the reporting year, which was level with the prior year. Thanks to the financing measures taken in 2012, we succeeded in improving the weighted average interest rate for our financial liabilities. It stood at 4.8% at year end 2012, against 5.3% the previous year.

The following overview shows LANXESS's financing structure as of December 31, 2012 in detail, including its principal liquidity reserves.

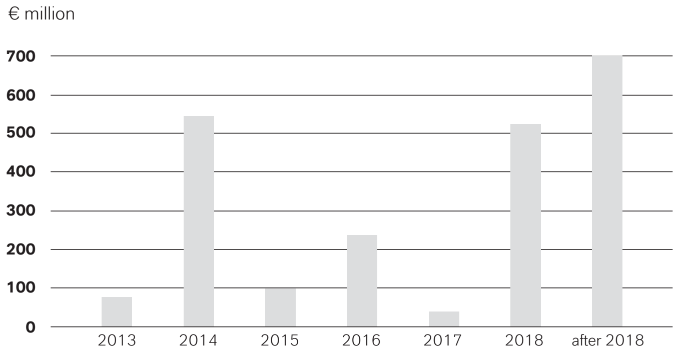
Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant[1]
Eurobond 2009/2014 (€500 million)	498	April 2014	7.750	no
Eurobond 2009/2016 (€200 million)	199	September 2016	5.500	no
Eurobond 2011/2018 (€500 million)	497	May 2018	4.125	no
Eurobond 2012/2022 (€500 million)	493	November 2022	2.625	no
Private placement 2012/2022 (€100 million)	100	April 2022	3.500	no
Private placement 2012/2027 (€100 million)	99	April 2027	3.950	no
CNH bond 2012/2015 (CNH 500 million)	60	February 2015	3.950	no
Investment loan	67	December 2017		no
Development bank loan	120	September 2018		no
Other loans	69	n/a		no
Finance lease	78	n/a		no
Total financial liabilities	**2,280**			
Cash	386	≤ 3 months		
Near-cash assets	411	≤ 3 months		
Total liquidity	**797**			
Net financial liabilities	**1,483**			

1) Ratio of net financial liabilities to EBITDA pre exceptionals

Due to extensive financing measures taken in past fiscal years, we have continually improved the maturity structure of our financial liabilities. At the time this combined management report was finalized, LANXESS therefore had no need for substantial refinancing. The other loans related mainly to the use of credit facilities by subsidiaries in Brazil, China, India and Argentina, some of which mature in 2013. 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, 2012



Liquidity analysis In addition to cash of €386 million and investments in highly liquid AAA money market funds of €411 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 93% of our cash is held in Group companies in countries with no restrictions on foreign exchange and capital transfers. Only about 7% of our cash is held in companies in regulated capital markets where cash transfers are restricted.

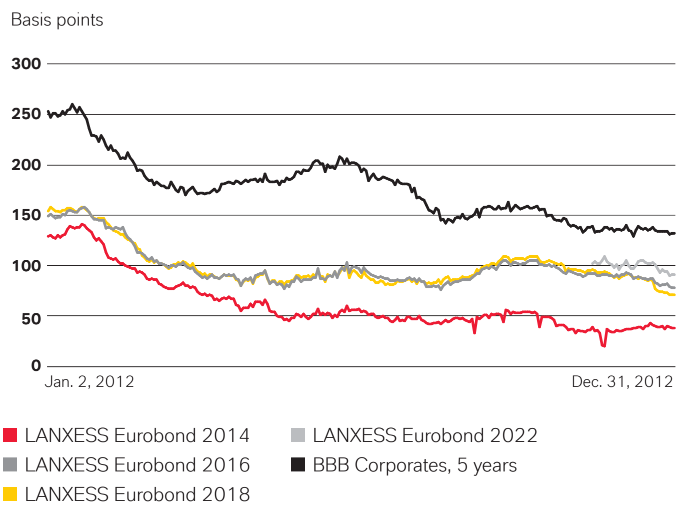
Thanks to our strong liquidity position, our solvency was assured at all times in fiscal 2012.

By far the most important of our credit lines is the syndicated credit facility of €1.25 billion that is valid until February 2018 and has two one-year extension options. This facility was largely undrawn at the end of 2012. It 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. Another important credit line is the €200 million facility we have with the European Investment Bank. None of our major loan agreements contains a financial covenant. LANXESS had unused credit lines totaling around €1.5 billion as of December 31, 2012, against €1.8 billion at the end of the previous year.

The total of liquid assets and undrawn credit lines gives us a liquidity scope of around €2.3 billion, which is the same as the prior year. Given the ongoing volatility of the capital markets and in view of 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.

Bond performance – evolution of credit spread in 2012 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



The credit risk premiums on corporate bonds fell in 2012, despite the continued high level of uncertainty in the financial markets. Credit spreads for corporate bonds decreased in the first quarter as signs of Greece's debt restructuring emerged. This trend continued until the end of 2012, interrupted by fresh tensions in the financial crisis of the peripheral euro countries in the second quarter.

As comparison with our bond that matures in 2018 shows, in particular, the credit risk premiums on comparable LANXESS bonds were well below those for the BBB-rated reference group throughout 2012. The credit risk premiums on our bonds followed the general trend in the first quarter but, unlike those for the BBB-rated reference group, stayed relatively constant in the second quarter. This can be attributed specifically to the high demand among investors for corporate bonds from the core eurozone countries, especially from Germany. Our credit spreads were less volatile than those of the BBB-rated reference group over the course of 2012. The narrower credit spreads and lower volatility of LANXESS bonds underscore the fact that we have good access to the capital market at comparatively low costs. We successfully exploited this good capital market access in 2012 with the financing measures we undertook.

Management's summary of the fiscal year

In light of the global macroeconomic conditions, fiscal 2012 was characterized by predominantly declining demand, which varied by region, with concurrent volatility in the prices of key raw materials.

We recorded sales growth of 3.6% compared to the previous year. Adjusted for currency and portfolio effects, operational sales decreased by 2.9% against a strong prior year due to lower volumes. In the Performance Polymers segment, in particular, volumes were below the prior-year level because of restrained demand in the tire market. By contrast, the Advanced Intermediates segment profited from the gratifying development in the area of agrochemicals, especially in North America and Latin America.

Our price-before-volume strategy remained intact in 2012. Year on year, EBITDA pre exceptionals rose 6.9% to €1,225 million. The EBITDA margin also improved further, increasing to 13.5%. Earnings per share were slightly higher than the previous year, due to the slight improvement in after-tax income.

The integration and further development of our recent acquisitions, which have been assigned to the Performance Polymers and Performance Chemicals segments, has proceeded according to plan.

Our conservative accounting and financing policy is expressed by the solid indicators in our statement of financial position, which includes an equity ratio of 31.0%. Total assets increased mainly due to the capital expenditures made in support of our organic growth. Working capital rose slightly compared with the previous year, given the mixed business performance during the reporting year. In accordance with the consistency principle, we essentially applied the same measurement methods and exercised the same discretion as in the previous year. For further information, please see the explanations under "Estimation uncertainties and exercise of discretion" in the Notes to the consolidated financial statements as of December 31, 2012.

Our statement of financial position shows that we have a solid liquidity position. Additional substantial liquidity reserves in the form of undrawn credit lines are also available. Of the total financial liabilities, some 99% bear a fixed interest rate over the term of the financing, which is comparable to the previous year. Interest rate changes do not have a material effect on the LANXESS Group's financial condition considering the current financing structure. Our financial liabilities are free of financial covenants.

Net financial liabilities stand at €1,483 million, which is 1.2 times EBITDA pre exceptionals. In fiscal 2012, the rating agencies reconfirmed the LANXESS Group's creditworthiness with ratings of BBB and Baa2 with stable outlook.

In view of our stable liquidity and financing positions as well as the solid business performance, 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.

Business Ratios – Multi-Period Overview

€ million	2008	2009	2010	2011	2012
Earnings performance					
Sales	6,576	5,057	7,120	8,775	9,094
EBITDA pre exceptionals	722	465	918	1,146	1,225
EBITDA margin pre exceptionals	11.0%	9.2%	12.9%	13.1%	13.5%
EBITDA	602	422	890	1,101	1,188
Operating result (EBIT) pre exceptionals	462	204	635	826	849
Operating result (EBIT)	323	149	607	776	810
EBIT margin	4.9%	2.9%	8.5%	8.8%	8.9%
Net income	183	40	379	506	514
Earnings per share (€)	2.20	0.48	4.56	6.08	6.18
Liquidity					
Cash flow from operating activities	492	565	430	672	838
Depreciation and amortization	279	273	283	325	378
Cash outflows for capital expenditures	342	275	501	679	696
Net financial liabilities	864	794	913	1,515	1,483
Assets and liabilities					
Total assets	4,592	5,068	5,666	6,878	7,519
Non-current assets	2,169	2,382	2,738	3,489	3,747
Current assets	2,423	2,686	2,928	3,389	3,772
Net working capital	1,289	1,096	1,372	1,766	1,849
Equity (including non-controlling interests)	1,339	1,445	1,761	2,074	2,331
Pension provisions	498	569	605	679	892
Key data					
ROCE	15.4%	5.9%	17.0%	17.2%	15.6%
Equity ratio	29.2%	28.5%	31.1%	30.2%	31.0%
Gearing	64.5%	54.9%	51.8%	73.0%	63.6%
Non-current asset ratio	47.2	47.0	48.3	50.7	49.8
Asset coverage I	61.7	60.7	64.3	59.4	62.2
Net working capital/sales	19.6%	21.7%	19.3%	20.1%	20.3%
Employees (as of December 31)	14,797	14,338	14,648	16,390	17,177

2008 figures restated

Earnings, asset and financial position of LANXESS AG

LANXESS AG serves primarily as the management holding company for the LANXESS Group. The principal management functions for the entire Group are performed by the Board of Management. 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 communication with the company's key stakeholders. The economic performance of LANXESS AG depends principally on that of the operating companies in the LANXESS Group and on the development of the chemical industry.

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

Sales and earnings of LANXESS AG

LANXESS AG Income Statement in Accordance with the German Commercial Code (HGB) – Abridged

€ million	2011	2012	Change %
Sales	**4**	**5**	**25.0**
Cost of sales	(4)	(5)	25.0
Gross profit	**0**	**0**	**0.0**
General administration expenses	(45)	(44)	(2.2)
Other operating income	1	1	0.0
Other operating expenses	(2)	(3)	50.0
Operating result	**(46)**	**(46)**	**0.0**
Income from investments in affiliated companies	216	283	31.0
Net interest expense	(45)	(71)	57.8
Other financial income and expenses – net	(10)	(8)	(20.0)
Financial result	**161**	**204**	**26.7**
Income before income taxes	**115**	**158**	**37.4**
Income taxes	(46)	(54)	17.4
Net income	**69**	**104**	**50.7**
Carryforward to new account	46	44	(4.3)
Allocation to retained earnings	0	(52)	–
Distributable profit	**115**	**96**	**(16.5)**

The earnings of LANXESS AG are determined largely by profit or loss transfers from LANXESS Deutschland GmbH and LANXESS International Holding GmbH, which hold the shares of the other subsidiaries and affiliates both in Germany and elsewhere.

Sales of LANXESS AG stood at €5 million, which was slightly higher than the prior-year level of €4 million. They related to services provided to LANXESS Deutschland GmbH. A balanced result remained after deducting the cost of sales, which consisted mostly of personnel expenses and appropriate shares of the general administration expenses.

General administration expenses decreased slightly against the previous year, down €1 million, or 2.2%, to €44 million. They principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The operating result was level with the prior year at minus €46 million.

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, and other financial income and expense, rose by €43 million, or 26.7%, to €204 million. This change was primarily due to the profit transfer of €283 million from LANXESS Deutschland GmbH, which was €67 million higher than in the previous year. The decrease in the net interest position by €26 million to minus €71 million had an adverse effect and was mainly attributable to additional borrowings from subsidiaries.

Income before income taxes came to €158 million, following €115 million in the previous year. Income taxes increased by €8 million to €54 million and comprised €14 million in tax expense for previous years and €40 million in tax expenses for 2012. Net income rose substantially, up €35 million to €104 million.

Taking into account the allocation of €52 million to retained earnings and the profit carryforward of €44 million, the distributable profit amounted to €96 million as of December 31, 2012, against €115 million in the previous year.

Statement of financial position and financial condition of LANXESS AG

LANXESS AG Statement of Financial Position in Accordance with the German Commercial Code (HGB) – Abridged

	Dec. 31, 2011		Dec. 31, 2012		Change
	€ million	%	€ million	%	%
ASSETS					
Financial assets	757	26.7	757	22.3	0.0
Non-current assets	**757**	**26.7**	**757**	**22.3**	**0.0**
Receivables from affiliated companies	1,704	60.0	1,850	54.6	8.6
Other assets	78	2.8	39	1.2	(50.0)
Liquid assets and securities	298	10.5	734	21.7	>100
Current assets	**2,080**	**73.3**	**2,623**	**77.5**	**26.1**
Prepaid expenses	**1**	**0.0**	**6**	**0.2**	**>100**
Total assets	**2,838**	**100.0**	**3,386**	**100.0**	**19.3**
EQUITY AND LIABILITIES					
Equity	**1,185**	**41.8**	**1,219**	**36.0**	**2.9**
Provisions	**105**	**3.7**	**117**	**3.4**	**11.4**
Liabilities to banks	80	2.8	68	2.0	(15.0)
Payables to affiliated companies	1,464	51.6	1,973	58.3	34.8
Other liabilities	4	0.1	9	0.3	>100
Liabilities	**1,548**	**54.5**	**2,050**	**60.6**	**32.4**
Total assets	**2,838**	**100.0**	**3,386**	**100.0**	**19.3**

In view of its function as a strategic holding company, the statement of financial position of LANXESS AG is dominated by financial assets and by receivables from, and payables to, subsidiaries.

LANXESS AG had total assets of €3,386 million as of December 31, 2012, which was €548 million, or 19.3%, above the prior-year figure. Non-current assets were constant at €757 million and primarily included the carrying amount of the investment in LANXESS Deutschland GmbH, which stands at €739 million. The share of non-current assets in total assets decreased from 26.7% to 22.3%. Current assets rose by €543 million to €2,623 million and accounted for 77.5% of total assets, compared with 73.3% in 2011. Receivables from subsidiaries accounted for 54.6% of total assets and related principally to financial transactions and short-term loans. At the same time, a long-term loan from LANXESS Finance B.V. increased the share of bank balances and securities in total assets from 10.5% to 21.7%.

Equity rose by €34 million to €1,219 million. This increase was due to the net income for the year, less the dividend payment for 2011. The equity ratio was 36.0% after 41.8% at the end of 2011.

Liabilities rose by €514 million to €2,167 million, largely on account of payables to subsidiaries, which were €509 million higher than the previous year at €1,973 million. The increase was mainly due to long-term loans totaling €493 million from LANXESS Finance B.V. The provisions rose by €12 million to €117 million and related mainly to commitments to employees and statutory obligations.

Employees

As of December 31, 2012, the LANXESS Group had a total of 17,177 employees, against 16,390 at the closing date of the prior year. This was 787 more than a year earlier. The number of employees increased primarily as a result of acquisitions plus additional new hires linked to our growth strategy. 14,068, or 82%, of our employees were men and 3,109, or 18%, were women. The number of employees who were non-German nationals was 9,481. In addition, we had 628 employees working on temporary employment contracts. LANXESS AG had 141 employees as of the reporting date, versus 135 the year before.

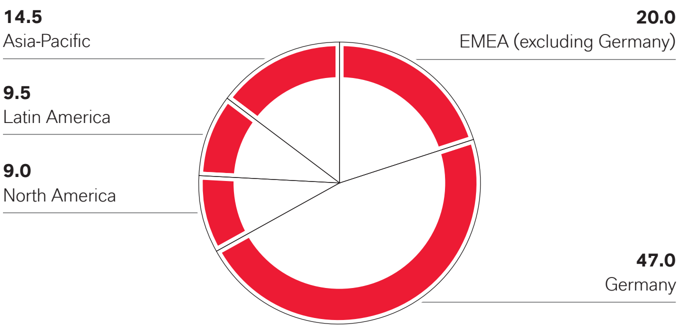
Part-time employees accounted for 9.9% of the workforce at our German core companies as of the reporting date. Individuals with severe disabilities made up 4.8% of the workforce at our German companies. In addition, we routinely award contracts to work centers for the disabled.

In the EMEA region (excluding Germany), the number of employees as of December 31, 2012 was 3,442, up from 3,357 in the previous year. In Germany, the headcount grew from 7,846 to 8,072. The number of employees in the North America region rose to 1,553, from 1,427 as of December 31, 2011, while Latin America saw its workforce expand from 1,585 at the end of last year, to 1,626. At the reporting date, we employed 2,484 people in the Asia-Pacific region, which is 309 more than a year ago.

Personnel expenses totaled €1,392 million in fiscal 2012 (2011: €1,244 million). Wages and salaries, at €1,097 million (2011: €985 million), accounted for the greater part of this figure. Social security contributions were €193 million (2011: €174 million), while pension plan expenses totaled €92 million (2011: €77 million), and social assistance benefits came to €10 million (2011: €8 million).

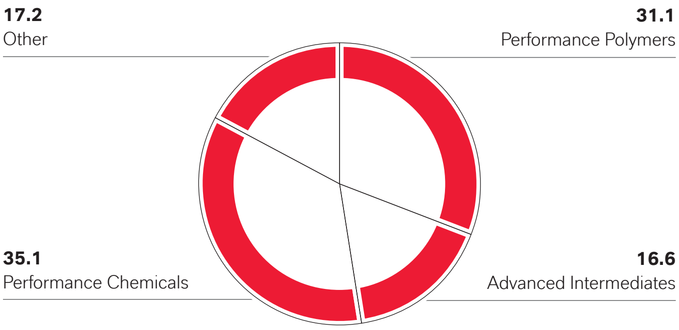
Employees by Region

%



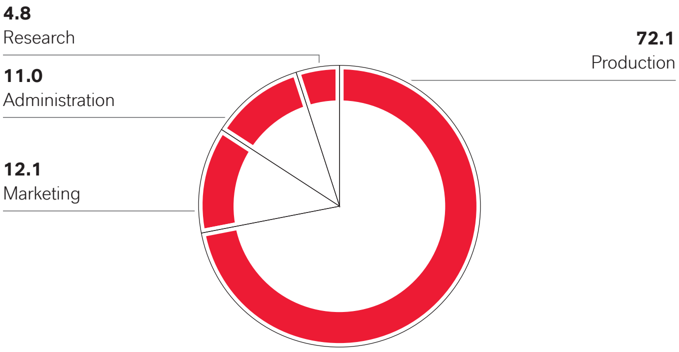
Employees by Segment

%



Employees by Functional Area (Annual Average)

%



Working conditions and HR policy

Our success is fundamentally based on the performance, innovative strength and commitment of our employees. Only through focused and sustainable employee training and development can we ensure that we achieve our corporate goals and safeguard LANXESS's competitiveness in the long term. By actively exercising social responsibility, providing attractive jobs in an international environment, offering performance-based, market-rate compensation, and promoting a culture that inspires diversity, leadership and trust, we give our employees access to remarkable career development opportunities, also outside their home countries.

A major focus in the year under review was support for our internal and external growth. We also worked diligently to foster the diversity of our workforce in response to the challenges associated with different markets, cultures and customers. To that end, we continued to develop the Board of Management's Diversity & Inclusion initiative and set a clear goal for the company: to voluntarily increase the proportion of women in middle and upper management to 20% by 2020. The figure currently stands at just under 15%.

In addition to developing and implementing innovative concepts for addressing the challenges resulting from demographic change, our top long-term strategic human resources goal is to attract and cultivate a range of talented employees for LANXESS. We aim to strengthen our diversity, particularly in terms of age, national origin and gender, and have made this the focus of our Board of Management's Diversity & Inclusion initiative. We continually develop new tools for positioning LANXESS as an employer brand that enables us to recruit, integrate and retain talented young people and experienced professionals for the company 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 and built alliances with research institutes, colleges and universities, and student initiatives worldwide. This includes the expansion of the "Germany Scholarship" program, a German government initiative. In the year under review, we funded scholarships for a total of 50 students at eight target universities.

Our management training programs focus on building versatile global leadership skills. These programs and ILSA, our global sales academy, support the sustainable growth of our company worldwide by enhancing our organization's productivity and openness to change.

A key pillar of our HR policy is close cooperation between employee representatives and management, including trade unions and employers' associations, in line with the principle of active codetermination. More than 64% of our employees worldwide are covered by the terms of collective agreements; in Germany, this figure is nearly 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 Germany, the minimum notice period for any substantial operational changes is four weeks.

Employee compensation and benefits

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 78% of our employees. Our managers are able to reward outstanding employee performance quickly and unbureaucratically. In fiscal 2012, this resulted in payments of €9 million worldwide (€6.4 million to employees in Germany) for outstanding individual performance.

We again offered an employee stock plan in 2012. All LANXESS Group employees in Germany were given the opportunity to buy LANXESS shares at a 50% discount. The shares were purchased at an average price of €54.78 on the Frankfurt Stock Exchange. The participation rate was 73%. At the reporting date, our employees and Board of Management members held around 1% of the company's shares through stock plans.

For the period 2010 to 2013, a new long-term compensation component was introduced for the Board of Management and other senior managers to replace LANXESS's Long-Term Incentive Plan (LTIP). The Long-Term Stock Performance Plan 2010–2013 (LTSP) comprises four tranches, each lasting four years. The plan compares the performance of LANXESS stock against the Dow Jones STOXX 600 Chemicals^{SM} Index over a period of four years. The participation rate is 89%.

