

LANXESS AG
Financial Statements 2011

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by conviction



LANXESS AG, Leverkusen

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Income Statement

LANXESS AG

€ thousand	Note	2010	2011
Sales	(1)	4,027	4,056
Cost of sales	(2)	(4,027)	(4,056)
Gross profit		0	0
General administration expenses		(50,309)	(45,417)
Other operating income		7	1,231
Other operating expenses		(1,748)	(1,439)
Operating result		(52,050)	(45,625)
Income from investments in affiliated companies		190,528	215,410
Expenses for loss transfer from affiliated companies		(49)	(87)
Income from other securities and loans included in financial assets		129	295
Net interest expense	(3)	(29,636)	(44,792)
Write-downs of financial assets and marketable securities		(715)	(602)
Other financial income and expenses – net	(4)	(22,412)	(9,