Vocational training

LANXESS has always given priority to training young people as a means of safeguarding the company's future and as an element of our social responsibility. In 2012, we once again strengthened the marketing activities for our vocational training programs using a range of media, attended all major regional career fairs and visited schools. Through events of our own such as "NeXt Azubi" (NeXt Trainee), we address young people with an interest in our company and give them valuable guidance for their later career choices. We also took part in Girls Day for the first time. In addition, our one-year orientation program XOnce provides young people with useful guidance on their way to a later traineeship if they are not ready to take this route at the current time.

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 have strengthened our science offering with a combined program of university studies and vocational training in the fields of technical chemistry and business administration. We hope to offer more combined programs in the future.

Across Germany, 386 young people were being trained in 17 different career paths as of the December 31, 2012 reporting date. In the previous year, we trained 317 young people in 14 different career paths. We provide solid training opportunities for significantly more young people than we need to meet our own requirements. At the start of the new training year in fall 2012, 140 young people (108 men and 32 women) began their vocational training with LANXESS. A further 26 young people have chosen our four combined vocational training and study programs. In 2012, we gave permanent and temporary positions to more than 50% of those who completed their training with us in Germany.

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 2012, 63 highly qualified university graduates had taken part in various intakes of our trainee programs. The aim is to prepare the participants for an international career within the LANXESS Group and establish a pool of versatile young managers with international experience to support the further expansion of our business activities worldwide.

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. We continued this program in 2012, with a special focus on trainee positions in finance and technical production. In India, we have implemented two training programs.

In China, the CRF Institute named us China's Top Employer for the third time in 2012, after honoring us in 2009 and 2011.

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-tiered process of global HR development conferences where future managerial employees from around the world are regularly evaluated with regard to their potential. In 2012, 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 the period under review, a total of 331 employees participated in these special management programs. In addition, we provide extensive support to our young managers through focused coaching and modular leadership seminars.

With the LANXESS Summer Academy, we encourage continuing professional and personal development across the boundaries of our business units and group functions by means of presentations, seminars and an attractive supporting program. 130 employees attended the 2012 Summer Academy.

In view of our ambitious growth targets, one focus of our human resources development activities in 2012 remained the International LANXESS Sales Academy (ILSA), which offers a tailored and practical training program to all sales employees worldwide. This 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 consider the targeted qualification of our global sales employees to be a significant success factor in the further improvement of our customer relationships. It also gives us a competitive edge in today's global markets. 200 first-level sales employees from all over the world participated in the program in the first two years.

Occupational safety

The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, is the key indicator used to assess occupational safety within the LANXESS Group. In 2012, the LTIFR was 3.4, compared with 2.7 in 2011. There was a sharp increase in the LTIFR outside Germany, in particular. This resulted primarily from a number of accidents at our chrome ore mine in South Africa, which has gained statistical relevance owing to the international harmonization of our reporting structures and the employee situation there. Also, our Xact global safety program has raised the profile of occupational safety. The associated increase in awareness among our employees is reflected in an improved reporting culture. We expect the LTIFR to decrease again in the coming years.

Idea management

When LANXESS employees have good ideas for improving work procedures, safety and environmental protection, and for avoiding mistakes, these ideas pay off. Our idea management system fosters the development of suggestions for improvements to ensure that we continually receive proposals for enhancing cost-effectiveness, occupational safety and environmental protection. In 2012, employees at LANXESS's German companies submitted a total of 3,157 suggestions, a rate of 430 per thousand employees. In the same period, 1,507 ideas were implemented, yielding total savings of €3.1 million. 1,035 of these ideas led to improvements in occupational safety and environmental protection.

Compensation report

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.

Effective January 1, 2010, the contracts of the members of the Board of Management were amended to implement the legislative changes entailed by the German Law on the Appropriateness of Management Board Compensation and the provisions of 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 applied when concluding the service contracts with all Board of Management members.

The components of the compensation for members of the Board of Management are the annual base salary; the variable components, which are the Annual Performance Payment, the Long-Term Incentive Plan/Long-Term Stock Performance Plan and the Long-Term Performance Bonus; and a retirement pension. The three variable components are linked to LANXESS's annual performance and, particularly, to its corporate success over a number of years. A cap has been defined for each of them. 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

Annual base salary 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 €2,678 thousand in fiscal 2012.

Variable compensation The annual performance-based component of the variable compensation, 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 200% of this variable compensation component. Compensation from the performance-based APP in 2012 totaled €4,713 thousand. Actual payments in 2013 may differ from this amount, which was calculated in advance.

In March 2012, on account of the company's exceptional performance in fiscal 2011, the Supervisory Board approved the payment of a special bonus to the members of the Board of Management totaling €830 thousand. This bonus amounted to €320 thousand for Dr. Heitmann, €110 for Dr. Düttmann, and €200 thousand each for Dr. Breuers and Dr. van Roessel.

The Long-Term Incentive Plan (LTIP) is another element of variable compensation. This compensation component is based on the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals℠. The LTIP responds to the call by legislators for a stronger focus on long-term company performance. The LTIP is divided into three three-year tranches, with the first tranche having begun in 2008. Participation required a prior personal investment each year in LANXESS shares to a value of 13% of the annual base salary. The shares are subject to a five-year lock-up period. First payments from the LTIP are made three years after the start of a tranche, provided defined conditions are satisfied. 100% target attainment brings a payment per tranche of 50% of the individual target income, which is the annual base salary plus the APP assuming 100% target attainment.

The LTIP was succeeded effective fiscal 2010 by two other long-term variable compensation components: the Long-Term Stock Performance Plan (LTSP) and the Long-Term Performance Bonus (LTPB).

Compensation of the Board of Management

€ '000		Fixed compensation		Variable compensation				Payments from LTSP rights		
	Year	Annual base salery	Remuneration in kind	Performance bonus[1]	Payment for previous years[2]	LTPB (multi-year)[3]	Total cash compensation	Number of rights	Fair values	Total compensation
Dr. Axel C. Heitmann	**2012**	**900**	**119**	**1,798**	**320**	**703**	**3,840**	**564,375**	**282**	**4,122**
	2011	825	118	1,423	190	556	3,112	532,125	266	3,378
Dr. Werner Breuers	**2012**	**500**	**54**	**972**	**200**	**380**	**2,106**	**322,500**	**161**	**2,267**
	2011	494	53	862	109	336	1,854	306,375	153	2,007
Dr. Bernhard Düttmann (effective April 1, 2011)	**2012**	**500**	**61**	**972**	**110**	**380**	**2,023**	**322,500**	**161**	**2,184**
	2011	375	194	646	0	126	1,341	322,500	161	1,502
Dr. Rainier van Roessel	**2012**	**500**	**44**	**972**	**200**	**380**	**2,096**	**322,500**	**161**	**2,257**
	2011	494	44	862	109	336	1,845	306,375	153	1,998
Matthias Zachert (until March 31, 2011)	**2012**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	2011	137	13	158	0	0	308	354,750	177	485
Total	**2012**	**2,400**	**278**	**4,713**	**830**	**1,844**	**10,065**	**1,531,875**	**765**	**10,830**
	2011	2,325	422	3,951	408	1,354	8,460	1,822,125	910	9,370

1) Payment in 2012 and 2013, respectively
2) Payment in 2011 and 2012, respectively
3) Payment of 50% each in 2013 and 2014

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 consolidated financial statements.

The personnel expenses incurred in fiscal 2012 for the LTIP and LTSP entitlements granted amount to €1,726 thousand for Dr. Heitmann, €118 thousand for Dr. Düttmann and €991 thousand each for Dr. Breuers and Dr. van Roessel. 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 LTPB, which is the third variable compensation component, is likewise aligned to long-term corporate performance. It rewards target attainment only after two successive fiscal years. 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. Rights worth €1,844 thousand were earned under the performance-based LTPB in fiscal 2011 and 2012. Actual payments in 2013 and 2014 may differ from this amount, which was calculated in advance.

Retirement pensions 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 to be made by the company equal to 25% of the annual base salary and APP. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP. The members of the Board of Management may increase their personal contribution to up 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 under IFRS accounting rules in the 2012 consolidated financial statements for this purpose was €815 thousand. The present value of the obligations for the members of the Board of Management serving as of December 31, 2012 was €18,248 thousand. Under IFRS accounting principles, the service cost for pension entitlements earned in 2012 and the present value of the obligations, including acquired rights, as of December 31, 2012 amounted, respectively, to €257 thousand and €10,924 thousand for Dr. Heitmann, €271 thousand and €2,173 thousand for Dr. Breuers, €204 thousand and €944 thousand for Dr. Düttmann, and €83 thousand and €4,207 thousand for Dr. van Roessel.

The total service cost recognized under HGB accounting rules in the 2012 annual financial statements for this purpose was €1,987 thousand. The present value of the obligations for the members of the Board of Management serving as of December 31, 2012 was €14,882 thousand. Under HGB accounting principles, the present value of the obligations, including vested rights, for the members of the Board of Management serving as of December 31, 2012 amounted, respectively, to €8,732 thousand for Dr. Heitmann, €1,850 thousand for Dr. Breuers, €768 thousand for Dr. Düttmann, and €3,532 thousand for Dr. van Roessel.

As of December 31, 2012, obligations to former members of the Board of Management totaled €11,411 thousand under IFRS accounting rules and €8,946 thousand under HGB accounting rules.

Payments of €479 thousand were made to former members of the Board of Management.

In fiscal 2012, the members of the Board of Management had indemnification rights 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 2012, 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 2012.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by Section 12 of the company's articles of association. The members of the Supervisory Board of LANXESS AG 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.

Compensation of the Supervisory Board[1)]

€	Year	Fixed compensation LANXESS AG	Compensation as committee member LANXESS AG	Attendance allowance	Fixed compensation LANXESS Deutschland GmbH	Total
Dr. Rolf Stomberg, Chairman	**2012**	**240,000**	**0**	**16,500**	**5,000**	**261,500**
	2011	240,000	0	21,000	5,000	266,000
Ulrich Freese, Vice Chairman	**2012**	**120,000**	**40,000**	**13,500**	**5,000**	**178,500**
	2011	120,000	40,000	21,000	5,000	186,000
Axel Berndt	**2012**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2011	80,000	40,000	18,000	5,000	143,000
Wolfgang Blossey (until May 31, 2011)	**2012**	**0**	**0**	**0**	**0**	**0**
	2011	33,333	16,667	7,500	2,083	59,583
Dr. Rudolf Fauss	**2012**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2011	80,000	40,000	18,000	5,000	143,000
Dr. Friedrich Janssen	**2012**	**80,000**	**80,000**	**15,000**	**5,000**	**180,000**
	2011	80,000	80,000	18,000	5,000	183,000
Robert J. Koehler	**2012**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2011	80,000	40,000	21,000	5,000	146,000
Rainer Laufs	**2012**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2011	80,000	40,000	18,000	5,000	143,000
Thomas Meiers (effective June 1, 2011)	**2012**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2011	46,667	23,333	7,500	2,917	80,417
Dr. Ulrich Middelmann	**2012**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2011	80,000	40,000	21,000	5,000	146,000
Hans-Jürgen Schicker	**2012**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2011	80,000	40,000	21,000	5,000	146,000
Gisela Seidel	**2012**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2011	80,000	40,000	21,000	5,000	146,000
Theo H. Walthie	**2012**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2011	80,000	40,000	18,000	5,000	143,000
Total	**2012**	**1,160,000**	**480,000**	**184,500**	**60,000**	**1,884,500**
	2011	1,160,000	480,000	231,000	60,000	1,931,000

1) Figures exclude value-added tax

Payment of the variable compensation depends on how LANXESS's stock performs relative to the Dow Jones STOXX 600 Chemicals^{SM} 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 with 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^{SM} 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 2012.

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 €1,800 thousand (2011: €1,500 thousand) at December 31, 2012 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 table on page 113 breaks down the compensation received by each member of the Supervisory Board for their work on the Supervisory Board.

Report pursuant to Section 289 Paragraph 4 and Section 315 Paragraph 4 of the German Commercial Code

Pursuant to Section 289 Paragraph 4 Nos. 1 to 9 and 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, 2012 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. Companies of the BlackRock Group notified us pursuant to Section 21 Paragraph 1 of the German Securities Trading Act that they held 10.08% of the voting rights in our company as of October 31, 2012, thereby exceeding the threshold of 10%. We received no other reports of direct and 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:

   Own shares 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.

   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 combined 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 and €200 million Eurobonds issued by LANXESS Finance B.V. in 2009 contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. The bonds were guaranteed by LANXESS AG. The same applies to the terms of the €500 million Eurobond issued by LANXESS Finance B.V. in the 2011 fiscal year, the CNH 500 million bond issued by LANXESS Finance B.V. in February 2012 and the €500 million Eurobond issued by LANXESS Finance B.V. in November 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 €1,250 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.

Report pursuant to Section 289a of the German Commercial Code

The Board of Management and Supervisory Board have issued the corporate governance statement pursuant to Section 289a of the German Commercial Code (HGB). This has been made available to the stockholders and can be found on our website at www.lanxess.com under Investor Relations/Corporate Governance.

Procurement and production

Procurement

LANXESS uses its centrally managed global procurement organization – Global Procurement & Logistics – 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 2012, about 60% of all items ordered (2011: around 55%) 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, which are defined in our Supplier Code of Conduct, play an important role in our selection and evaluation of suppliers. Regular audits, especially of selected suppliers, are conducted in Germany and abroad to help us verify compliance with these regulations. In 2012, we performed a total of 29 audits, which corresponds to 7% of our suppliers.

In order to minimize our procurement risks and enhance supply chain transparency, we and five other international chemicals companies founded the Together for Sustainability initiative in 2012. The principal goals of this initiative are the standardization of supplier evaluations and audits, the institutionalization of neutral risk assessment of suppliers by a recognized independent partner and creation of a shared pool of qualified auditors. We expect this concerted approach to further raise the level of awareness among our suppliers and inspire them to make continuous improvements. In the pilot phase, which started in the reporting year, more than 1,850 suppliers are being evaluated and some 150 audited.

Across the LANXESS Group, a global procurement directive defines how our employees should behave towards suppliers and their employees. An internal training academy supports the training and ongoing professional development of our employees and ensures the high quality of our procurement processes. The training content includes our seven-step strategic procurement process, negotiating techniques and intercultural awareness, as well as time, supplier and risk management.

Procuring chemical raw materials is a significant priority at LANXESS. Most of our sourcing in this area is done on the basis of long-term supply contracts. The availability of chemical raw materials has always played a crucial role in our facility location decisions. In Singapore, for example, we will source the most important feedstocks for our two new rubber plants via nearby pipelines. We procure key raw materials like butadiene and utilities like steam and biomass from the immediate vicinity at several of our other production sites, too. This not only minimizes the costs and environmental impact of our transportation activities but also reduces the risk of delivery shortfalls caused by transportation issues.

Our biggest suppliers of chemical raw materials in 2012 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 2012 were ammonia, butadiene, caustic soda, cyclohexane, ethylene, isobutylene, propylene, styrene and toluene. In all, strategic raw materials accounted for a purchasing volume of about €3.9 billion in fiscal 2012 (2011: approx. €3.9 billion), or around 83% of the LANXESS Group's total expenditure for raw materials and goods in 2012, which amounted to approximately €4.7 billion (2011: approx. €4.6 billion). Our total procurement volume in 2012 was around €6.9 billion (2011: about €6.8 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 and the United States. For a complete breakdown of our production sites by segment, please see "The segments in brief" in this combined management report.

The following significant changes occurred in our global production network in 2012:

- In May 2012, as scheduled, we opened our NBR rubber production plant in Nantong, China, which was constructed in a joint venture with Taiwan-based TSRC Corporation.
- Our Performance Butadiene Rubbers business unit completed the second phase of an expansion of its production plant for high-performance rubber products in Orange, United States.
- The Technical Rubber Products business unit expanded its production capacities for the high-performance synthetic rubber Therban® by 40% each at the sites in Leverkusen, Germany, and Orange, United States. Effective January 1, 2013, this business unit was split into the new Keltan and High Performance Elastomers business units. The facilities described here will be assigned to the High Performance Elastomers business unit in future.
- Technical Rubber Products significantly expanded EVM capacities at the site in Dormagen, Germany, as well. This facility will also be assigned to the High Performance Elastomers business unit in future.
- In September 2012, the High Performance Materials business unit opened our first U.S. compounding plant in Gastonia, North Carolina.
- Together with our partner, U.S. chemical company DuPont, we doubled the capacity of our joint compounding facility for polybutylene terephthalate (PBT) in Hamm-Uentrop, Germany.
- With Bond-Laminates GmbH, our High Performance Materials business unit acquired a production plant for highly specialized composite materials.
- In the Advanced Industrial Intermediates business unit, we completed the project to double production capacities for synthetic menthol at the site in Krefeld-Uerdingen, Germany, as scheduled.
- Our Functional Chemicals business unit increased the capacity of its production network for phosphorus chemicals at the site in Leverkusen, Germany, by 10%.
- With Tire Curing Bladders, LLC, our Rhein Chemie business unit acquired a production facility for vulcanization bladders in Little Rock, United States.
- In addition, the Rhein Chemie business unit raised its production capacities for vulcanization bladders at the site in Burzaco, Argentina, by 40%. In this context, production in Uruguay was relocated to Argentina and the United States in the reporting year.

Including the measures described above, our cash outflows for capital expenditures came to €696 million in 2012. Details are given under "Capital expenditures" in the "Statement of financial position and financial condition" section of this combined management report. For additional information about the acquisitions made in the year under review, please see "Additions to the Group portfolio" in this combined management report.

Sales organization and customers

Sales

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 continually extend our global presence so we are closer to our customers and can better evaluate strategic potential.

For example, in mid-2012 we established the new country company LANXESS Kimya Ticaret Limited Şirketi to conduct our business in Turkey, where LANXESS markets its entire range of products. Activities focus on high-performance rubber products, rubber chemicals and high-tech plastics for the automotive sector, as well as color pigments for the construction industry. 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 49 production sites in 16 countries. Wherever possible, customers are supplied from production sites in the same region, which saves them both time and money.

Approximately 20% of all orders with external purchasing and sales partners were processed via e-business in fiscal 2012. Altogether, around 300,000 orders and the respective automated follow-up notices in these areas and logistics were handled as e business. This capability is provided by the LANXESS one Internet portal and the system-to-system connections via ELEMICA. We will continue to expand this process, which provides benefits for all involved, by adding additional partners and technical services, for example, by bringing our Brazilian companies online. The net sales invoice values accounted for by e-business came to approximately €1,690 million, an increase of about 7% on the previous year.

Selling costs for fiscal 2012 came to 8.4% of LANXESS Group sales, up 0.1 percentage points on the prior-year level of 8.3%.

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

Selling Costs

	2008	2009	2010	2011	2012
Selling costs (€ million)	658	530	646	732	763
% of sales	10.0	10.5	9.1	8.3	8.4
Breakdown by segment					
Performance Polymers	228	178	216	262	284
Advanced Intermediates	110	92	122	127	125
Performance Chemicals	307	253	300	320	335
Reconciliation	13	7	8	23	19

Customers

Because of our broad offering, we have business relationships with a large number 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 sales and 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

%	2012
Tires	~25
Chemicals	~15
Automotive	~15
Construction, electrical/electronics, agrochemicals, leather/footwear	in each case 3–10
Others (cumulative share)	~15

In fiscal 2012, our top ten customers accounted for about 26% of total sales (2011: 28%). None of our customers accounted for more than 10% of Group sales. 50 (2011: 53) customers accounted for annual sales in excess of €20 million. The slight decrease in these figures is attributable to the declining volumes reflected in Group sales.

The number of customers in each segment varied widely. The Performance Polymers segment had some 3,300 customers in 2012 (2011: 3,100), while Advanced Intermediates and Performance Chemicals had about 3,000 (2011: 2,900) and 11,800 (2011: 12,000), respectively. This information is based on the number of customer accounts 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. The extensive customer base means that no segment can be considered dependent on just a few customers.

Research and development

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

Therefore, we continued to systematically expand our research and development activities in 2012. Existing products and processes were refined and optimized with a short- to medium-term time horizon. In addition, the Innovation & Technology Group Function focused above all on initiating 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.

Important research projects were advanced in the Performance Polymers segment, which focuses on the mobility megatrend. Investments in this segment have included the further development of high-performance rubbers that help improve the braking performance, abrasion resistance and wet grip properties of tires. Within this context, we developed a concept tire that has already received a double-A rating for fuel efficiency and wet grip under the new E.U. tire labeling regulations. Our high-performance rubber Nd-PBR also contributes to improving durability. In this way, we are cementing our position as a leading company in the field of specialty chemicals for green mobility. Sustainability in raw material sourcing is also particularly important.

In this area, LANXESS is focusing on bio-based rubber. Since the end of 2011, we have been marketing various EPDM rubber grades produced in part using ethylene derived from sugar cane rather than from petroleum.

The Performance Chemicals segment is also setting trends in the area of research and development. Following the successful start-up of the membrane element production plant in Bitterfeld, Germany, we added new membrane separation elements with high rejection and high flow rates to our product portfolio. We also developed a highly effective synthetic iron oxide for removing hydrogen sulfide from biogas that can be easily metered into the fermentation reactor as well as iron oxides for the production of cathodes for lithium-ion batteries. Thanks primarily to their good morphological properties and high reactivity, the products are ideally suited for use in the field of electromobility.

Cost trend and employees

Our total research and development expenses in 2012 increased by 33% on the prior year to €192 million, or 2.1% of sales (2011: €144 million, or 1.6% of sales). The Butyl Rubber, Technical Rubber Products, High Performance Materials and Saltigo business units accounted for the largest share of these expenses in 2012 at 61% (2011: 54%). Butyl Rubber, Saltigo, Material Protection Products and Ion Exchange Resins 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 expenses in the last five years.

Research and Development Expenses

	2008	2009	2010	2011	2012
Research and development expenses (€ million)	97	101	116	144	192
% of sales	1.5	2.0	1.6	1.6	2.1

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 six 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.

Number of Employees in Research and Development

	2008	2009	2010	2011	2012
Year end	453	489	519	731	843
% of Group employees	3.1	3.4	3.5	4.5	4.9

At the end of 2012, we employed 843 people (2011: 731) in our research and development laboratories worldwide. We created the Group Senior Scientist awards in 2012 to honor top researchers and scientific experts for their achievements, generate motivation and prospects for careers in research and development, and place the focus even more firmly on innovation and our premium strategy. The first awards have already been made for outstanding achievements in the area of sustainable science and technology with commensurate contributions to earnings.

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. In December 2012, we also opened a development center for high-tech plastics in Hong Kong to strengthen our relations with automakers in the Asia-Pacific growth region.

Fields of activity and patent strategy

In 2012, we conducted around 235 research and development projects (2011: 210), around 145 of which (2011: 125) aimed to develop new products and applications or improve existing ones. Some 90 projects (2011: around 85) concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity. We plan to have roughly 25% of the research and development projects we started in 2012 in the market or technical implementation stages by the end of 2013 (2011: about 20%).

The results of our research and development work are protected by patents, where this is possible and expedient. In the course of 2012, we submitted 90 priority applications worldwide. As of December 31, 2012, the full patent portfolio included approximately 1,100 patent families covering around 7,600 property rights.

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 2012, we had a total of 203 (2011: 145) major research and development alliances, 78 (2011: 50) of which were with universities, 66 (2011: 55) with suppliers or customers, and 59 (2011: 40) 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 all areas in 2012, thereby significantly strengthening our expertise in both chemistry and technology. Against the backdrop of rising energy prices, we established a central energy task force comprising experts from various disciplines to implement energy efficiency projects across the Group and act as a competence center for energy technology. We also broadened our engineering expertise with the aim of being able to implement large-scale capital expenditure projects on the basis of our own know-how.

The group function's research concentrates on both process and product innovation, which are handled by separate units.

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 and experimental 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. To this end, we opened a new process technology laboratory in 2012 where we can optimize existing processes as well as develop new processes and investigate their transferability to industrial scale.

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. Since launching our Xplore ideas platform on the company intranet in 2011, we regularly issue challenges that result in the development of ideas and solutions for future-oriented innovations worldwide. For instance, the winning team in the "Sustainability" challenge that concluded during the reporting year developed an innovative method for removing organic impurities from drinking water. The great success of this platform has made a significant contribution to the promotion of our corporate innovation culture. 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.

In 2010, we began collaborating with the Russian Academy of Sciences (RAS) and have since established a research network with leading Russian institutes and universities. RAS ranks among the world's most distinguished scientific institutions and has a history dating back over 285 years. Under the motto "Chemistry – Shaping the Future," we hosted a joint scientific symposium in Moscow in November 2012. The conference with scientists from both countries, which was organized as part of Germany Year in Russia, offered a wide range of topics from various chemical disciplines – from catalytic chemistry and polymer and organic chemistry to material science.

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 consider compliance with laws and ethical principles to be the basis for sustainable corporate governance. The "Code for Legal Compliance and Corporate Responsibility at LANXESS," which is applicable throughout the Group, specifies minimum standards and gives our employees advice and guidance on complying with these standards. Our compliance management system was audited by Deloitte & Touche GmbH in 2012.

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). We are also committed to the established principles of the world's largest corporate social responsibility initiative, the U.N. Global Compact. Since we signed up in 2011, we have continued to raise our sustainability profile.

Integrated management system

Our globally integrated management system provides the necessary Group-wide structures to ensure responsible commercial practices. In addition to internal directives and operating procedures, strict quality and environmental standards in line with ISO 9001 and ISO 14001 apply worldwide. External, independent experts regularly audit the progress of system integration at new sites and the performance of our management system worldwide. Confirmation of our compliance with ISO 9001 and ISO 14001 takes the form of a global matrix certificate. In 2012, we successfully completed the recertification audit, which must take place every three years.

As of April 28, 2012, our matrix certificate covered 41 companies with 79 sites in 22 countries. At the end of 2012, the site we acquired from DSM in Geleen, Netherlands, our facilities in Liyang, China, the headquarters of the Butyl Rubber business unit in Singapore and the sites assigned to Rhein Chemie that were acquired from Darmex in Burzaco and Merlo, Argentina, and Colonia, Uruguay, were included in the certificate. For our sites in the United States, we have also received certification to RC 14001 (RC = Responsible Care®).

In 2010, we began implementing an energy management system based on ISO 50001. The LANXESS Energy Management Directive that came into force in February 2012 defines the standards to be applied in our global operations. We successfully completed implementation of the energy management system in the German production units at the end of 2012. The first LANXESS production facility to be certified to ISO 50001 was IAB Ionenaustauscher GmbH in Bitterfeld.

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 LTIFR are gathered only at those production sites in which the company has a holding of more than 50%. In the year under review, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft assessed our data recording processes and system in the course of a business audit. Most of our HSE indicators for 2012 were audited with a view to achieving a "limited assurance" rating.

Product stewardship

We expressly support the protection goals of the European chemicals regulation REACH. During the first REACH registration phase that ended on November 30, 2010, we prepared dossiers for 193 substances that we produce in or import to the European Union in volumes exceeding 1,000 tons annually and submitted these to the European Chemicals Agency (ECHA). In the second phase through to the end of May 2013, we will be registering around 200 substances with volumes exceeding 100 tons. Lastly, all substances with volumes exceeding one ton must be registered by the third deadline at the end of May 2018. We expect to submit a total of some 750 substance dossiers over all three phases.

Social commitment

Our not-for-profit activities focus on providing support for science education in schools. 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. Over the past five years, we have invested around €4 million in this initiative. LANXESS has also initiated projects focusing particularly on the promotion of science education at almost all its sites across the globe.

Events after the reporting period

No events of particular significance took place after December 31, 2012 that could be expected to have a material effect on the cash flows, financial condition and results of operations of the LANXESS Group or LANXESS AG.

Report on risks and opportunities

Expected changes in business conditions

General business conditions We anticipate that the economic difficulties facing the industrialized nations will recede only gradually during 2013. Even the growth markets may not be able to escape the effects of the challenging environment in the established economic regions. Therefore, the global economy is likely to expand only slightly again in 2013, with projected growth of 2.0% for the year.

Even this cautious forecast is still subject to significant risks, among them the political uncertainty surrounding the fiscal situation in the United States and the public debt situation in Europe. The Middle East and Africa present the biggest risk in terms of political instability.

We estimate that GDP growth in the NAFTA region will be close to the prior-year level at 2.0%. Since the problems in Europe remain unsolved, but are not expected to worsen further, we project that the region's economy will stagnate. Recessionary trends are likely to dominate in the first half of 2013, but could be followed by a recovery in the second half of the year. We therefore anticipate zero growth in Western Europe, too. Asia is likely to grow at 4.0%, slightly stronger than 2012.

Expected Growth in GDP

Change vs. prior year in real terms (%)[1]	Gross domestic product		
	2013	2014	2015–2017
Americas	2.0	3.0	3.0
NAFTA	2.0	3.0	3.0
Latin America	3.5	4.5	4.0
EMEA	0.5	1.5	2.5
Germany	0.5	1.0	1.5
Western Europe	0.0	0.5	2.0
Central and Eastern Europe	2.0	3.5	4.0
Asia-Pacific	4.0	5.0	5.0
World	**2.0**	**3.0**	**3.5**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight in February 2013

We expect geopolitical conditions to continue contributing to high volatility on the raw material markets. The trend toward higher procurements costs, especially for petrochemical raw materials, is likely to persist. It can be assumed that energy prices will continue to increase in the coming years.

We predict volatility for the U.S. dollar against the euro in 2013 within the range of US$1.25 to US$1.40, compared with US$1.32 at December 31, 2012.

Future performance of the chemical industry We expect the chemical industry to follow the macroeconomic trend. Growth in 2013 is likely to be below average at 3.0%, shaped again by lower demand in the NAFTA region and Western Europe. The emerging economies will remain the principal drivers of global growth. We expect growth of 7.5% in China and 5.5% in India, for example. Growth in the Asia-Pacific region overall is expected to be 5.5%. We predict that South America will again provide more positive momentum for the industry, with growth of 3.5%.

Expected Growth in Chemical Production

Change vs. prior year in real terms (%)[1]	Chemical production		
	2013	2014	2015–2017
Americas	1.5	2.5	3.0
NAFTA	1.5	2.0	3.0
Latin America	3.5	4.0	4.0
EMEA	0.5	1.5	2.5
Germany	1.5	2.0	1.5
Western Europe	0.0	1.0	2.0
Central and Eastern Europe	2.5	3.5	4.5
Asia-Pacific	5.5	7.0	6.5
World	**3.0**	**4.5**	**4.5**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight in February 2013

Future evolution of selling markets According to our forecasts, the tire industry is expected to expand by 4.5% overall in 2013, with a rebound in the demand for replacement tires, in particular. We project growth of 6.5% for the Asia-Pacific region with its growth engines China and India. In Europe, however, we must expect a slight decline. The downward momentum of the previous year is expected to continue in Western Europe, with a contraction of 7.5%, while Central and Eastern Europe could achieve substantial growth of 7.5%. We predict only marginal growth of 0.5% for the NAFTA region.

The automotive industry is expected to post much lower growth of only 2.5% in 2013. We anticipate a strong contraction of around 8.5% in Western Europe on account of the weak economy there, but believe there is scope for a 6.0% improvement in Central Europe. We expect growth to normalize to 3.0% in the NAFTA region. Automotive production in Asia is projected to expand by 6.0%. China is likely to record strong growth of 10.5%, while output in Japan, at minus 6.0%, is poised to fall significantly.

The market for agrochemicals should continue to grow due to solid global demand. Asia is likely to post the strongest growth at 4.5%. Europe could continue to raise output slightly from the current high level of production. We anticipate the weakest growth of 0.5% in the NAFTA region given the low demand in 2012 and the corresponding increase in inventories held by customers.

We expect global growth in the construction industry to remain moderate. In our opinion, the eurozone crisis will cause a further contraction of 0.5% in Europe. We predict slight growth of 3.0% in the NAFTA region. Most of the industry's growth is likely to continue to come from Asia with 7.0%. China will be the main driver.

Risk report

Opportunity and risk management system Our success is significantly dependent on identifying opportunities and risks in our business activities and actively managing them. The goal of the risk management system is to safeguard the company's existence for the long term and ensure its successful future development by identifying opportunities and risks and, depending on their nature, appropriately considering these in strategic and operational decisions. Risks and opportunities are understood as negative or positive deviations from planned results.

Our management system is 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 The principles of our opportunity and risk management system are set forth in a Group directive. The management system, which uses the COSO model as the enterprise risk management framework, comprises many different elements that are incorporated into business processes through the company's organizational structure, its workflows, its planning, reporting and communication systems, and a set of detailed management policies and technical standards.

Expected Evolution of Major User Industries

Change vs. prior year in real terms (%)[1]	Tires			Automotive			Agrochemicals			Construction		
	2013	2014	2015–2017	2013	2014	2015–2017	2013	2014	2015–2017	2013	2014	2015–2017
Americas	2.5	2.0	1.0	3.5	5.5	3.5	2.0	2.5	2.5	3.5	8.0	6.0
NAFTA	0.5	0.0	(0.5)	3.0	5.0	2.5	0.5	2.0	2.0	3.0	8.5	6.0
Latin America	9.5	8.5	5.0	5.0	6.5	6.0	3.5	3.0	3.0	5.5	6.0	5.0
EMEA	0.5	1.5	2.0	(5.5)	5.0	6.5	1.0	2.0	3.0	0.5	1.5	3.0
Germany	(3.5)	(1.0)	(0.5)	(10.0)	0.5	5.5	1.5	2.0	2.5	(0.5)	0.5	1.0
Western Europe	(7.5)	(4.0)	(1.0)	(8.5)	1.5	6.0	1.5	1.5	2.0	(0.5)	0.5	2.0
Central and Eastern Europe	7.5	6.0	4.0	6.0	9.0	5.0	1.0	2.5	3.0	2.0	4.0	5.0
Asia-Pacific	6.5	8.5	7.5	6.0	10.0	7.0	4.5	5.5	5.5	7.0	6.5	5.5
World	**4.5**	**5.5**	**5.0**	**2.5**	**7.5**	**6.0**	**3.0**	**4.0**	**4.0**	**3.5**	**5.0**	**4.5**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight, LMC and other sources in February 2013

The 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 management of opportunities and risks is therefore 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. This is why 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. 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 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:

- twice per year during the intrayear forecasting process,
- once 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 "Risks of future development."

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 unexpected operational events with a significant impact on earnings. In 2012, 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. The compliance code is part of a comprehensive compliance management system that has been structured in accordance with the principles of an internationally recognized framework for enterprise risk management (COSO). 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 Group Compliance Officer, who reports directly and regularly to the Board of Management. In addition, there is provision for immediate notification of the Board of Management and Supervisory Board in the event of serious compliance violations. In 2012, there was no cause for immediate reporting of this kind.

(Group) accounting aspects of the internal control and risk management system The aspects of the internal control and risk management system relating to the (Group) 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 (Group) 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 (Group) accounting issues cannot be guaranteed with full assurance.

The Accounting Group Function, which reports to the CFO, is responsible for the (Group) accounting process and therefore for preparing the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. It is also responsible for ensuring the uniform preparation of the single-entity financial statements of the subsidiaries that are included in the consolidated financial statements. The Board of Management prepares the annual financial statements and the consolidated financial statements, which are then forwarded to the Supervisory Board's Audit Committee without delay. Upon recommendation by the Audit Committee, the annual financial statements and the consolidated financial statements are adopted and approved by the Supervisory Board at its financial statements meeting.

The Supervisory Board, and especially its Audit Committee, deal with major questions relating to LANXESS's accounting and risk management, the audit mandate and the areas of focus for the auditor's audit of the annual financial statements.

Consolidated interim financial statements are prepared each quarter. The condensed consolidated half-yearly financial statements are reviewed, while the annual financial statements and the consolidated financial statements are subjected to a full audit by the auditor of the company's annual financial statements and consolidated financial statements.

LANXESS AG's uniform accounting in compliance with the German Commercial Code is based on a structured process with appropriate organizational structures and workflows, including the related working instructions. In addition to the segregation of duties, the dual-control principle and continual plausibility testing serve as fundamental monitoring tools during the financial statement preparation process. On the IT side, the accounting process is supplemented by an integrated IT system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access. The correctness of the automatically generated postings and the master data required for them is regularly reviewed. Manual postings are based on a systematic voucher system, documented to the necessary extent and verified downstream.

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 process, we ensure that generally accepted accounting practices in line with the applicable laws and standards are applied and guarantee the reliability of our financial reporting. The (Group) 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 regular reviews 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 (ICS) 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 combined management report.

Long-term exchange rate trends Depending on the country of production, 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. In addition to the hedging we perform as described under "Financial risks," 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 We actively manage the risk of demographic change 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 collaborating 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 vocational training positions to measures allowing older employees to enjoy a longer working life.

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. Additionally, in 2011 we worked closely with our employee representatives to agree 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. Further modules were added in 2012. These include helping our employees in Germany to find care facilities for family members close to their workplaces and low-interest caregiver loans. Overall, we are expanding our concepts to facilitate employees' work-life balance. In November 2012, for example, construction started on a new childcare facility near the Leverkusen site.

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 continued to expand our cooperations with research institutes, colleges and universities in Germany and other important target markets in 2012. We were also able to position our company as an attractive employer through participation at numerous events around the world. Our admission to the DAX helped in this regard. We additionally extended our programs for interns and new talents in several regions, especially in the BRICS countries.

A key element in the globally responsible management of human resources is the Board of Management's Diversity & Inclusion initiative. The program aims to create a more diverse workforce in terms of age, gender and nationality over the medium and long term that can better respond to the challenges of global markets and diverse customer requirements. The Diversity & Inclusion initiative was launched in 2011 and entered a decisive phase in 2012 with many different subprojects. In this context, LANXESS also set its first concrete target: to increase the proportion of women in middle and upper management worldwide from 15% to 20% by 2020. At the same time, we aim to find intelligent solutions that bring together diversity and demographic management. In Germany, for example, our Senior Trainee Program is helping a group of academically trained men and women of varying ages return to employment after a long period spent raising a family. The idea is to better deal with demographic-related trends by focusing on a frequently overlooked segment of the German labor market and, as a socially responsible company, promoting equal opportunities for women at the same time.

Corporate strategy risks We actively pursue 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 LANXESS's business activities worldwide, including the processes from receiving an order to receiving payment and from placing an order to paying a vendor. It is important that the people who use the systems receive correct and meaningful information when they need it. We support this by developing a uniform, integrated system architecture and investing in the expansion and improvement of IT services worldwide.

The operation and use of IT systems entails risks. For example, networks or systems may fail, or data and information may be compromised or destroyed because of operator and programming errors or external factors. In both cases, this can cause serious business interruptions. To mitigate such risks, we invest in suitable data protection systems, such as mirror databases designed to prevent the loss of data and information. Various security and monitoring tools, like firewalls and access restriction and authorization systems, are used to ensure the integrity, confidentiality and availability of data and information and the trouble-free operation of systems. The risk management practices employed by the Information Technology Group Function comply with recognized standards.

HR policy risks The risk of industrial actions in some countries resulting from disputes in connection with negotiations concerning future collective bargaining 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 qualification, 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 know-how. To this end, we are also continually expanding the international exchange of experts between the various group functions and business units. We continue to invest in the next generation of employees as well, by increasing the number of training opportunities in Germany, launching and expanding regional internship and trainee programs in, for example, Brazil, India and China, and offering a central Corporate Trainee Program that includes international assignments. One indicator of our success so far in limiting the loss of know-how is the low employee fluctuation rates in all regions and steadily increasing applicant numbers. Overall, we estimate as low the risk of our business being impaired by a loss of knowledge.

In 2011, 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 GOFOR 1.4. We continued this offering in 2012. To date, 200 sales employees from all regions have been trained in three modules.

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 the course of 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 service existing demand, resulting in a loss of marginal income. We use a comprehensive range of measures to counter this scenario. These include proactive facility maintenance, 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 our customers. 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 Despite mixed economic developments across regions and sectors, our risk exposure during the reporting year was not materially different from our risk exposure during the previous year due to our broadly diversified product and customer portfolios. Nonetheless, all planning is subject to a certain degree of forecasting risk, which could necessitate flexible adjustments to rapidly changing business conditions over the course of the year. 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.

In light of the systematic improvements made in our financing structures during the reporting year, our sound liquidity position, and our demonstrated ability to adapt our business, even on short notice, to significant changes in the business environment, we are confident that we will be able to successfully master any risks that materialize in the future.

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 We intend to maintain LANXESS's proven strategic alignment in the future. Our product portfolio is systematically aligned to those markets that promise growth in the coming years. 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 objective is to increase our key controlling parameter, EBITDA pre exceptionals, to €1.4 billion in 2014 and €1.8 billion in 2018. We aim to pursue these goals on the basis of organic growth and targeted acquisitions, with the focus on organic growth.

Strategic projects in support of organic growth, the composition of our product portfolio, our regional focus, acquisitions, and targeted research and development will be instrumental in helping us achieve these earnings targets.

Product portfolio aligned to four global megatrends With its product portfolio, LANXESS has a presence in all key customer industries. Our broad diversification of this portfolio ensures that we are not dependent on any single product or process. We are focused on strengthening the individual product segments with optimized production processes and methods, ongoing innovation, capacity expansion measures, new production facilities or acquisitions. Our work in this regard is aligned to the global megatrends that are most relevant to us:

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 key impulses for growth in tire production and automotive engineering, both of which are important user industries for LANXESS. At both European and international level, current and draft legislation seeks to improve quality standards by requiring the classification of vehicle tires on the basis of their rolling resistance, wet grip, noise emissions and durability. A good rating can only be achieved using high-performance rubber. In automotive engineering, it is above all the efforts to achieve substantial weight reduction through the increased use of high-performance plastics that are providing us with opportunities for growth.

Agriculture: The rising world population is driving the demand for agricultural products. The need in agriculture for more efficient use of limited arable land is a crucial issue for our customers in the agrochemical industry. Our products help protect crops and increase agricultural yields.

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. We are benefiting from this trend through our customers in the construction and consumer goods industries in particular.

Water: Given escalating environmental pollution and the steady rise in water consumption because of ongoing population growth and industrial requirements, the demand for clean water will continue to rise. With our innovative solutions for purifying and treating drinking water, wastewater and industrial process water, we are therefore serving a high-growth market.

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 positions there in the future. 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 in Asia, in particular, by making selective investments in China and Singapore.

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 an important element of our strategy.

Focused research and development activities We make targeted investments in the research and development of new solutions that underscore the premium nature of our products and generate added value for our customers. We intend for customer- and market-oriented innovations to continue helping us achieve organic growth and cementing our competitive positions as a premium supplier. Process and product innovations remain the focus of our research and development activities.

The importance of research and development work is also reflected in our R&D budget for fiscal 2013, which exceeds the actual expenditure for the reporting year by a good 10%.

Operational opportunities Unlocking and exploiting operational opportunities is an important aspect of LANXESS's entrepreneurial activities. We are committed to using existing products and new solutions to systematically advance our growth and sustainably strengthen our position in global markets. Investing in new plants and increasing the productivity of existing ones are key elements for future organic growth.

In the year under review, we strengthened the basis for further growth in the coming years by making selective investments in our existing businesses and developing innovations that support, for example, the mobility and water megatrends.

As planned, we will be bringing our new butyl rubber plant built in Singapore for the Butyl Rubber business unit of our Performance Polymers segment on stream in the first quarter of 2013. The facility is designed to have an annual capacity of up to 100,000 tons. This new capacity will enable us to meet the medium- and long-term growth in demand for butyl rubber for tires, particularly from the BRICS countries. The investment volume of the new facility is about €400 million.

Also in Singapore, LANXESS started construction in September 2012 of a new production facility for high-performance neodymium-based performance butadiene rubber (Nd-PBR) for the Performance Butadiene Rubbers business unit. 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.

In the key Asian growth market China, we are investing around €235 million in the construction of the world's largest production plant for EPDM synthetic rubber. Assigned to the Technical Rubber Products business unit (since January 1, 2013: Keltan Elastomers business unit), the plant will have an annual capacity of 160,000 tons and is due on stream in 2015. We broke ground on the new facility in September 2012.

With the construction of a new polymerization plant in Antwerp, Belgium, which has an investment volume of about €75 million, our High Performance Materials business unit is strengthening its production network for high-tech plastics and will be in a position to supply its global compounding network from the site. Antwerp is also home to the facility for caprolactam – the key precursor for plastics manufacturing – and glass fiber production. The new polymerization plant is due for completion in the first quarter of 2014 and is designed for an annual capacity of 90,000 tons of polyamide.

With our Advanced Industrial Intermediates and Saltigo business units in the Advanced Intermediates segment, we are well-positioned in the market to meet the growing demand for agrochemicals that is rooted in the agriculture megatrend. We aligned our Saltigo business more strongly to the agrochemicals business last year. In addition, following the completion of capacity expansions for menthol and dichlorobenzene production in the reporting year and at the beginning of 2013, the Advanced Industrial Intermediates business can offer the market further capacities to serve the long-term demand trend.

A number of measures have resulted in operational opportunities for the business units in our Performance Chemicals segment. For instance, the Inorganic Pigments business unit started constructing a new facility for iron oxide red pigments on the east coast of China, marking an expansion of its global production network for inorganic pigments. Designed in line with state-of-the-art environmental standards, the plant will have an initial annual capacity of 25,000 tons. Production is scheduled to start in the first quarter of 2015. The investment volume is about €55 million.

The Rhein Chemie business unit will further strengthen its position in the market for vulcanization bladders through the acquisition of U.S. company Tire Curing Bladders, LLC, in the year under review. In the Ion Exchange Resins business unit, which supplies products in support of the water megatrend, we have successfully established ourselves as an end-to-end supplier for water treatment solutions following the market launch of our membrane technology.

In the first half of 2013, our Leather business unit will commission its new production plant for leather chemicals in China, which is the world's largest market for leather chemicals. At a cost of about €30 million, the new plant will have an annual capacity of up to 50,000 tons. In the second half of 2013, this business unit is also due to commission our new CO_2 concentration unit in South Africa, thereby strengthening our value chain in this business area. The investment volume for the new unit amounts to €40 million.

The development of innovative products and ongoing development of our production processes play a significant role in cementing our current market position and increasing our competitiveness.

In the Keltan Elastomers business unit, for example, we are using the sustainable advanced catalyst elastomers (ACE) technology in the production of our EPDM synthetic rubber. Compared to conventional technology, ACE reduces energy requirements for rubber production and does not require catalyst extraction as a result of high catalyst efficiency. Furthermore, it enables the manufacture of new rubber grades, which will allow us to expand our EPDM portfolio and align our products even more closely with customers' specific needs. We will deploy the ACE technology at our EDPM plant currently under construction in China. At our site in Geleen, Netherlands, which previously ranked as our largest EPDM facility, we will be converting 50% of the production capacity, or some 80,000 tons, to ACE technology this year.

Sustainability is not just about production processes at LANXESS. Our commitment to sustainability starts with raw material sourcing, which is why we actively search for alternative sources of raw materials for our businesses. In our rubber business, for example, we successfully developed a dehydration process for producing ethylene from sugar cane. Since the end of 2012, we have been using this bio-based ethylene as a substitute for ethylene derived from petroleum to produce EPDM rubber at our site in Brazil. We intend to gradually expand our use of bio-based raw materials in the Keltan Elastomers business unit in the coming years and are researching sustainable feedstocks for our other business units as well.

For the important mobility megatrend, our High Performance Materials business unit is developing innovative lightweight construction solutions. Our new composite material systems made from high-performance plastics can replace metal parts used in motor vehicles, thereby reducing fuel consumption and emissions. We can produce highly durable and resistant components for vehicle manufacturers, especially structural body parts made from composite sheets containing our high-tech plastics. These replace critical vehicle components that were previously made from metal, including the front end, brake pedals and various housings, like the airbag housing. In developing these innovations, we work closely with leading carmakers on customized solutions for each vehicle model. Our acquisition of Bond-Laminates GmbH in September 2012 has reinforced our position in this promising field. Bond-Laminates makes composite sheets that combine thermoplastics and high-strength fibers. With this step, we have gained additional expertise in the cutting-edge field of lightweight construction and can now offer the development and production of these composite systems from a single source.

Our Ion Exchange Resins business unit expanded its portfolio of custom-tailored solutions for the water megatrend. Thanks to the commercial launch of membrane elements for reverse osmosis in the reporting year, we have successfully established ourselves as an end-to-end supplier in the market for water treatment solutions. We have enhanced our competitive position by becoming one of two companies to offer products for ion exchange and membrane filtration. We are steadily adding innovative products to our portfolio in the important area of reverse osmosis membranes, which are used in the desalination of brackish water in many industrial applications, including, for example, the production of boiler feed water for power stations. The new membrane elements were designed to reduce the accumulation of particles on the membrane surface during industrial water treatment operations, thereby extending maintenance intervals.

Expected results of operations of the LANXESS Group LANXESS has defined clear medium-term earnings targets. We aim to achieve an EBITDA pre exceptionals of approximately €1.4 billion in 2014 and, as a second mid-term growth target, an EBITDA pre exceptionals of €1.8 billion in 2018.

Given the ongoing macroeconomic uncertainty related to the European financial crisis, our ability to make concrete earnings projections for 2013 is limited. Despite the challenging economic environment we anticipate for the first half of 2013, in particular, we are confident that we will achieve our first medium-term earnings target of €1.4 billion in EBITDA pre exceptionals in 2014.

For the Performance Polymers segment, we expect the demand for tires to come mainly from the Asian growth markets China and India in 2013. We also expect demand to be lifted by the new European directive on mandatory tire labeling, which came into force in the E.U. in November 2012, and by other global labeling regulations in, for example, Korea and Japan. In our opinion, these factors will also contribute to a continued increase in the demand for tires with optimized rolling resistance, which can be manufactured thanks to our high-performance rubber products.

Our global production network and long-standing customer relationships put us in an excellent position to profit from this trend in our rubber business. Over the course of 2013, we will start to supply the fast-growing Asian markets directly from our butyl rubber plant in Singapore, which will come on stream in the first quarter of 2013 as announced. We see further growth opportunities for our high-tech plastics because of the ongoing trend to reduce vehicle weight. We are also well-positioned in this market, in part because of the aforementioned acquisition of Bond-Laminates.

In the Advanced Intermediates segment, we forecast good demand for our agrochemical products in 2013, in both the Advanced Industrial Intermediates and Saltigo business units.

In Performance Chemicals, we expect the demand for products for the construction industry to increase in 2013, especially in North America and China. We see growth opportunities for the current year in the Ion Exchange Resins business unit, which supplies products in support of the water megatrend, due to solid demand for ion exchange resins and the market success of our membrane technology. Growth opportunities for the Leather business unit in 2013 may come from the startup of our new production plant in China.

Expected cost development of the LANXESS Group LANXESS has been swift to respond to the challenging economic conditions, introducing measures in the reporting year to counter the effects of declining demand. We will continue these efforts, which include flexible asset management and rigorous cost discipline, in 2013. 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 now in a position to adapt our costs to changes in the economic environment at an early stage.

We believe that our cost base will be higher in 2013 than in 2012, partly as the result of the higher depreciation expense attributable to the startup of new production facilities as well as to the increase in wages and salaries to be expected from pending collective bargaining agreements.

We project depreciation and amortization of between €420 million and €440 million in fiscal 2013. With respect to raw material costs, we expect continued volatility at a comparatively high level in 2013. As in previous years, we will seek to pass on rising costs to the market by adjusting our product prices. Since raw material prices are expected to be 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 price trends for the individual strategic raw materials will vary and that the trend toward higher procurement costs, particularly for petrochemical raw materials, will continue, with corresponding volatility. We believe energy costs are likely to increase slightly in 2013.

Exchange rate fluctuations may impact our earnings. We have already entered into hedging transactions to ward off the effects of such developments in 2013 as well as 2014.

The effective tax rate for the LANXESS Group is significantly influenced by the regional distribution of its earnings. Accordingly, we expect a tax rate of about 22.0% for the medium term, but the rate for 2013 could be slightly higher.

Expected financial condition of the LANXESS Group

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

Capital expenditures We will continue to pursue our investment and growth strategy in fiscal 2013. 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 projecting cash outflows for capital expenditures of €650 million to €700 million for 2013, which is in line with the previous year. We expect an investment volume of around €65 million in 2013 for our new Nd-PBR production facility in Singapore and about €100 million for our EPDM rubber plant in China.

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 long-term nature of its financing. There is no significant need for refinancing this year on account of the extensive measures we have adopted to date to improve our financial position. 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.

Expected results of operations of LANXESS AG We expect the administration expenses that LANXESS AG incurs in performing its tasks as a management holding company to increase slightly in 2013 and 2014. Apart from this, the earnings position of LANXESS AG will be dominated by the financial result, especially the net interest position and the balance of income and losses from investments in affiliated companies. In 2013 and 2014 we expect the net interest position to be negative and the balance of income and losses from investments in affiliated companies to come in at a level that puts the net income of LANXESS AG on a par with the reporting year. The ability of LANXESS AG to pay a dividend will depend in large measure on the profit transfers and dividends paid by the other companies of the LANXESS Group.

Dividend policy LANXESS follows a consistent dividend policy. As in the past, our 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 The LANXESS Group is successfully positioned with its product portfolio in the relevant markets and will continue to expand its presence in the world's growth regions this year. We aim to strengthen our market position, especially in the BRICS countries, even though it is assumed that there will be little economic momentum in 2013. We have set clear medium-term growth targets that we aim to achieve through organic growth as well as selective acquisitions. It is planned to raise the Group's key controlling parameter, EBITDA pre exceptionals, to approximately €1.4 billion in fiscal 2014. In addition, as announced during the reporting year, we aim to achieve an EBITDA pre exceptionals of €1.8 billion in 2018. To reach our goals, we will continue to pursue our price-before-volume strategy and to focus on offering premium products.

There are certain company-specific factors that can influence LANXESS's future business performance. One key factor is the future development of raw material and energy costs. We expect the trend toward higher procurement costs to continue throughout 2013 and, from today's vantage point, see no fundamental change in the trend thereafter. We intend to continue to pass along the volatility in raw material and energy prices to the market by making price adjustments.

The U.S. dollar will remain the key currency for LANXESS's businesses. We expect this currency to remain volatile against the euro in 2013, moving within the range of US$1.25 to US$1.40.

As global economic momentum is expected to stay slow, we are cautiously optimistic for 2013. We believe that Asia will post the largest year-on-year gain among the growth markets.

We expect customer demand to stay at a low level in the first quarter of 2013, consistent with the end of the reporting year. For this reason, we think that the situation will be particularly challenging in the first quarter. We predict that there will be a gradual improvement in the demand situation during the second half of the year.

LANXESS was swift to start introducing measures last year that have helped the company successfully counter the effects of declining demand. These measures include flexible asset management and our rigorous cost discipline. We will continue to apply these measures in 2013 in light of the economic challenges. In addition, we believe that all our segments are well-positioned to benefit from an improvement in business conditions during the year.

Against this background, we are confident of continuing to grow over the coming years and of achieving our mid-term target of €1.4 billion EBITDA pre exceptionals in 2014.

Corporate Governance

In this section, the Board of Management and Supervisory Board report 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.

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. On December 13, 2012, the Board of Management and Supervisory Board issued the following joint declaration pursuant to Section 161 of the German Stock Corporation Act:

"I. Recommendations

Since the issuance of the last declaration of compliance on May 8, 2012, LANXESS AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code ("Government Commission") as amended on May 26, 2010, which were 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 exception of the deviations from Section 4.2.3, Paragraph 4, Sentence 1 and Section 5.4.5, Sentence 2, as well as the meanwhile inapplicable deviation from Section 4.2.3, Paragraph 3, Sentence 3, as described in the declaration of May 8, 2012. LANXESS AG will henceforth comply with the recommendations of the Government Commission as amended on May 15, 2012, which were published on June 15, 2012, 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, 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, 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 non-group 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 Carbon SE Group and holds one supervisory board mandate in a non-listed company outside the SGL Carbon SE Group 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.

II. Suggestions

In addition to its recommendations, the German Corporate Governance 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 2 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 on May 8, 2012, LANXESS AG has complied with the suggestions of the Government Commission as amended on May 26, 2010, which were 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 and will henceforth comply with the suggestions of the Government Commission as amended on May 15, 2012, which were published on June 15, 2012, with the following exceptions:

1. Section 2.3.3, Sentence 2, 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. This system was globally audited in 2012 by Deloitte & Touche GmbH, which applied the AuS 980 standard promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). The system was rated favorably, and there were no objections. Components of this system include 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 greatest benefits of our corporate responsibility 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. An overview of the implementation of corporate responsibility at LANXESS can be downloaded from the Sustainability pages of our website at 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.

LANXESS has supplemented German legislation prohibiting insider trading with a Group-wide insider directive. This defines rules of conduct for trading in the company's securities so that insider trading violations can be avoided. The names of persons with authorized access to insider information required for the performance of their professional duties are included in an insider register that is regularly updated. The directive also stipulates the reporting and disclosure obligations for transactions with LANXESS shares (directors' dealings).

Corporate policies on other important issues such as occupational safety and diversity are implemented throughout the Group on the basis of Board of Management initiatives. With its Diversity & Inclusion initiative, LANXESS aims to promote equal opportunity for employees and facilitate work/life balance. Additional information is available on our website at http://www.lanxess.com/ under the menu item About LANXESS/Diversity & Inclusion.

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, setting human resources policy, arranging the company's financing, and establishing an effective risk management system. It is also responsible for preparing the quarterly and half-year financial statements, the financial statements of LANXESS AG, the consolidated financial statements of the LANXESS Group and the combined management report for LANXESS AG and the LANXESS Group.

The Board of Management of LANXESS AG currently comprises four members. Information about the members of the Board of Management is available on our website at http://www.lanxess.com/ under the menu item Investor Relations/Corporate Governance/Board of Management. The Chairman coordinates 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. The Supervisory Board discusses business performance, planning and strategy at regular intervals. Its responsibilities also include appointing the members of the Board of Management as well as reviewing the 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 Supervisory Board has issued its own rules of procedure, which, in addition to defining the tasks and responsibilities of the Supervisory Board and the personal qualifications of its members, establishes the processes for convening, preparing and chairing meetings as well as the procedures for voting.

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. The Chairman of the Board of Management regularly exchanges information with the Chairman of the Supervisory Board in order to discuss matters of strategy, planning, business performance, risks, risk management and compliance. 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 twelve members, with 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.

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. Information about the members of the Supervisory Board is available on our website at http://www.lanxess.com/ under the menu item Investor Relations/Corporate Governance/Supervisory Board.

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 are expected to 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.

The Supervisory Board of LANXESS AG should ensure the provision of impartial advice and supervision to the Board of Management. All current members of the Supervisory Board are independent. The Supervisory Board assumes that the ability of the employee representatives on the Supervisory Board to act independently is not affected by their status as employees of the company or members of labor unions. No member of the Supervisory Board has a personal or business relationship with the company, its executive bodies, a controlling shareholder or any enterprise affiliated with a controlling shareholder that may cause a material and not merely temporary conflict of interests. No former member of the Board of Management of LANXESS AG is a member of the Supervisory Board. The Supervisory Board also aims for all future members of the Supervisory Board to be independent within the meaning of Section 5.4.2 of the German Corporate Governance Code and free of conflicts of interest.

An age threshold for members of the Supervisory Board is specified in the rules of procedure for the Supervisory Board. Supervisory Board members shall 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. The 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 serving 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, and compliance. It prepares the Supervisory Board's resolutions concerning the 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, which describes the compensation system and the amount of compensation paid to the members of the Board of Management and Supervisory Board for their service in fiscal 2012, is part of the combined management report for LANXESS AG and the LANXESS Group and can be found on page 111ff. of this Annual Report.

Risk management

Corporate governance also includes the responsible handling of business risks. Therefore, a systematic and effective risk management system is the basis for professional corporate governance. Our risk management system aims to identify risks and opportunities at an early stage and to steer and minimize the risks that materialize. It is subject to ongoing optimization and adaptation to changing conditions. The Board of Management informs the Supervisory Board about the existence and development of potential risks on a regular basis. The Audit Committee regularly reviews the effectiveness of the risk management, internal control and auditing systems. Further information is provided in the Risk Report on page 124ff.

Liability insurance

The company maintains a directors' and officers' (D&O) liability insurance that covers the activity of the members of the Board of Management and Supervisory Board. The suitable deductible required by Section 93 (2) of the German Stock Corporation Act has been agreed for members of the Board of Management, and the recommended deductible within the meaning of Section 3.8 of the German Corporate Governance Code has been agreed for the members of the Supervisory Board.

Reportable securities transactions

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. Reportable securities transactions are published on the LANXESS website.

The total number of shares of LANXESS AG held by members of the Board of Management and Supervisory Board as of December 31, 2012 was less than 1% of all shares issued by the company.

Accounting and auditing

LANXESS AG prepares its consolidated financial statements and interim financial statements in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. The separate financial statements of LANXESS AG for any given fiscal year ("financial statements") are prepared in accordance with the German Commercial Code (HGB). The financial statements, consolidated financial statements and combined management report are published, once adopted/approved by the Supervisory Board, within 90 days of the end of the fiscal year. The company's accounting for the 2012 fiscal year was audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("PwC"), the auditors chosen at the Annual Stockholders' Meeting held in 2012. PwC also reviewed the 2012 half-year financial report. The audits are conducted in accordance with German auditing regulations and in accordance with the generally accepted standards for auditing promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). It was agreed with the auditors that they would report to the Supervisory Board without delay concerning any possible grounds for their disqualification or bias as well as any significant findings or incidents that came to light during the audit.

Offices held by Board of Management members (as of December 31, 2012)

Member of the Board of Management	External offices	Offices within the LANXESS Group
Dr. Axel C. Heitmann Chairman of the Board of Management	• 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 Management and Presidium of OAV-German-Asia-Pacific Business Association • Member of the Advisory Board of NRW.Bank • Member of the Presidium of stiftung neue verantwortung • Member of the Executive Committee of the 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. • Member of the Board of Trustees of Konvent für Deutschland e.V.	• Chairman of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd.
Dr. Werner Breuers Member of the Board of Management	• Member of the Supervisory Board of Currenta Geschäftsführungs-GmbH, Leverkusen • Member of the Supervisory Board of Messer Group GmbH, Bad Soden • 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 Senate of the Deutsche Akademie der Technikwissenschaften • Member of the Board of Directors of the German American Chamber of Commerce	• 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 Chief Financial Officer	• Member of the Supervisory Board of GfK SE, 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 Management and Industrial Relations Director	• 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 (China) Co. Ltd. • Chairman of the Board of Directors of LANXESS India Private Ltd.

LANXESS AG Supervisory Board

Dr. Rolf Stomberg (Chairman)

- Chairman of the Supervisory Board of LANXESS AG
- 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. (until April 30, 2012)
- 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* (Vice Chairman)
- Vattenfall Europe Mining AG, Cottbus* (Vice Chairman)
- Vattenfall Europe Generation AG, Cottbus* (Vice Chairman)
- Vattenfall Europa GmbH, Berlin* (Vice Chairman)
- 50Hertz Transmission GmbH, Berlin* (Vice Chairman, until November 30, 2012)
- DMT GmbH, Essen* (Vice Chairman)
- Vivawest Wohnen GmbH, Essen* (Vice Chairman)
- Vivawest GmbH, Essen (Vice Chairman)
- GSB – Gesellschaft zur Sicherung von Bergmannswohnungen mbH, Essen (Vice Chairman)
- GSG Wohnungsbau Braunkohle GmbH, Cologne (Vice Chairman)

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*
- 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)
- Bilfinger Industrial Services GmbH, Munich
- Bilfinger Industrial Technologies GmbH, Frankfurt am Main

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*

Prof. h.c. (CHN) Dr.-Ing. E.h. 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*
- Hoberg & Driesch GmbH, Düsseldorf (Chairman)

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, 2012).

* Statutory supervisory boards

Report of the Supervisory Board

Dear Stockholders,

2012 marked another very successful year for LANXESS. The company achieved new sales and earnings records despite an extremely challenging economic climate in the second half of the year. Thanks to the corporate strategy of focusing on sustainable growth, the stock also posted gains, culminating in the company's admission to Germany's lead index, the DAX. Although conditions were more volatile, the clear focus on global growth markets in the three main business areas contributed to the company's very gratifying performance.

During the reporting year, the Supervisory Board duly and fully performed the tasks and duties incumbent upon it under the law, the articles of association and the rules of procedure for the Supervisory Board. 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 in good time 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 of the company, matters of strategy, planning, business performance, risks, risk management and compliance, as well as material events.

Focus of deliberations by the Supervisory Board

The Supervisory Board met a total of six times in fiscal 2012.

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.

The focus of the Supervisory Board meeting held in March was the review of the financial statements and consolidated financial statements for fiscal 2011, 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 and approved the execution of additional financing agreements. The Board of Management reported on the successfully completed integration into the Group of a recent acquisition. 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.

At the meeting in May, the Supervisory Board approved a partial adjustment of the conditions defined in December 2011 for the Board of Management's variable compensation components for fiscal 2012 in order to provide added incentive for the members of the Board of Management. It also approved a related update of the declaration of compliance. In addition, the Board of Management reported on the company's current innovation projects. We were given information about the Board of Management's Diversity & Inclusion initiative, including the announcement of a very specific target for the proportion of women in management roles.

At the meeting that took place immediately prior to the Annual Stockholders' Meeting, the Board of Management reported on the status of preparations for the relocation of company headquarters to Cologne.

In August, the Supervisory Board approved the construction of a production plant for EPDM rubber in Changzhou, China. It also adapted its rules of procedure to reflect changes made to the German Corporate Governance Code.

At the meeting in late October, the Board of Management reported to us on the company's control, risk management and auditing systems. It also presented an ongoing Group-wide initiative on occupational, process and plant safety. In addition, the Supervisory Board approved the placement of a long-term €500 million Eurobond.

At its December meeting, the Supervisory Board reviewed in full and reached a decision on the corporate planning for 2013 as proposed by the Board of Management. It also discussed the company's strategic alignment and capital expenditure policy and dealt with issues relating to corporate governance. Lastly, we defined the conditions for the Board of Management's variable compensation components for fiscal 2013.

All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The Supervisory Board's meetings in 2012 were attended by all members, with the exception of one meeting at which one of the twelve members was absent. Committee meetings were attended by all members, with the exception of one meeting that two members were unable to attend. 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 140. 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 financial statements and management report of LANXESS AG for fiscal 2011, the consolidated financial statements and Group management report for fiscal 2011, the interim reports issued during fiscal 2012, and the condensed consolidated financial statements and interim management report included in the 2012 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 planning, corporate governance, compliance, tax matters, accounting-related topics, strategies for IT security and the determination of the principal areas of focus for the audit of the 2012 financial statements. The external auditor attended three of the Audit Committee's four meetings and reported on the auditing activities.

The Presidial Committee convened five times during 2012 to prepare the meetings of the Supervisory Board and to discuss personnel issues. A chief focus of its deliberations was the preparation of the decisions to be reached by the full Supervisory Board concerning the Board of Management's variable compensation components.

The Committee formed pursuant to Section 27 (3) of the German Codetermination Act and the Nominations Committee did not convene in fiscal 2012.

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

In the year under review, the Supervisory Board discussed the German Corporate Governance Code (the Code) and its further development arising from the amendments of May 15, 2012. In connection with the Code's recommendations, we extensively reviewed and defined goals for the composition of the Supervisory Board, which are discussed on page 139 of this Annual Report. 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 about corporate governance can be found in the section on corporate governance starting on page 136 of this Annual Report.

Financial Statements of LANXESS AG and Consolidated Financial Statements of the LANXESS Group

The Board of Management of LANXESS AG prepared the financial statements for the 2012 fiscal year in accordance with the rules of the German Commercial Code, the consolidated financial statements for fiscal 2012 in accordance with the International Financial Reporting Standards (IFRS) and the combined management report for 2012. These were all 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 at length with the Board of Management and the auditor at the Audit Committee meeting held on March 14, 2013. 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 19, 2013. 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 of LANXESS AG, the consolidated financial statements of the LANXESS Group, the combined 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. 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.

The Supervisory Board thanks the Board of Management, all of the Group's employees and the employee representatives for their enormous dedication and tremendous work.

Leverkusen, March 19, 2013

The Supervisory Board

Dr. Rolf Stomberg
Chairman

Consolidated Financial Statements

Statement of Financial Position
LANXESS Group

€ million	Note	Dec. 31, 2011	Dec. 31, 2012
ASSETS			
Intangible assets	(1)	373	390
Property, plant and equipment	(2)	2,679	2,994
Investments accounted for using the equity method	(3)	12	8
Investments in other affiliated companies	(4)	19	18
Non-current derivative assets	(5)	8	16
Other non-current financial assets	(6)	82	8
Deferred taxes	(28)	196	211
Other non-current assets	(7)	120	102
Non-current assets		**3,489**	**3,747**
Inventories	(8)	1,386	1,527
Trade receivables	(9)	1,146	1,117
Cash and cash equivalents		178	386
Near-cash assets	(10)	350	411
Current derivative assets	(5)	8	28
Other current financial assets	(6)	27	6
Current income tax receivables		64	41
Other current assets	(11)	230	256
Current assets		**3,389**	**3,772**
Total assets		**6,878**	**7,519**
EQUITY AND LIABILITIES			
Capital stock and capital reserves		889	889
Other reserves		943	1,233
Net income		506	514
Other equity components		(280)	(321)
Equity attributable to non-controlling interests		16	16
Equity	(12)	**2,074**	**2,331**
Provisions for pensions and other post-employment benefits	(13)	679	892
Other non-current provisions	(14)	331	304
Non-current derivative liabilities	(5)	13	4
Other non-current financial liabilities	(15)	1,465	2,167
Non-current income tax liabilities	(16)	63	35
Other non-current liabilities	(17)	89	74
Deferred taxes	(28)	75	82
Non-current liabilities		**2,715**	**3,558**
Other current provisions	(14)	446	440
Trade payables	(18)	766	795
Current derivative liabilities	(5)	40	10
Other current financial liabilities	(15)	633	167
Current income tax liabilities	(16)	49	45
Other current liabilities	(17)	155	173
Current liabilities		**2,089**	**1,630**
Total equity and liabilities		**6,878**	**7,519**

Income Statement
LANXESS Group

€ million	Note	2011	2012
Sales	(20)	**8,775**	**9,094**
Cost of sales	(21)	(6,765)	(6,986)
Gross profit		**2,010**	**2,108**
Selling expenses	(22)	(732)	(763)
Research and development expenses	(23)	(144)	(192)
General administration expenses	(24)	(325)	(339)
Other operating income	(25)	179	186
Other operating expenses	(26)	(212)	(190)
Operating result (EBIT)		**776**	**810**
Income from investments accounted for using the equity method		7	1
Interest income		11	5
Interest expense		(104)	(101)
Other financial income and expense		(35)	(46)
Financial result	(27)	**(121)**	**(141)**
Income before income taxes		**655**	**669**
Income taxes	(28)	(148)	(154)
Income after income taxes		**507**	**515**
of which attributable to non-controlling interests		1	1
of which attributable to LANXESS AG stockholders (net income)		506	514
Earnings per share (undiluted/diluted) (€)	(29)	**6.08**	**6.18**

Statement of Comprehensive Income
LANXESS Group

€ million	2011	2012
Income after income taxes	**507**	**515**
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements for defined-benefit plans	(94)	(217)
Exchange differences on translation of operations outside the eurozone	(33)	(81)
Financial instruments	(38)	58
Other comprehensive income (net of income tax) attributable to companies accounted for using the equity method	(11)	0
Income taxes on other comprehensive income	40	53
Other comprehensive income, net of income tax	**(136)**	**(187)**
Total comprehensive income	**371**	**328**
of which attributable to non-controlling interests	1	1
of which attributable to LANXESS AG stockholders	370	327

Statement of Changes in Equity
LANXESS Group

€ million	Capital stock	Capital reserves	Other reserves	Net income	Other equity components		Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
					Currency translation adjustment	Financial instruments			
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**
Allocations to retained earnings			506	(506)			0		0
Dividend payments			(71)				(71)	(1)	(72)
Stock-based compensation			1				1		1
Total comprehensive income			(146)	514	(81)	40	327	1	328
Income after income taxes				*514*			*514*	*1*	*515*
Other comprehensive income, net of income tax			*(146)*		*(81)*	*40*	*(187)*	*0*	*(187)*
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements for defined-benefit plans			*(217)*				*(217)*		*(217)*
Exchange differences on translation of operations outside the eurozone					*(81)*		*(81)*	*0*	*(81)*
Financial instruments						*58*	*58*		*58*
Other comprehensive income (net of income tax) attributable to companies accounted for using the equity method							*0*		*0*
Income taxes on other comprehensive income			*71*			*(18)*	*53*		*53*
Dec. 31, 2012	**83**	**806**	**1,233**	**514**	**(329)**	**8**	**2,315**	**16**	**2,331**

Statement of Cash Flows
LANXESS Group

€ million	Note	2011	2012
Income before income taxes		**655**	**669**
Depreciation and amortization		325	378
Gains on disposals of intangible assets and property, plant and equipment		(2)	0
Income from investments accounted for using the equity method		(7)	(1)
Financial losses		98	113
Income taxes paid		(95)	(109)
Changes in inventories		(178)	(164)
Changes in trade receivables		(148)	8
Changes in trade payables		70	38
Changes in other assets and liabilities		(16)	(94)
Net cash provided by operating activities before external financing of pension obligations (CTA)		**702**	**838**
Cash outflows for external financing of pension obligations (CTA)		(30)	0
Net cash provided by operating activities	(36)	**672**	**838**
Cash outflows for purchases of intangible assets, property, plant and equipment		(679)	(696)
Cash inflows from financial assets		24	41
Cash outflows for the acquisition of subsidiaries, less acquired cash and cash equivalents and net of subsequent purchase price adjustments		(285)	(44)
Cash inflows from sales of intangible assets, property, plant and equipment		7	5
Interest and dividends received		10	20
Net cash used in investing activities	(36)	**(923)**	**(674)**
Proceeds from borrowings		655	893
Repayments of borrowings		(221)	(652)
Interest paid and other financial disbursements		(100)	(123)
Dividend payments		(58)	(72)
Net cash provided by financing activities	(36)	**276**	**46**
Change in cash and cash equivalents from business activities		**25**	**210**
Cash and cash equivalents as of January 1		160	178
Exchange differences and other changes in cash and cash equivalents		(7)	(2)
Cash and cash equivalents as of December 31	(36)	**178**	**386**

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 German Federal Gazette (Bundesanzeiger).

The consolidated financial statements of the LANXESS Group for fiscal 2012 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 7, 2013. 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, 2012 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).

An amendment to IFRS 7 relating to disclosures required in the notes to the financial statements in connection with the transfer of financial assets took effect in fiscal 2012. However, this amendment is currently not relevant for the LANXESS Group.

New standards and interpretations issued but not yet mandatory

In 2012 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. With regard to the three new standards, in June 2012 the IASB published changes to the transition arrangements. All five standards are to be applied in the E.U. for the first time for annual periods beginning on or after January 1, 2014. 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 an amendment to IAS 1. This specifies that items included in other comprehensive income must be divided into those that will subsequently be reclassified to profit or loss and those that will not. The revised version of IAS 1 is to be applied by the LANXESS Group from the start of fiscal 2013.

In June 2011 the IASB also 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. The revised version of IFRS 19 is to be applied for annual periods beginning on or after January 1, 2013.

Since the option currently used by the LANXESS Group for the recognition of actuarial gains and losses corresponds to the future mandatory method, application of the revised version of IAS 19 will not have a significant impact on the financial position and results of operations. If the LANXESS Group had already applied the new version of IAS 19 for fiscal 2012, the operating result would have been reduced by an amount in the low-single-digit million euro range and the financial result by an amount in the mid-single-digit euro range, with the opposite effect on other comprehensive income. The LANXESS Group assumes that in future fiscal years the charge on the operating result and the financial result will probably be in the low-single-digit million euro range, with the opposite effect on other comprehensive income.

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.
IAS 12	Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12	Dec. 20, 2010	2013	yes
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1	Dec. 20, 2010	–	yes
IFRS 13	Fair Value Measurement	May 12, 2011	2013	yes
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Oct. 19, 2011	2013	yes
IFRS 7 and IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 and IAS 32	Dec. 16, 2011	2013/2014	yes
IFRS 1	Government Loans – Amendments to IFRS 1	March 13, 2012	–	yes
Various IAS and IFRS 1	Annual Improvements to IFRSs 2009–2011 Cycle	May 17, 2012	2013	no
IFRS 10, IFRS 12 and IAS 27	Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27	Oct. 31, 2012	2014	no

Presentation changes and restatement of prior-year figures

There has been no change of presentation compared with 2011, nor have any figures 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. Special purpose entities, where control is exercised from an economic viewpoint, are also included in the consolidated financial statements. 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. If any impairment exceeds the carrying amount of the entity, an impairment loss is recognized for the associated non-current assets. If the carrying amount of the entity and the associated assets are reduced to zero, additional impairments would be recognized as a liability if the owner has entered into a legal or substantive obligation, e.g. to offset pro-rata losses or has made payments for 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.

Equity (excluding income and expenses recognized directly in other comprehensive income) is translated at historical rates while income and expenses are translated at average rates. This results in differences compared with translation at closing rates, which 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 main exchange rates used for currency translation in the LANXESS Group were:

Exchange Rates

€ 1		Closing rate, Dec. 31		Average rate	
		2011	2012	2011	2012
Argentina	ARS	5.57	6.49	5.75	5.85
Brazil	BRL	2.43	2.70	2.33	2.51
China	CNY	8.16	8.22	9.00	8.11
United Kingdom	GBP	0.84	0.82	0.87	0.81
India	INR	68.60	72.56	64.86	68.62
Japan	JPY	100.20	113.61	110.99	102.61
Canada	CAD	1.32	1.31	1.38	1.28
Singapore	SGD	1.68	1.61	1.75	1.61
South Africa	ZAR	10.48	11.17	10.10	10.55
United States	USD	1.29	1.32	1.39	1.29

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.

Intangible assets

Intangible assets comprise goodwill and other intangible assets such as software, concessions, industrial property rights, similar rights and assets and licenses to such rights and 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 intangible assets, apart from goodwill, is between 3 and 20 years. Amortization for 2012 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 (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, and 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 consolidated 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.

Primary financial liabilities are initially recognized at fair value less any transaction costs. In subsequent periods, they are measured at amortized cost using the effective-interest method.

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 normally 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 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 pension 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.

The share-based employee 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

Other current liabilities are recognized at repayment or redemption amounts. Other non-current liabilities are recognized at amortized cost.

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 the 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 development costs 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 the liabilities relating to 2012 and 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 and impact

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 impairment 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 latest approved five-year plan for the LANXESS Group. This is 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 2012 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 2012 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 7.9% (2011: 7.4%), 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.

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 €95 million (2011: €105 million), which is recognized in Brazilian real by the Performance Butadiene Rubbers business unit in connection with the acquisition of Petroflex in 2008.

The goodwill of €18 million relating to the acquisition in 2012 of Bond-Laminates GmbH, Brilon, Germany, was allocated to the High Performance Materials business unit in the Performance Polymers segment and tested for impairment as of the reporting date.

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, 2012 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 pensions and other post-employment benefits, see Note [13].

Defined-benefit pension plans also necessitate actuarial computations and valuations. The derivation of the discount rate used for pensions in Germany was reviewed in fiscal 2012. The section on provisions for pensions and other post-employment benefits contains information on the assumptions on which the actuarial calculations and estimates were based (see Note [13]).

Further the LANXESS Group is affected by a number of 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.

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, 2012	20	13	7	6	17	63
Additions		1	1		1	3
Subtractions						0
Mergers		(1)	(3)			(4)
Changes in scope of consolidation	2					2
Dec. 31, 2012	**22**	**13**	**5**	**6**	**18**	**64**
Companies accounted for using the equity method						
Jan. 1, 2012		1			2	3
Dec. 31, 2012	**0**	**1**	**0**	**0**	**2**	**3**
Non-consolidated companies						
Jan. 1, 2012	5	2	1	3	0	11
Additions					1	1
Subtractions	(1)					(1)
Mergers						0
Changes in scope of consolidation	(2)					(2)
Dec. 31, 2012	**2**	**2**	**1**	**3**	**1**	**9**
Total						
Jan. 1, 2012	25	16	8	9	19	77
Additions		1	1		2	4
Subtractions	(1)					(1)
Mergers		(1)	(3)			(4)
Changes in scope of consolidation	0					0
Dec. 31, 2012	**24**	**16**	**6**	**9**	**21**	**76**

In addition, two special purpose entities in the EMEA region (excluding Germany) are included in the consolidated financial statements.

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 March 14, 2012, LANXESS acquired all of the shares of Tire Curing Bladders, LLC, of Little Rock, United States. The company was assigned to the Rhein Chemie business unit in the Performance Chemicals segment and has broadened the product portfolio.

On September 12, 2012, LANXESS acquired all of the shares of Bond-Laminates GmbH of Brilon, Germany. First-time inclusion in the consolidated interim financial statements was effected from that date. The company was assigned to the High Performance Materials business unit in the Performance Polymers segment. With the acquisition, LANXESS is strengthening, in particular, its innovative portfolio of lightweight materials for the automotive industry.

The acquisitions were funded from existing liquidity of the LANXESS Group and accounted for as business combinations in accordance with IFRS 3.

Thus, in allocating the purchase price, the acquiree's identifiable assets, liabilities and contingent liabilities were included at fair value. The purchase price allocation is provisional and was carried out with the assistance of external experts in light of the information available at and immediately after the date of acquisition. According to IFRS, it can be adjusted within one year after the date of acquisition to reflect new information and findings.

The following table shows effects from the acquisitions discussed, neither of which, either individually or on aggregate, materially impacted the Group's financial position.

Additions from Acquisitions

€ million	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	0	23	23
Property, plant and equipment	6	1	7
Other assets	8	0	8
Total assets	**14**	**24**	**38**
Non-current liabilities	2	7	9
Current liabilities	6	0	6
Total liabilities	**8**	**7**	**15**
Net acquired assets (excluding goodwill)	**6**	**17**	**23**
Acquisition costs			**41**
Acquired goodwill (provisional)			**18**

The goodwill arising from acquisitions is the result of various factors. In particular, it reflects the potential for utilizing the acquired technologies in further business units.

The acquired activities did not materially impact Group sales or earnings, nor would they have done so if the business had already been consolidated from January 2012.

First-time consolidation of the Darmex group, which was acquired in the previous year, was effected as of January 11, 2011. The material protection business acquired from Syngenta AG was consolidated effective April 13, 2011. First-time inclusion of the elastomers business acquired from Dutch company Royal DSM N.V. was effected as of May 2, 2011. First-time inclusion of Unitex Chemicals Corporation, Greensboro, United States, took place on October 12, 2011. All shares in Verichem Inc., Pittsburgh, United States, were acquired as of November 9, 2011. Owing to changes in the purchase price allocation, goodwill increased by €1 million. In the respective twelve-month periods since the date of these acquisitions, there were no new findings or information warranting adjustment of the provisional purchase price allocations. These allocations are therefore final.

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
Bond-Laminates GmbH, Brilon	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
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 Kimya Ticaret Limited Şirketi, Istanbul, Turkey	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
Rustenburg Chrome Mine Holdings (Pty.) Ltd., Modderfontein, South Africa	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
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 (Ningbo) Pigments Co., Ltd., Ningbo City, 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., 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
Consolidated special purpose entities	
EMEA (excluding Germany)	
Dirlem (Pty) Ltd., Modderfontein, South Africa	49
Rustenburg Chrome Employees Empowerment Trust, Modderfontein, South Africa	0
Non-consolidated immaterial subsidiaries	
Germany	
LANXESS Middle East GmbH, Leverkusen	100
Vierte LXS GmbH, Leverkusen	100
EMEA (excluding Germany)	
OOO LANXESS Lipetsk, Lipetsk, Russia	100
W. Hawley & Son Ltd., Newbury, U.K.	100
North America	
LANXESS Energy LLC, Wilmington, U.S.A.	100
Latin America	
Comercial Andinas Ltda., Santiago de Chile, Chile	100
Petroflex Trading S.A., Montevideo, Uruguay	100
Asia-Pacific	
Bond-Laminates HK Limited, Hong Kong, China	100
Other non-consolidated immaterial companies	
Latin America	
Hidrax Ltda., Taboão da Serr, Brazil	39

Notes to the statement of financial position

1 Intangible assets

Changes in intangible assets were as follows:

Changes in Intangible Assets in 2011

€ million	Acquired goodwill	Other intangible assets	Advance payments	**Total**
Cost of acquisition or generation, Dec. 31, 2010	142	155	21	318
Changes in scope of consolidation/acquisitions	45	116		161
Capital expenditures		25	8	33
Disposals	(10)	(12)	0	(22)
Reclassifications		16	(16)	0
Exchange differences	(9)	(3)	1	(11)
Cost of acquisition or generation, Dec. 31, 2011	**168**	**297**	**14**	**479**
Accumulated amortization and impairment losses, Dec. 31, 2010	(5)	(87)	0	(92)
Changes in scope of consolidation				0
Amortization and impairment losses in 2011	(2)	(32)		(34)
of which impairment losses	(2)	(2)		(4)
Disposals	6	11		17
Reclassifications		0		0
Exchange differences	0	3		3
Accumulated amortization and impairment losses, Dec. 31, 2011	**(1)**	**(105)**	**0**	**(106)**
Carrying amounts, Dec. 31, 2011	**167**	**192**	**14**	**373**

Changes in Intangible Assets in 2012

€ million	Acquired goodwill	Other intangible assets	Advance payments	**Total**
Cost of acquisition or generation, Dec. 31, 2011	168	297	14	479
Changes in scope of consolidation/acquisitions	18	23	0	41
Capital expenditures	0	12	19	31
Disposals	0	(4)		(4)
Reclassifications		5	(5)	0
Exchange differences	(11)	(8)	0	(19)
Cost of acquisition or generation, Dec. 31, 2012	**175**	**325**	**28**	**528**
Accumulated amortization and impairment losses, Dec. 31, 2011	(1)	(105)	0	(106)
Changes in scope of consolidation				0
Amortization and impairment losses in 2012		(40)		(40)
of which impairment losses				0
Disposals		3		3
Reclassifications				0
Exchange differences	0	5		5
Accumulated amortization and impairment losses, Dec. 31, 2012	**(1)**	**(137)**	**0**	**(138)**
Carrying amounts, Dec. 31, 2012	**174**	**188**	**28**	**390**

2 Property, plant and equipment

Changes in property, plant and equipment were as follows:

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**

Changes in Property, Plant and Equipment in 2012

€ 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, 2011	1,302	5,774	252	748	8,076
Changes in scope of consolidation/acquisitions	1	6	0	0	7
Capital expenditures	43	202	18	440	703
Disposals	(29)	(43)	(8)	(1)	(81)
Reclassifications	102	307	19	(428)	0
Exchange differences	(20)	(45)	(3)	(13)	(81)
Cost of acquisition or construction, Dec. 31, 2012	**1,399**	**6,201**	**278**	**746**	**8,624**
Accumulated depreciation and impairment losses, Dec. 31, 2011	(856)	(4,354)	(187)	0	(5,397)
Changes in scope of consolidation					0
Depreciation and impairment losses in 2012	(41)	(270)	(27)	0	(338)
of which impairment losses	(2)	(2)			(4)
Disposals	28	42	7		77
Reclassifications					0
Exchange differences	5	20	3		28
Accumulated depreciation and impairment losses, Dec. 31, 2012	**(864)**	**(4,562)**	**(204)**	**0**	**(5,630)**
Carrying amounts, Dec. 31, 2012	**535**	**1,639**	**74**	**746**	**2,994**

Capitalized property, plant and equipment includes assets with the following gross and net values held under finance leases:

Assets Held Under Finance Leases

€ million	Dec. 31, 2011		Dec. 31, 2012	
	Gross carrying amount	Net carrying amount	Gross carrying amount	Net carrying amount
Buildings	10	2	3	3
Technical equipment and machinery	151	56	151	50
Fittings and equipment	4	3	5	3
	165	**61**	**159**	**56**

Directly attributable borrowing costs of €23 million (2011: €12 million) were capitalized. The average cost of borrowing for the LANXESS Group was 5.1% in 2012 (2011: 5.2%).

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	2011	2012
Sales	1,333	1,399
Income from investments accounted for using the equity method	7	1

Investments Accounted for Using the Equity Method

€ million	Dec. 31, 2011	Dec. 31, 2012
Assets	911	1,093
Liabilities	739	1,062
Equity	**172**	**31**
Adjustment of LANXESS's interest and equity valuation	(160)	(23)
Investments accounted for using the equity method	**12**	**8**

The €4 million (2011: €1 million) decrease in the carrying amount of investments accounted for using the equity method arose from the equity-method income and the effect of the distribution of €2 million (2011: €1 million) in pro-rata prior-year income. In fiscal 2012, there was also a €32 million payment out of reserves and an obligation to offset a loss of €29 million. The carrying amount of investments accounted for using the equity method decreased by a total amount of €3 million. The prior-year figure also reflected losses of €11 million recognized in other comprehensive income.

A capital increase at LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, in the previous year increased the carrying amount of investments accounted for using the equity method by €4 million. In fiscal 2012 a share of the losses of Currenta GmbH & Co. OHG, Leverkusen, Germany, amounting to €3 million (2011: €0 million) was not recognized in the consolidated financial statements.

4 Investments in other affiliated companies

This item contains interests in other affiliated companies totaling €18 million (2011: €19 million). The reduction resulted from a valuation adjustment for the shares of Gevo Inc., Englewood, United States, due to the development of this company's share price. This was partially offset by the addition of a strategic minority interest in BioAmber Inc., Minneapolis, United States.

As of December 31, 2012, all 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 €44 million (2011: €16 million) are capitalized in the consolidated financial statements of the LANXESS Group for fiscal 2012. Instruments with a negative fair value totaling €14 million (2011: €53 million) are recognized as liabilities.

Derivative Financial Instruments

€ million	Dec. 31, 2011		
	Notional amount	Positive fair values	Negative fair values
Forward exchange contracts	2,265	16	(51)
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)

Derivative Financial Instruments

€ million	Dec. 31, 2012		
	Notional amount	Positive fair values	Negative fair values
Forward exchange contracts	2,470	44	(14)
Forward commodity contracts	0	0	0
Total derivative financial instruments	**2,470**	**44**	**(14)**
of which current	2,000	28	(10)
of which non-current	470	16	(4)

The total notional amount of forward exchange contracts was €2,470 million (2011: €2,265 million), including €2,000 million (2011: €1,805 million) due within one year. The forward commodity contracts in a notional amount of €0 million (2011: €22 million) are due within one year.

Cash flow hedges As of December 31, 2012, the unrealized gains recorded in other comprehensive income in 2012 or earlier periods from currency hedging contracts that qualify for hedge accounting amounted to €8 million (2011: losses of €25 million). In 2012, a loss of €23 million (2011: gain of €12 million) was reclassified from equity to profit or loss due to the realization of the hedged transactions. Currency hedging contracts concluded to hedge future sales in foreign currencies had a notional value of €945 million (2011: €815 million). As of December 31, 2012, these had positive fair values of €21 million (2011: €1 million) and negative fair values of €8 million (2011: €36 million). Contracts with a total notional amount of €649 million (2011: €583 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 gains (2011: losses) on currency hedges recognized in other comprehensive income in 2012, €3 million will be reclassified from equity to profit or loss in 2013 and €5 million in 2014 (2011: €18 million in 2012 and €7 million in 2013).

As of December 31, 2012 the unrealized losses recognized in other comprehensive income in 2012 or earlier periods from forward commodity contracts that qualified for hedge accounting amounted to €0 million (2011: €1 million). In 2012, a loss of €1 million (2011: gain of €3 million) was reclassified from equity to profit or loss due to the realization of the hedged transactions. Hedging comprised forward commodity contracts with positive fair values of €0 million on December 31, 2012 and negative fair values of €0 million (2011: €2 million). The total notional amount of these hedges was €0 million (2011: €22 million) and they are due within one year. The hedged cash flows will be realized within the next year.

The LANXESS Group expects that of the unrealized losses from forward commodity contracts recognized in other comprehensive income in 2012, €0 million will be reclassifiable from equity to profit or loss in 2013 (2011: € 1 million of unrealized losses reclassifiable in 2012).

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, 2011		
	Non-current	Current	Total
Receivables under finance leases	4	2	6
Available-for-sale financial assets	61	1	62
Other financial receivables	17	24	41
	82	**27**	**109**

Other Financial Assets

€ million	Dec. 31, 2012		
	Non-current	Current	Total
Receivables under finance leases	2	2	4
Available-for-sale financial assets	1	1	2
Other financial receivables	5	3	8
	8	**6**	**14**

In 2011 the available-for sale non-current financial assets comprised €60 million in bearer securities of an exchange-traded index fund. Accounts receivable of €4 million (2011: €6 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 decline in other financial receivables resulted from retirements of fixed-term investments with short fixed-interest periods. Write-downs of other financial assets amounted to €8 million (2011: €9 million) and related entirely to write-downs of other financial receivables.

The leasing receivables are due as follows:

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**

Maturity Structure of Lease Payments

€ million	Dec. 31, 2012		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	2	0	2
	4	**0**	**4**

7 Other non-current assets

Other non-current assets are carried at amortized cost less write-downs. No write-downs were necessary in 2011 or 2012.

Other non-current assets comprised:

Other Non-Current Assets

€ million	Dec. 31, 2011	Dec. 31, 2012
Receivables from pension obligations	85	64
Other receivables	35	38
	120	**102**

The €21 million decline in receivables from pension obligations was mainly attributable to a decrease in the discount rate for pensions. The other receivables include, among other things, security deposits.

8 Inventories

The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2011	Dec. 31, 2012
Raw materials and supplies	271	273
Work in process, finished goods and merchandise	1,115	1,254
	1,386	**1,527**

Inventories of €217 million (2011: €184 million) are reflected at net realizable value.

Write-downs of inventories were as follows:

Write-Downs of Inventories

€ million	2011	2012
Balance at beginning of year	(62)	(101)
Additions charged as expenses	(59)	(37)
Reversals/utilization	20	51
Exchange differences	0	1
Balance at end of year	**(101)**	**(86)**

9 Trade receivables

All trade receivables – totaling €1,117 million (2011: €1,146 million) – are due within one year. Trade receivables of €4 million (2011: €6 million) related to other affiliates and €1,113 million (2011: €1,140 million) to other customers.

Trade receivables are stated after write-downs of €13 million (2011: €13 million) for amounts unlikely to be recovered. These write-downs related to gross receivables of €21 million (2011: €28 million).

Changes in write-downs of trade receivables were as follows:

Write-Downs of Trade Receivables

€ million	2011	2012
Balance at beginning of year	(19)	(13)
Additions charged as expenses	(3)	(4)
Reversals/utilization	8	4
Exchange differences	1	0
Balance at end of year	**(13)**	**(13)**

The maturity structure of past-due trade receivables was as follows:

Maturity Structure of Past-Due Trade Receivables

€ million	Dec. 31, 2011	Dec. 31, 2012
Carrying amount	1,146	1,117
of which neither impaired nor past due	1,033	973
of which unimpaired but past due by		
up to 30 days	85	112
between 31 and 60 days	9	10
between 61 and 90 days	1	3
more than 90 days	3	11

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 €411 million (2011: €350 million) comprises 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 €256 million (2011: €230 million) are stated at amortized cost less any write-downs. They principally comprise miscellaneous claims for tax refunds (mainly sales taxes) amounting to €181 million (2011: €182 million) and other advance payments.

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, 2012 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, 2012 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 €290 million increase in other reserves to €1,233 million was entirely attributable to the increase in retained earnings from €785 million to €1,074 million. An addition of €1 million was made in connection with stock-based compensation in South Africa.

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.

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 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. In addition, LANXESS has set a target debt range. Over a normal business cycle, the ratio of net financial debt to EBITDA pre exceptionals should be between 1.0 and 1.5. 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 normally has no further payment obligations. In 2012 these expenses totaled €54 million (2011: €38 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 €28 million (2011: €21 million) to this pension fund.

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 2012 amounted to €54 million (2011: €47 million). Expenses for pension payments, and the effect of plan curtailments, settlements and divestments totaling €37 million (2011: €38 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 €17 million (2011: €9 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	
	2011	**2012**	**2011**	**2012**
Current service cost	22	26	7	11
Past service cost	1	0	0	0
Interest cost	89	94	7	7
Expected return on plan assets	(87)	(84)	0	0
Actuarial gains/losses	–	–	0	1
Plan curtailments, settlements and divestments	8	(1)	0	–
	33	**35**	**14**	**19**

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	
	2011	**2012**	**2011**	**2012**
Defined benefit obligation (funded)	1,347	1,579	6	8
External plan assets	(1,156)	(1,146)	(4)	(4)
Underfunding	**191**	**433**	**2**	**4**
Defined benefit obligation (unfunded)	187	275	120	117
Unrecognized past service cost	(1)	(1)	0	0
Effects of asset ceiling and minimum funding requirements	95	–	–	–
Net recognized liability	**472**	**707**	**122**	**121**
Amounts recognized in the statement of financial position				
Receivables from pension obligations	(85)	(64)	–	–
Provisions for pensions and other post-employment benefits	557	771	122	121
Net recognized liability	**472**	**707**	**122**	**121**

The net recognized liability is reflected in the following items in the statement of financial position:

Net Recognized Liability as of Dec. 31

€ million	2011	2012
Provisions for pensions and other post-employment benefits	679	892
Other non-current assets	(85)	(64)
Net recognized liability	**594**	**828**

The defined-benefit obligation and plan assets changed as follows in 2012:

Change in Defined-Benefit Obligation as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2011	2012	2011	2012
Defined-benefit obligation				
Benefit obligation at beginning of year	1,419	1,534	125	126
Current service cost	22	26	7	11
Past service cost	1	–	–	–
Interest cost	89	94	7	7
Employee contributions	2	2	–	–
Plan settlements	(34)	(4)	–	–
Actuarial gains/losses	137	307	1	(4)
Benefits paid	(74)	(69)	(13)	(12)
Acquisitions/divestments	0	4	–	–
Plan curtailments	0	0	0	–
Exchange differences	(28)	(40)	(1)	(3)
Benefit obligation at end of year	**1,534**	**1,854**	**126**	**125**

Change in Plan Assets as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2011	2012	2011	2012
Fair value of plan assets				
Plan assets at beginning of year	1,105	1,156	3	4
Expected return on plan assets	87	84	0	0
Actuarial gains/losses	52	(15)	0	0
Acquisitions/divestments	0	1	–	–
Plan settlements	(42)	(3)	–	–
Employer contributions	48	20	1	1
Employee contributions	2	2	–	–
Benefits paid	(57)	(51)	0	(1)
Exchange differences	(39)	(48)	0	0
Plan assets at end of year	**1,156**	**1,146**	**4**	**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 subsequent pension payments are made directly out of external pension assets totaled €21 million in 2012 (2011: €19 million). In addition, in 2011 allocations of €30 million were made to external financing where LANXESS can claim reimbursement of payments made (CTA).

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 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	
	2011	2012	2011	2012
Actuarial gains/losses	(85)	(322)	(1)	5
Effects of asset ceiling and minimum funding requirements	(10)	95	–	–
	(95)	**(227)**	**(1)**	**5**

The accumulated actuarial gains and losses recognized in other comprehensive income in 2012 or earlier periods amounted to minus €693 million (2011: minus €385 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				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Difference between expected and actual return on plan assets	(50)	15	5	52	(15)	0	0	0	0	0
Experience adjustments	(26)	36	(54)	(39)	(17)	0	(2)	4	4	5
Adjustments for changes in valuation assumptions	90	(81)	(134)	(98)	(290)	6	(6)	(6)	(5)	(1)
Net actuarial gain/loss for the year	**14**	**(30)**	**(183)**	**(85)**	**(322)**	**6**	**(8)**	**(2)**	**(1)**	**4**

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 external plan assets in 2012 amounted to €69 million (2011: €139 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	
	2011	2012	2011	2012
Discount rate	6.2	5.1	5.7	4.9
Expected salary increases	3.6	3.6	3.8	3.7
Expected pension increases	2.1	2.4	–	–
Expected return on plan assets	7.8	7.0	5.8	5.6
Expected increase in the cost of medical care	–	–	8.4	7.9
Expected long-term increase in the cost of medical care	–	–	5.5	5.3

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 data selection criteria used to derive the discount rate for pension obligations in Germany and the extrapolation method were revised because the data basis for high-quality corporate bonds with an equivalent maturity had been eroded by rating downgrades. In future, the discount rate will be derived from high-quality corporate bonds which have been awarded an AA rating by at least one of the three major rating agencies. The discount rate derived in this way is 25 basis points above the discount rate that would have been obtained using the previous selection criteria and the previous extrapolation process, and the increase in the present value of the defined-benefit pension obligation as of the closing date is reduced by €48 million. This has the opposite effect on benefit expense for subsequent years, but the effect is negligible both in individual years and in aggregate.

The discount rate used to calculate the present value of pensions 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 €141 million (2011: €105 million) and other post-employment benefit obligations by €6 million (2011: €6 million). A decrease of 0.5 percentage point in the discount rate would increase pension obligations by €156 million (2011: €111 million) and other post-employment benefit obligations by €6 million (2011: €6 million).

The long-term cost increase for medical care is expected to take place within about eleven 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 €8 million (2011: €9 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	2011	2012
Fixed-income securities	58.1	61.0
Equity instruments	25.7	26.7
Real estate	2.0	2.3
Other	14.2	10.0
	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	2008	2009	2010	2011	2012
Defined benefit obligation	1,049	1,231	1,544	1,660	1,979
External plan assets	(668)	(879)	(1,108)	(1,160)	(1,150)
Underfunding	**381**	**352**	**436**	**500**	**829**

14 Other non-current and current provisions

On the closing date, the LANXESS Group had other current provisions of €440 million (2011: €446 million) and other non-current provisions of €304 million (2011: €331 million). The maturity structure of other provisions can be seen from the table:

Other Provisions

€ million	Dec. 31, 2011				Dec. 31, 2012			
	Up to 1 year	1–5 years	Over 5 years	**Total**	Up to 1 year	1–5 years	Over 5 years	**Total**
Personnel	172	85	30	287	218	82	32	332
Environmental protection	23	34	77	134	13	18	77	108
Trade-related commitments	115	11	–	126	74	5	–	79
Restructuring	23	31	6	60	20	22	3	45
Miscellaneous	113	45	12	170	115	55	10	180
	446	**206**	**125**	**777**	**440**	**182**	**122**	**744**

Overall, other provisions declined from €777 million to €744 million in fiscal 2012. While personnel-related provisions and miscellaneous provisions increased, provisions for environmental protection, trade-related commitments and restructuring decreased. Provisions changed as follows in 2012:

Changes in Other Provisions in 2012

€ million	Jan. 1, 2012	Allocations	Interest effect	Utilization	Reversals	Exchange differences	Dec. 31, 2012
Personnel	287	211	3	(143)	(19)	(7)	332
Environmental protection	134	5	3	(14)	(19)	(1)	108
Trade-related commitments	126	45	0	(44)	(47)	(1)	79
Restructuring	60	12	0	(17)	(10)	0	45
Miscellaneous	170	81	0	(16)	(47)	(8)	180
	777	**354**	**6**	**(234)**	**(142)**	**(17)**	**744**

Personnel-related provisions Personnel-related provisions mainly relate to annual performance-related compensation and multi-year compensation programs.

Multi-year compensation programs

Stock-based compensation LANXESS AG offers a stock-based compensation program to members of the Management Board and certain other managers. The program provides for cash settlement. Following the granting of rights under two consecutive three-year Long Term Incentive Plans (LTIP) launched in 2005, a new Long Term Stock Performance Plan (LTSP) was introduced in 2010 under which rights are granted for the years 2010-2013. 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 programs is conditional upon each manager making a personal investment in LANXESS stock, depending on his/her base salary. Awards are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals[SM] Index.

LTIP 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.

LTIP 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.

LTSP 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.

Obligations arising from the stock-based compensation are valued on the basis of the following principal parameters:

Principal Parameters as of Dec. 31

%	2011	2012
Expected share price volatility	41.0	41.0
Expected dividend payment	2.0	2.0
Expected index volatility	23.0	23.0
Correlation between LANXESS stock and the index	81.0	82.0
Risk-free interest rate	0.4	0.0

In view of the general reduction in interest rates, the risk-free interest rate was 0.02% in 2012 (2011: 0.40%).

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals[SM] Index in the past three years.

The following table provides information on the tranches outstanding as of December 31, 2012:

LTIP and LTSP

	LTIP 2005–2007	LTIP 2008–2010			LTSP 2010–2013		
	Tranche 2007	Tranche 2008	Tranche 2009	Tranche 2010	Tranche 2010	Tranche 2011	Tranche 2012
Duration	5 years	6 years	6 years	6 years	7 years	7 years	7 years
Vesting period	3 years	3 years	3 years	3 years	4 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	Jan. 31, 2017
Initial LANXESS share price	€40.79	€24.03	€12.86	€27.28	€27.28	€55.60	€44.54
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	533.45 points
Fair value per right as of December 31, 2011	€0.04	€2.00	€2.00	€1.20	€1.04	€0.27	–
Fair value per right as of December 31, 2012	–	–	€2.00	€2.00	€1.81	€0.55	€0.71
Change in number of outstanding rights							
Outstanding rights as of January 1, 2012	362,205	538,500	11,123,992	12,288,645	10,706,954	11,706,098	0
Rights granted	–	–	–	–	–	–	12,631,238
Rights exercised	362,205	538,500	10,976,291	–	–	–	–
Rights compensated	–	–	20,907	207,451	291,553	251,582	146,431
Rights forfeited	–	–	–	228,732	182,519	241,064	208,741
Outstanding rights as of December 31, 2012	**0**	**0**	**126,794**	**11,852,462**	**10,232,882**	**11,213,452**	**12,276,066**

LANXESS shares were trading at €66.27 at year-end 2012, and the reference index stood at 662.98 points.

The net expense in 2012 totaled €27 million (2011: €13 million). While rights from the 2007 tranche were exercised at an average value of €0.53, the rights from the 2008 and 2009 tranches were exercised at the maximum value. As of December 31, 2012 a provision of €41 million (2011: €38 million) had been established. Of this amount, the intrinsic value of rights exercisable as of the closing date accounted for €0 million (2011: €1 million).

LANXESS stock plan This is an employee stock plan under which LANXESS staff may purchase shares in the company at a 50% discount. Employees acquired a total of 165,446 LANXESS shares under this program in 2012 (2011: 118,445 shares). These shares must be retained for at least three years. Since there are no further conditions attached to this stock plan, the discount was expensed immediately. Expense of €5 million was recognized for the stock plan in 2012 (2011: €3 million). Participation in this program does not confer any right to similar benefits in the future.

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 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 the contaminants, and often regardless of whether the practices that resulted in the 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 Provisions for restructuring totaled €45 million on December 31, 2012 (2011: €60 million). Of this amount, €27 million (2011: €45 million) comprised provisions for severance payments and other personnel expenses, and €18 million (2011: €15 million) comprised provisions for demolition and other expenses.

Sundry provisions The sundry provisions contain provisions for guarantees and product liability, and provisions for other liabilities. Provisions for waste management that are not included in environmental provisions or provisions for legal risks that are not included in a different category within other provisions are also included in sundry provisions.

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, 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**

Other Financial Liabilities as of Dec. 31, 2012

€ million	Current	Non-current					
	2013	2014	2015	2016	2017	>2017	**Total**
Bonds		498	60	199		1,189	**1,946**
Liabilities to banks	75	41	34	34	39	22	**170**
Liabilities under finance leases	35	8	6	5	4	20	**43**
Other primary financial liabilities	57	3	2	2	0	1	**8**
	167	**550**	**102**	**240**	**43**	**1,232**	**2,167**

The following bonds were outstanding on December 31, 2012:

Bonds

Issuance	Nominal amount million	Carrying amount € million	Interest rate %	Maturity
April 2009	500 EUR	498	7.750	April 2014
September 2009	200 EUR	199	5.500	September 2016
May 2011	500 EUR	497	4.125	May 2018
February 2012	500 CNH	60	3.950	February 2015
April 2012	100 EUR	100	3.500	April 2022
April 2012	100 EUR	99	3.950	April 2027
November 2012	500 EUR	493	2.625	November 2022

The €500 million Eurobond issued in June 2005 with an annual coupon of 4.125% matured in fiscal 2012. The remaining nominal amount of €402 million was repaid in June 2012.

The weighted average interest rate for financial liabilities in the LANXESS Group at year end was 4.8% (2011: 5.3%).

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 €92 million (2011: €100 million), including €14 million (2011: €16 million) in interest are to be made to lessors in future years.

Other primary financial liabilities include accrued interest of €54 million (2011: €55 million) on financial liabilities. Of this amount, €52 million (2011: €53 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, 2011		
	Non-current	Current	Total
Provisions	55	43	98
Payables	8	6	14
	63	**49**	**112**

Income Tax Liabilities

€ million	Dec. 31, 2012		
	Non-current	Current	Total
Provisions	35	43	78
Payables	–	2	2
	35	**45**	**80**

17 Other non-current and current liabilities

The other non-current liabilities totaling €74 million (2011: €89 million) mainly include asset subsidies of €67 million (2011: €71 million) granted by third parties.

The other current liabilities are recognized at settlement cost. They comprise:

Other Current Liabilities

€ million	Dec. 31, 2011	Dec. 31, 2012
Tax liabilities	59	66
Social security liabilities	24	23
Payroll liabilities	27	19
Miscellaneous liabilities	45	65
	155	**173**

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 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 are payable mainly to third parties. As in the previous year, the entire amount totaling €795 million (2011: €766 million) is due within one year.

Trade payables of €38 million (2011: €35 million) related to companies accounted for using the equity method and €757 million (2011: €731 million) to other suppliers.

19 Further information on liabilities

Of the total liabilities, €1,238 million (2011: €586 million) had maturities of more than five years. The increase from the previous year was mainly due to the bonds issued in the fiscal year (see Note [15]).

Notes to the income statement

20 Sales

Sales, amounting to €9,094 million (2011: €8,775 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	2011	2012
Expenses for raw materials and merchandise	4,570	4,664
Direct manufacturing and other production costs	2,195	2,322
	6,765	**6,986**

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	2011	2012
Marketing costs	440	484
Outward freight charges and other selling expenses	292	279
	732	**763**

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 €192 million (2011: €144 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

The general administration expenses amounting to €339 million (2011: €325 million) comprise costs not directly related to operational business processes and the costs for the country organizations.

25 Other operating income

Other Operating Income

€ million	2011	2012
Income from non-core business	93	91
Income from the reversal of provisions	29	41
Income from reversals of write-downs of receivables and other assets	4	2
Gains from the disposal of non-current assets	3	2
Income from hedging with derivative financial instruments	16	0
Miscellaneous operating income	34	50
	179	**186**

26 Other operating expenses

Other Operating Expenses

€ million	2011	2012
Expenses for non-core business	72	82
Expenses for allocations to restructuring provisions	29	12
Expenses for hedging with derivative financial instruments	0	33
Write-downs of trade receivables and other current assets	3	4
Losses from the disposal of non-current assets	1	2
Miscellaneous operating expenses	107	57
	212	**190**

Miscellaneous operating expenses include expenses for designing and implementing IT projects, and costs incurred for corporate transactions. In 2011, allocations to environmental provisions were included in other operating expenses.

27 Financial result

The financial result is comprised as follows:

Financial Result

€ million	2011	2012
Income from investments accounted for using the equity method	**7**	**1**
Interest income	11	5
Interest expense	(104)	(101)
Net interest expense	**(93)**	**(96)**
Interest portion of interest-bearing provisions	(21)	(23)
Net exchange loss	(4)	(5)
Miscellaneous financial expenses	(9)	(1)
Dividends and income from other affiliated companies	(1)	(17)
Other financial income and expense	(35)	(46)
Financial result	**(121)**	**(141)**

Interest expense mainly includes payments of bond interest. This amount has been adjusted for capitalized borrowing costs of €23 million (2011: €12 million). The interest portion of the lease payments under finance leases amounting to €4 million (2011: €4 million) is included in interest expense. The income from other affiliated companies was reduced by €18 million by the adjustment of the carrying amount of Gevo Inc., Englewood, United States, due to the development of this company's share price. This item also includes accumulated losses of €10 million previously recognized in other comprehensive income and reclassified from equity to the financial result in fiscal 2012.

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	2011	2012
Current taxes	(129)	(118)
Deferred taxes resulting from		
temporary differences	13	(61)
statutory changes in tax rates	(1)	0
loss carryforwards	(31)	25
Income taxes	**(148)**	**(154)**

The actual tax expense for 2012 was €154 million (2011: €148 million). This figure differed by €57 million (2011: €58 million) from the expected tax expense of €211 million (2011: €206 million).

The expected tax expense for the LANXESS Group is calculated by applying an unchanged overall tax rate of 31.5% 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	2011	2012
Income before income taxes	655	669
Aggregated income tax rate of LANXESS AG	31.5%	31.5%
Expected tax expense	(206)	(211)
Tax difference due to differences between local tax rates and the hypothetical tax rate	75	55
Reduction in taxes due to		
tax-free income and reduction of tax bases	7	8
utilization of unrecognized loss carryforwards	25	0
Increase in taxes due to non-tax-deductible expenses	(5)	(11)
Other tax effects	(44)	5
Actual tax result	**(148)**	**(154)**
Effective tax rate	22.6%	23.0%

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, 2011		Dec. 31, 2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	7	40	14	55
Property, plant and equipment	4	146	3	160
Inventories	38	4	27	3
Receivables and other assets	5	39	2	44
Pension provisions	98	0	153	0
Other provisions	110	0	98	11
Liabilities	49	11	39	3
Loss carryforwards	50	–	69	–
	361	**240**	**405**	**276**
of which non-current	159	214	239	237
Set-off	(165)	(165)	(194)	(194)
	196	**75**	**211**	**82**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2011	2012
Deferred taxes as of January 1	**130**	**121**
Tax income/expense recognized in the income statement	(19)	(36)
Changes in scope of consolidation	(31)	(7)
Taxes recognized in other comprehensive income	41	53
Exchange differences	0	(2)
Deferred taxes as of December 31	**121**	**129**

The deferred income taxes recognized in other comprehensive income comprised €71 million (2011: €29 million) relating to actuarial gains and losses, the impact of the asset ceiling and minimum funding requirements for defined-benefit pension plans, and minus €18 million (2011: €12 million) relating to financial instruments.

Deferred tax assets of €16 million (2011: €35 million) related to tax jurisdictions in which losses were recorded in 2012 or 2011. 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 €69 million (2011: €50 million) were recognized on the €225 million (2011: €164 million) in tax loss carryforwards that represent income likely to be realized in the future.

Deferred taxes were not recognized for €182 million (2011: €206 million) of tax loss carryforwards. Of this amount, €154 million (2011: €195 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in 2012 for tax-deductible temporary differences of €63 million (2011: €45 million). Accordingly, deferred tax assets on loss carryforwards of €49 million (2011: €65 million) and deferred tax assets on tax-deductible temporary differences of €22 million (2011: €15 million) were not recognized.

29 Earnings and dividend per share

The calculation of earnings per share for 2012 was based on the weighted average number of shares outstanding (83,202,670 shares) and only includes earnings from continuing operations. There were no accounting change effects to be considered. 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

	2011	2012	Change in %
Net income (€ million)	506	514	1.6
Number of outstanding shares	83,202,670	83,202,670	0.0
Earnings per share (undiluted/diluted) (€)	**6.08**	**6.18**	**1.6**

LANXESS AG reported a distributable profit of €96 million for fiscal 2012 (2011: €115 million). The dividend payment to shareholders of LANXESS AG in 2012 amounted to €0.85 per share (2011: €0.70).

30 Personnel expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2011	2012
Wages and salaries	985	1,097
Social security contributions	174	193
Retirement benefit expenses	77	92
Social assistance benefits	8	10
	1,244	**1,392**

The increase compared with the previous year is principally due to an increase in the number of employees, salary rises and acquisitions made in 2012. 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 2012 was 16,962 (2011: 15,849). The increase compared to the previous year was mainly due to new hires at various sites and to the acquisitions made in 2012.

Employees by Function

	2011	2012
Production	11,421	12,222
Marketing	1,976	2,050
Administration	1,757	1,873
Research	695	817
	15,849	**16,962**

32 Contingent liabilities and other financial commitments

Contingent liabilities as of December 31, 2012 amounted to €28 million (2011: €12 million). They include contingent liabilities to investments accounted for using the equity method totaling €22 million (2011: €7 million). Contingent liabilities result 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 €496 million (2011: €418 million). The increase in the amount of these future payments compared with 2011 mainly relates to construction of a new site in Singapore and to the Group's new headquarters in Cologne.

The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2011	Dec. 31, 2012
Up to 1 year	39	54
1 to 2 years	41	53
2 to 3 years	39	47
3 to 4 years	35	41
4 to 5 years	29	35
More than 5 years	235	266
	418	**496**

Payments under operating leases amounted to €48 million in 2012 (2011: €39 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 and intangible assets total €261 million (2011: €284 million). Of the respective payments, €131 million are due in 2013 and €130 million are due 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 antitrust 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, the LANXESS Group sources materials, inventories and services from a large number of business partners around the world. These include companies in which LANXESS AG has 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 €479 million (2011: €457 million). As a result of these transactions, trade payables of €38 million (2011: €35 million) and trade receivables of €4 million (2011: €6 million) existed as of December 31, 2012. Further, a provision of €29 million was recognized as of December 31, 2012 for the claim by Currenta GmbH & Co OHG, Leverkusen, Germany, for the offsetting of a loss for 2012. 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.

Contingent liabilities relating to investment accounted for using the equity method are outlined in the previous section. 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 €10,830 thousand (2011: €9,370 thousand) was paid to the members of the Board of Management of LANXESS AG for fiscal 2012, comprising €7,391 thousand (2011: €6,698 thousand) in annual compensation and €2,609 million (2011: €2,264 thousand) in multi-year compensation. In addition to the compensation payments reported as expense in the consolidated financial statements for 2012, further compensation of €830 thousand for 2011 was disbursed in 2012 (2011: €408 thousand for 2010).

The multi-year compensation includes – among other amounts – payments made under the Long Term Stock Performance Plan (LTSP). 1,531,875 stock-based compensation rights were granted in 2012 (2011: 1,822,125). The fair value of these rights at the grant date was €765 thousand (2011: €910 thousand). Expenses for the LTIP and LTSP recognized in the consolidated financial statements amounted to €3,826 thousand (2011: €934 thousand).

In 2011, payments of €1,320 thousand were made to one member who left the Management Board during that year.

Details of the compensation system for members of the Board of Management and an individual breakdown of compensation are given in the „Compensation report" section of the combined management report for fiscal 2012.

In addition, service cost of €815 thousand (2011: €918 thousand) relating to defined-benefit pension plans was incurred in 2012 for members of the Board of Management as part of their compensation package. Past service cost of €860 thousand was incurred in 2011. The present value of the benefit obligation as of December 31, 2012 was €18,248 thousand (2011: €13,166 thousand).

Payments of €479 thousand (2011: €1,799 thousand) were made to former members of the Board of Management. The figure for 2011 included the above payments to one member who left the Board of Management during that year. The total obligation for former members of the Board of Management was €11,411 thousand as of December 31, 2012 (2011: €9,478 thousand).

The members of the Supervisory Board received total compensation of €1,885 thousand in 2012 (2011: €1,931 thousand). The provisions established for multi-year compensation for Supervisory Board members as of December 31, 2012 amounted to €1,800 thousand (2011: €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.

Details of the remuneration system for members of the Supervisory Board and an individual breakdown of the amounts paid are contained in the combined management report for fiscal 2012 in the section headed "Compensation report."

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2012 or 2011.

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 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 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 future 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 €20 million (2011: €19 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, 2012 would have altered Group net income by €3 million (2011: €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 objective of receivables management at LANXESS is to collect all outstanding payments punctually and in full, and thus to minimize the risk of default. Continuous monitoring is computer-assisted based on the payment terms agreed with the customers. These are generally based on the customary payment terms for the business or country. Reminders are sent out at regular intervals if payments are overdue.

The maximum risk of default on receivables, cash and cash equivalents, and near-cash derivative and other financial assets is reflected by their carrying amounts in the statement of financial position.

Credit insurance has been concluded with a well-known European credit insurer to cover material credit risks relating to receivables from customers. After taking the deductible into account, these cover default risks, especially in Europe and North America, in the mid-double-digit millions of euros. The maximum credit risk is further reduced by letters of credit in favor of LANXESS. In certain cases, prepayment is agreed with the contracting partner.

In addition, LANXESS has a contractually agreed title to goods until the contracting partner has paid the full purchase price. The vast majority of receivables relate to customers with very high credit standing.

The creditworthiness of the counterparty is a key criterion in the financial policy and credit risk management of the LANXESS Group, especially in the selection of banks and financial partners for capital investments and transactions involving financial instruments. LANXESS therefore endeavors to undertake transactions with banks and other financial counterparties that have at least an investment grade rating. The derivatives and financial assets outstanding as of the closing date were almost all concluded with banks with an investment grade rating.

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.

A new €1.25 billion syndicated credit facility was signed in December 2012 and was virtually unused at year end. It runs until February 2018 with two one-year renewal options. This credit facility represents early refinancing of a €1.4 billion syndicated credit facility which originally ran through November 2014. A further material credit line for €200 million with the European Investment Bank had not been drawn at year-end 2012. In addition to credit facilities, the Group has short-term liquidity reserves of €797 million (2011: €528 million) in the form of cash and cash equivalents and investment in highly liquid 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, 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		

Dec. 31, 2012

€ million	2013	2014	2015	2016	2017	> 2017
Bonds	**(42)**	**(593)**	**(115)**	**(252)**	**(41)**	**(1,343)**
of which interest	(42)	(93)	(55)	(52)	(41)	(143)
Liabilities to banks	**(80)**	**(46)**	**(38)**	**(37)**	**(41)**	**(22)**
of which interest	(5)	(5)	(4)	(3)	(2)	0
Trade payables	**(795)**					
of which interest	0					
Liabilities under finance leases	**(38)**	**(10)**	**(7)**	**(7)**	**(5)**	**(25)**
of which interest	(3)	(2)	(2)	(2)	(1)	(4)
Other primary financial liabilities	**(57)**	**(3)**	**(3)**	**(2)**	**0**	**(2)**
of which interest	(54)	0	0	0	0	0
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(170)	(20)				
Receipts	162	19				
Other hedging instruments						
Disbursements	(260)	(13)	(19)	(25)	(9)	
Receipts	257	12	17	23	8	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(331)	(172)				
Receipts	343	180				
Other hedging instruments						
Disbursements	(952)	(5)	(27)			
Receipts	967	5	28			

The contractually agreed payments for other primary financial liabilities due within one year from the reporting date contain accrued interest of €52 million (2011: €53 million) relating mainly 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. 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 €0 million (2011: €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, 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)

Dec. 31, 2012

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2012
Financial assets		
Trade receivables	LaR	1,117
Receivables under finance leases	–	4
Other financial receivables	LaR	8
Cash and cash equivalents	LaR	386
Available-for-sale financial assets		
Near-cash assets	AfS	411
Other available-for-sale financial assets	AfS	20
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	21
Other hedging instruments	FAHfT	23
Financial liabilities		
Bonds	FLAC	(1,946)
Liabilities to banks	FLAC	(245)
Trade payables	FLAC	(795)
Liabilities under finance leases	–	(78)
Other primary financial liabilities	FLAC	(65)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(8)
Other hedging instruments	FLHfT	(6)

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, 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)

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2012
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
1,117					1,117
				4	4
8					8
386					386
		411			411
	15	5			5
		21			21
			23		23
(1,946)					(2,128)
(245)					(245)
(795)					(794)
				(78)	(78)
(65)					(65)
		(8)			(8)
			(6)		(6)

Carrying Amounts by IAS 39 Category

€ million	Dec. 31, 2011	Dec. 31, 2012
Loans and receivables	1,365	1,511
Available-for-sale financial assets	431	431
Financial assets held for trading	15	23
	1,811	**1,965**
Financial liabilities measured at amortized cost	(2,780)	(3,051)
Financial liabilities held for trading	(15)	(6)
	(2,795)	**(3,057)**

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, 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)	–

Fair Value Measurement Levels

€ million	Dec. 31, 2012		
	Level 1	Level 2	Level 3
Available-for-sale financial assets			
Near-cash assets	411	–	–
Other available-for-sale financial assets	4	1	–
Derivative assets	–	44	–
Derivative liabilities	–	(14)	–

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	2011	2012
Loans and receivables	14	4
Available-for-sale financial assets	(10)	(9)
Assets and liabilities held for trading	0	0
Financial liabilities measured at amortized cost	(100)	(96)
	(96)	**(101)**

Net gains and losses principally comprise interest income and expense and remeasurement effects.

The net result for available-for-sale financial assets includes gains of €10 million (2011: losses of €7 million), which are reflected in other comprehensive income.

In addition, fees of €6 million were incurred in 2012 (2011: €8 million) in connection with financial instruments.

Collateralization of financial liabilities Financial liabilities amounting to €4 million (2011: €15 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 2012 amounted to €838 million (2011: €672 million). Income before income taxes, which is the starting point for the statement of cash flows, amounted to €669 million (2011: €655 million) after depreciation, amortization and impairments of €378 million (2011: €325 million). Income taxes paid in 2012 amounted to €109 million (2011: €95 million). The balance of other assets and liabilities showed a year-on-year decrease of €94 million (2011: €16 million). Cash outflows for the external financing of pension obligations (CTA) in 2011 comprised payments of €30 million to LANXESS Pension Trust e.V., Leverkusen, Germany. 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 €696 million in 2012 (2011: €679 million). Of this amount, two-thirds went for expansions and the remainder to maintain existing operating capacities. Cash inflows from financial assets mainly comprised proceeds from the sale of units in money market funds and reimbursements of capital reserves totaling €20 million by Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for at equity. The acquisition of subsidiaries resulted in a cash outflow of €44 million (2011: €285 million) net of acquired cash and cash equivalents totaling €1 million (2011: €41 million) and subsequent purchase price adjustments. Cash inflows comprised €5 million (2011: €9 million) in interest received and €15 million (2011: €1 million) from other affiliates. This consisted mainly of inflows from retained earnings and from the transfer to LANXESS of the pro-rata share of the income of Currenta GmbH & Co. OHG, Leverkusen, Germany, for 2011. The net cash outflow for investing activities was €674 million (2011: €923 million).

Net cash provided by financing activities A net cash inflow of €46 million (2011: €276 million) was recorded for financing activities. This included a €241 million (2011: €434 million) net inflow from borrowings, a €123 million (2011: €100 million) outflow for interest paid and other financial disbursements, and a €72 million (2011: €58 million) outflow for the dividend paid by LANXESS AG, including €71 million (2011: €58 million) to shareholders of LANXESS AG. Details of unused credit facilities are given in Note [35].

Cash and cash equivalents Cash and cash equivalents (cash, checks, bank balances) amounted to €386 million (2011: €178 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	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
External sales	5,059	5,176	1,545	1,674	2,130	2,203	41	41	8,775	9,094
Inter-segment sales	1	0	52	53	10	9	(63)	(62)	0	0
Segment/Group sales	5,060	5,176	1,597	1,727	2,140	2,212	(22)	(21)	8,775	9,094
Segment result/EBITDA pre exceptionals	768	817	264	305	289	281	(175)	(178)	1,146	1,225
Exceptional items affecting EBITDA	(9)	(9)	(19)	6		(17)	(17)	(17)	(45)	(37)
Segment assets	3,468	3,779	941	1,030	1,421	1,452	135	151	5,965	6,412
Segment acquisitions	219	36			120	5			339	41
Segment capital expenditures	447	455	117	104	113	139	23	36	700	734
Depreciation and amortization	159	207	63	67	77	85	13	15	312	374
Impairments	2	2	7	0	1	2	3	0	13	4
Segment liabilities	1,012	988	454	505	527	598	473	587	2,466	2,678
Employees (December 31)	4,977	5,348	2,883	2,841	5,819	6,031	2,711	2,957	16,390	17,177
Employees (average for the year)	4,748	5,237	2,875	2,862	5,574	6,019	2,652	2,844	15,849	16,962

Key Data by Region

€ million	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
External sales by market	2,546	2,526	1,569	1,577	1,458	1,611	1,201	1,185	2,001	2,195	8,775	9,094
Non-current region assets	706	746	937	1,043	438	454	431	397	575	781	3,087	3,421
Acquisitions	108		42	36	57	5	118		14		339	41
Capital expenditures	165	157	222	211	53	68	43	46	217	252	700	734
Employees (December 31)	3,357	3,442	7,846	8,072	1,427	1,553	1,585	1,626	2,175	2,484	16,390	17,177

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, 2012 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 €8 million (2011: €12 million) interest in investments accounted for using the equity method and the corresponding income of €1 million (2011: €7 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 2012, 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	2011	2012
Total segment sales	**8,797**	**9,115**
Other/Consolidation	(22)	(21)
Group sales	**8,775**	**9,094**

Reconciliation of Segment Result

€ million	2011	2012
Total segment results	**1,321**	**1,403**
Depreciation and amortization	(325)	(378)
Net interest expense	(93)	(96)
Other financial income and expense	(35)	(46)
Exceptional items in EBITDA	(45)	(37)
Income from investments accounted for using the equity method	7	1
Other/Consolidation	(175)	(178)
Income before income taxes	**655**	**669**

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2011	Dec. 31, 2012
Total segment liabilities	**1,993**	**2,091**
Other financial liabilities	2,098	2,334
Deferred tax liabilities	75	82
Income tax liabilities	112	80
Derivative liabilities	53	14
Other/Consolidation	473	587
Group liabilities	**4,804**	**5,188**

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.

Reconciliation of Segment Assets

€ million	Dec. 31, 2011	Dec. 31, 2012
Total segment assets	**5,830**	**6,261**
Near-cash assets	350	411
Deferred tax assets	196	211
Cash and cash equivalents	178	386
Derivative assets	16	44
Other financial assets	109	14
Income tax receivables	64	41
Other/Consolidation	135	151
Group assets	**6,878**	**7,519**

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and impairments in fiscal 2011 and 2012 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.

38 Audit fees

In 2012, audit fees of €2,429 thousand (2011: €2,714 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,292 thousand (2011: €1,275 thousand) related to the auditing of financial statements, €916 thousand (2011: €653 thousand) to audit-related services and €221 thousand (2011: €786 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 2012, 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
- 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 combined management report includes a fair review of the development and performance of the business and the position of the LANXESS Group and LANXESS AG, together with a description of the principal opportunities and risks associated with the expected development of the LANXESS Group and LANXESS AG.

Leverkusen, March 7, 2013

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, comprising the statement of financial position, the income statement and the 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, which is combined with the management report of the company, for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the combined 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 the combined 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 combined 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 combined 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 combined 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. and 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 provisions. The combined 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, March 8, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki	Carsten Manthei
German Public Auditor	German Public Auditor

About this Report

Reporting methodology and data collection

The full report made here is aligned to national and international standards for financial and sustainability reporting: the International Financial Reporting Standards (IFRS), the Global Reporting Initiative (GRI) and the principles of the Global Compact. It thus combines financial and sustainability reporting by the LANXESS Group.

The reporting period is 2012. In compiling the data, we applied the principles of balance, comparability, accuracy, timeliness, clarity and reliability. The report covers the Group companies that are included in the consolidated financial statements.

Safety and environmental protection data are collected only at those production sites in which LANXESS has a holding of more than 50 percent. The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, applies to all sites in which LANXESS has a holding of more than 50 percent. On account of their recent acquisition by the LANXESS Group, the following sites are not yet included: Little Rock and Gastonia, United States, and Brilon, Germany. In the case of other indicators which do not refer to the LANXESS Group, the areas of scope are explicitly defined in the report.

We use a proprietary electronic system for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. With regard to data collection, we have additionally taken the following recommendations into consideration: Greenhouse Gas Protocol (GHG Protocol), International Energy Agency (IEA). We use the global HR productive system to collect HR data worldwide.

GRI

For the first time, we have produced the report in accordance with GRI Guidelines. The GRI Guideline we used is G3.1 issued in March 2011, which includes more than 120 indicators that describe the company, its sustainability information and the report itself. In future, reporting in line with GRI is to be done on an annual basis.

In the GRI Content Index, we list which criteria from the current GRI Guideline are addressed in the LANXESS Annual Report 2012. In addition to the disclosures contained in this report, supplementary information can be found on the LANXESS Group website. Our disclosures have been made in accordance with GRI Application Level B. This has been confirmed by the Global Reporting Initiative in the context of an audit (B+). To ensure the quality of the data, PricewaterhouseCoopers has audited selected indicators with limited assurance. These are identified accordingly in the report.

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **LANXESS AG** has presented its report "Thinking sustainably, driving change" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 5 March 2013

B+
GRI REPORT
GRI CHECKED

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

The "+" has been added to this Application Level because LANXESS AG has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: *Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 25 February 2013. GRI explicitly excludes the statement being applied to any later changes to such material.*

HSEQ: Independent Assurance Report

Independent Assurance Report

The review performed by PwC relates exclusively to the German print version of the CR Report. The following text is a translation of the original German Independent Assurance Report.

To LANXESS AG, Leverkusen

We have been engaged to perform a limited assurance engagement for selected environmental and safety performance data including supplementing annotations for the period January 1, 2012 to December 31, 2012. These data can be found in the "Environmental and Safety Performance Data" table in the "Health, safety, environment and climate protection along the value chain" section of the "Corporate Responsibility" chapter in the Annual Report 2012 of LANXESS AG, Leverkusen (hereinafter LANXESS).

Management's Responsibility

The Board of Management of LANXESS is responsible for the preparation of the "Corporate Responsibility" chapter in the Annual Report 2012 in accordance with the criteria stated in the Sustainability Reporting Guidelines Vol. 3.1 (pp. 7–17) of the Global Reporting Initiative (GRI):

- Materiality
- Stakeholder Inclusiveness
- Sustainability Context
- Completeness
- Balance
- Clarity
- Accuracy
- Timeliness
- Comparability
- Reliability

This responsibility includes the selection and application of appropriate methods to prepare the environmental and safety performance data as well as the use of assumptions and estimates for individual environmental and safety performance data which are reasonable in the circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the "Corporate Responsibility" chapter in the Annual Report 2012.

Practitioner's Responsibility

Our responsibility is to express a conclusion based on our work performed as to whether any matters have come to our attention that cause us to believe that the selected environmental and safety performance data in the "Health, safety, environment and climate protection along the value chain" section of the "Corporate Responsibility" chapter in the Annual Report 2012 of Lanxess have not been prepared, in all material respects, in accordance with the above mentioned criteria of the Sustainability Reporting Guidelines Vol. 3.1 of the GRI. The environmental and safety performance data subject to our procedures are marked with c). We also have been engaged to make recommendations for the further development of CR management and CR reporting based on the results of our assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to express our conclusion with limited assurance.

In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement (for example, an audit of financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": German Commercial Code), and therefore less assurance is obtained than in a reasonable assurance engagement.

The procedures selected depend on the practitioner's judgement.

We have performed procedures at the headquarters of LANXESS AG, Leverkusen, as well as in site visits to production plants in Leverkusen, Dormagen and Krefeld-Uerdingen in Germany, Jhagadia in India and Sarnia in Canada and in web-exchange based telephone interviews with ten additional production sites.

Within the scope of our work we performed amongst others the following procedures:

- Interviews with employees who are responsible for reporting the environmental and safety performance data regarding the processes and controls in place when collecting the environmental and safety performance data.
- Inventory of the processes and inspection of the systems and processes that are implemented to collect, calculate, analyze, verify and aggregate the environmental and safety performance data as well as sample testing.
- Analytical evaluations of the environmental and safety performance data based on samples.
- Review of internal documents, contracts and invoices/reports of external services providers.

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the selected environmental and safety performance data in the "Environmental and Safety Performance Data" table in the "Health, safety, environment and climate protection along the value chain" section of the "Corporate Responsibility" chapter in the Annual Report 2012 for the period January 1, 2012 to December 31, 2012 have not been prepared, in all material respects, in accordance with the criteria of the Sustainability Reporting Guidelines Vol. 3.1 (pp. 7–17) of the GRI.

Emphasis of Matter – Recommendations

Without qualifying our conclusion above, we make the following recommendations for the further development of CR management and CR reporting:

- Further development of the reporting processes as well as the control environment based on consistent standards in order to ensure stable processes and high data quality.
- Increased frequency of data collection in order to continuously improve quality for the purpose of data management and reporting.

Cologne, February 27, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki	Hendrik Fink
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

GRI Content Index

GRI Indicators		Location	Explanation	Status
1.	**Strategy and analysis**			
1.1	Foreword by the Chairman of the Board of Management	pp. 4–7		■
1.2	Key impacts, risks and opportunities	p. 14, pp. 127–133		■
2.	**Organizational profile**			
2.1	Name of the organization		LANXESS AG	■
2.2	Primary brands, products or services	Segment overview, inside front cover; p. 80		■
2.3	Operational structure, business units	p. 79, pp. 165–167		■
2.4	Location of the organization's headquarters		Leverkusen, Germany	■
2.5	Countries where the organization operates	pp. 80–81, http://lanxess.com/en/corporate/about-lanxess/sites-worldwide/		■
2.6	Nature of ownership and legal form	p. 79		■
2.7	Markets	pp. 91–94, p. 119		■
2.8	Scale of the organization	Table of key data, inside front cover		■
2.9	Significant changes in the organization's size, structure or ownership	p. 79, pp. 165–167		■
2.10	Awards received in the reporting period	p. 27, p. 29, p. 41		■
3.	**Report parameters**			
3.1	Reporting period	p. 202		■
3.2	Date of most recent previous report		First report in accordance with GRI Guidelines	■
3.3	Reporting cycle	p. 202		■
3.4	Contact point regarding the report	Masthead		■
3.5	Process of defining report content	pp. 39–40		■
3.6	Boundary of the report	pp. 165–167, p. 202		■
3.7	Limitations on the scope or boundary of the report	p. 202		■
3.8	Joint ventures, subsidiaries, outsourced operations	pp. 156–157, p. 202		■
3.9	Data measurement techniques and the bases of calculations	p. 59, pp.163–164, p. 202		■
3.10	Effects of any re-statements of information provided in earlier reports	pp. 58–59, p. 156		■
3.11	Changes in the scope, boundary or measurement methods applied in the report	p. 79, pp. 165–167		■
3.12	GRI Content Index	pp. 206–211		■
3.13	External assurance for the report	pp. 204–205		■

Status: ■ Fully reported □ Partly reported ■ Not reported T Core indicator T Additional indicator

GRI Indicators		Location	Explanation	Status
4.	**Governance, commitments and engagement**			
4.1	Governance structure of the organization	pp. 36–37		■
4.2	Independence of the Chairman of the Supervisory Board	p. 138		■
4.3	Independent members of highest governance body	Not applicable, see p. 138		■
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	p. 44, p. 72, p. 109, p. 140		■
4.5	Linkage between compensation for members of the highest governance and management bodies and the organization's performance	pp. 48–49, pp. 111–113		■
4.6	Processes in place to ensure conflicts of interest are avoided	pp. 37–38		■
4.7	Qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental and social topics	pp. 8–9, http://lanxess.com/en/corporate/about-lanxess/management/board-of-management/		■
4.8	Mission, values, codes of conduct and principles	pp. 36–38, p. 122		■
4.9	Procedures of the highest governance body for overseeing the organization's economic, environmental and social performance	pp. 13–14, pp. 36–38		■
4.10	Processes for evaluating the highest governance body's own performance with respect to economic, environmental and social performance	pp. 111–113		■
4.11	Explanation of how the precautionary principle is addressed	pp. 120–121, pp. 126–127		■
4.12	Participation in and endorsement of externally developed economic, environmental, and social charters, principles or other initiatives	pp. 38–39		■
4.13	Important memberships	pp. 38–39		■
4.14	List of stakeholder groups	p. 39		■
4.15	Basis for identification of stakeholder groups	pp. 39–40		■
4.16	Engagement of stakeholder groups	pp. 39–40, pp. 44–45		■
4.17	Response to key topics and concerns raised by stakeholder groups	pp. 39–40, pp. 44–45		■
Economic performance indicators				
	Management approach	pp. 12–17, pp. 62–65		
EC1	Direct economic value generated and distributed	p. 99, p. 106, p. 107, p. 150, p. 153		■
EC2	Financial implications of climate change	pp. 13–17		■
EC3	Coverage of the organization's defined-benefit plan obligations	pp. 48–49, p. 107		■
EC4	Financial assistance received from government			
EC6	Selection of locally based suppliers	p. 117		□
EC7	Hiring of local human resources	p. 43, p. 45		■
EC8	Infrastructure investments and services provided primarily for public benefit	p. 43, pp. 62–65		■

GRI Indicators		Location	Explanation	Status
Environmental performance indicators				
	Management approach	pp. 36–37, pp. 50–54, pp. 60–61		
EN1	Materials used by weight or volume	p. 117		Partly reported
EN2	Percentage of materials used that are recycled input materials		Not relevant as LANXESS cannot use any significant quantities of recycled input materials in the manufacture of its products.	Fully reported
EN3	Direct energy consumption by primary energy source	pp. 58–59		Fully reported
EN4	Indirect energy consumption by primary source	pp. 58–59		Fully reported
EN5	Energy saved due to conservation and efficiency improvements	p. 27, pp. 54–55		Partly reported
EN6	Initiatives to increase energy efficiency or based on renewable energies	pp. 21–25, p. 32, http://green-mobility.com/en/home/		Fully reported
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	p. 27, pp. 54–55		Partly reported
EN8	Total water withdrawal by source	pp. 57–59		Fully reported
EN11	Land in or adjacent to protected areas	pp. 53–54		Partly reported
EN12	Impacts on biodiversity in protected areas	pp. 53–54		Fully reported
EN13	Habitats protected or restored	pp. 53–54		Fully reported
EN14	Strategies for managing impacts on biodiversity	pp. 53–54		Partly reported
EN15	Impacts on threatened species	pp. 53–54		Partly reported
EN16	Direct and indirect greenhouse gas emissions by weight	pp. 55–56, pp. 58–59		Fully reported
EN17	Other relevant greenhouse gas emissions by weight	p. 56		Partly reported
EN18	Initiatives to reduce greenhouse gas emissions	p. 32, pp. 55–56		Fully reported
EN19	Emissions of ozone-depleting substances by weight	pp. 58–59		Fully reported
EN20	NO_x, SO_x and other air emissions by type and weight	pp. 58–59		Fully reported
EN21	Total water discharge	pp. 58–59		Fully reported
EN22	Quantity of waste by type and disposal method	pp. 57–59		Fully reported
EN23	Total number and volume of significant spills		1. When returning a plant to operation at the Marl site, a leakage of hexane occurred at a weld seam below the separation tank. 2. When restarting the chlorine compressor at the Dormagen site, a release of chlorine occurred. A maximum of 250 kilograms of chlorine escaped. 3. In Antwerp, 2.5 tons of cyclohexyl amine were released inside a building when starting a batch. In all cases, the necessary legal and safety engineering measures were taken.	Fully reported
EN26	Initiatives to mitigate environmental impacts	p. 23, pp. 29–30, p. 33, p. 53, p. 57, http://lanxess.com/en/corporate/sustainability-home/mission-water-sustainability/		Fully reported
EN27	Reclaiming of packaging materials			Not reported
EN28	Fines for non-compliance with environmental laws and regulations			Not reported
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	p. 56		Fully reported

Status: ■ Fully reported □ Partly reported ■ Not reported   T Core indicator T Additional indicator

GRI Indicators		Location	Explanation	Status
Labor practices and decent work				
	Management approach	pp. 36–37, p. 41, pp. 60–61		
LA1	Total workforce by employment type, region and gender	p. 45, p. 107		■
LA2	Employee turnover by age group, gender and region	pp. 41–42, pp. 107–108		■
LA3	Benefits provided to full-time employees	pp. 48–49, p. 109		■
LA4	Employees covered by collective bargaining agreements	p. 49, p. 109		■
LA5	Minimum notice periods regarding significant operational changes	p. 49, p. 109		■
LA6	Workforce representation in health and safety committees	p. 48		■
LA7	Injuries, occupational diseases and work-related accidents	p. 51, pp. 58–59, p. 110		□
LA8	Measures regarding serious diseases	pp. 47–48, pp. 50–51		□
LA9	Health and safety topics covered in formal agreements with trade unions	p. 48		■
LA10	Hours of training per employee	pp. 43–44		□
LA11	Programs for skills management and lifelong learning	pp. 43–44, p. 46		■
LA12	Percentage of employees receiving regular performance and career development reviews	p. 43, p. 48		□
LA13	Composition of governance bodies	pp. 8–9, p. 47, p. 143		□
LA14	Ratio of basic salary and remuneration of women to men			
LA15	Take-up of parental leave, by gender	p. 47		■

GRI Indicators		Location	Explanation	Status
Human rights				
	Management approach	pp. 36–38, p. 41, pp. 45–47, p. 109, p. 117		
HR1	Investment agreements and contracts that include human rights clauses or that have undergone human rights screening		All acquisitions of companies or interests in companies are subject to a careful due diligence process to ensure that human rights are also respected by the target company. Significant suppliers of goods and services are regularly the subject of supplier assessments that include aspects such as compliance with our Supplier Code of Conduct, which also covers human rights. In fiscal 2012, we received no reports or other indications of human rights violations by our suppliers.	■
HR2	Percentage of suppliers and contractors that have undergone human rights screening	p. 39, p. 117		■
HR3	Employee training on human rights aspects		We do not implement training dedicated to the topic of human rights. In our view, the principles set forth in human rights are so firmly anchored in LANXESS's corporate culture that no further training appears to be necessary. There was no statistical measurement of the amount of time devoted to the topic of human rights in general compliance training.	■
HR4	Incidents of discrimination and actions taken		We have received no reports or information that LANXESS systematically discriminates employees in terms of race, color, age, gender, sexual orientation, ethnic origin, religion, disability, labor union membership or political opinion. In individual cases, misconduct by employees in respect of colleagues or third parties was reported. We will never tolerate such misconduct, if verifiable, and it will always result in disciplinary sanctions up to and including dismissal. Such incidents are processed decentrally at LANXESS and there is no central reporting system.	■
HR5	Violation of the right to exercise freedom of association or collective bargaining			■
HR6	Principles and measures to eliminate child labor		The LANXESS Group does not use child labor. By accepting our Supplier Code of Conduct, suppliers also undertake not to use child labor. Significant suppliers of goods and services are regularly the subject of supplier assessments that include aspects such as compliance with our Supplier Code of Conduct. We have received no reports or other indications of the use of child labor by our suppliers.	■
HR7	Principles and measures to eliminate forced or compulsory labor		The LANXESS Group does not use forced or compulsory labor. By accepting our Supplier Code of Conduct, suppliers also undertake not to use forced or compulsory labor. Significant suppliers of goods and services are regularly the subject of supplier assessments that include aspects such as compliance with our Supplier Code of Conduct. We have received no reports or other indications of the use of forced or compulsory labor by our suppliers.	■
HR8	Security personnel training		LANXESS does not employ its own security personnel at its sites but procures security services from specialized external providers. They, like all our suppliers, are subject to our Supplier Code of Conduct, which also covers human rights.	■
HR9	Violations involving rights of indigenous people		In fiscal 2012, we received no reports or other indications of cases involving the violation of indigenous rights.	■
HR10	Operations that have been subject to human rights reviews and/or impact assessments		Our Compliance Management System (CMS) covers all of LANXESS's business activities. Like all LANXESS's business entities, the CMS itself is subject to internal and external audits. On account of the full integration of our CMS in the LANXESS organization, all business activities are subject to permanent compliance monitoring, which also covers the respect of human rights.	■
HR11	Number of grievances related to human rights filed		In fiscal 2012, we received no reports or other indications of grievances related to human rights.	■

Status: ■ Fully reported □ Partly reported ■ Not reported T Core indicator T Additional indicator

GRI Indicators		Location	Explanation	Status
Society				
	Management approach	pp. 37–38, p. 40, pp. 62–65, http://lanxess.com/en/corporate/about-lanxess/public-affairs/		
SO1	Percentage of operations with implemented local community engagement, impact assessments and development programs	pp. 62–65		■
SO2	Business units analyzed for risks related to corruption		The analysis and monitoring of risks related to corruption are the responsibility of our Internal Auditing Group Function. Various analytical approaches and scopes are applied: 1) Assessment of the risk of exposure to corruption and general monitoring of the internal control system: all business units 2) Transaction monitoring to ensure compliance with company regulations with an influence on the prevention of corruption in the standard SAP system: approximately 80% of all transactions 3) Dedicated corruption scans in six countries which Transparency International deems to be particularly at risk: approximately 20% of all transactions	■
SO3	Percentage of employees trained in anti-corruption policies and procedures		LANXESS applies a risk-oriented training concept. Corruption training targets exposed professional groups and countries. The proportion of employees from the total workforce who have received classroom-based training is around 15%.	■
SO4	Actions taken in response to incidents of corruption		In fiscal 2012, we received no reports or other indications of cases of active corruption by LANXESS employees. In individual cases of verifiable corruption of LANXESS employees (passive corruption), we take disciplinary action (usually dismissal) and, if the legal chances of success are high enough, initiate civil damage claims (damages and criminal litigation). In fiscal 2012, we recorded nine cases of passive corruption.	■
SO5	Public policy positions and lobbying	p. 40, http://lanxess.com/en/corporate/about-lanxess/public-affairs/		■
SO8	Penalties for non-compliance with laws and regulations			□
SO9	Operations with significant potential or actual negative impacts on local communities	pp. 53–56, p. 129		■
SO10	Prevention and mitigation measures implemented	pp. 29–30, pp. 53–54		■
Product responsibility				
	Management approach	pp. 37–38, pp. 50–53		
PR1	Health and safety impacts during product life cycles	pp. 50–53, p. 117, pp. 119–122		■
PR3	Type of product and service information required by legislation	pp. 51–53		■
PR4	Incidents of non-compliance with regulations and voluntary codes concerning product and service information		At the present time, neither our compliance organization nor the Internal Auditing Group Function yet has a system for recording such cases. We met the labeling and reporting deadlines resulting from the REACH and GHS regulations for all affected substances in our portfolio.	■
PR5	Customer satisfaction including results of surveys measuring customer satisfaction	p. 40		■
PR6	Programs for adherence to laws, standards and voluntary codes related to advertising		Our communication and marketing activities comply with the relevant laws and regulations, our corporate values and the Code for Legal Compliance and Corporate Responsibility at LANXESS. The same applies to product marketing and advertising.	■
PR8	Complaints regarding breaches of customer privacy and losses of customer data		In fiscal 2012, we received no reports or other indications of complaints regarding breaches of customer privacy and losses of customer data.	■
PR9	Fines for non-compliance with laws and regulations concerning the provision and use of products and services			□

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.

Hot commissioning This is a phase in the start-up of a production plant. In contrast to cold commissioning, the plant is tested under real operating conditions and all operating, threshold and nominal parameters are set before starting trial operation.

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.

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.

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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August 6
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November 12
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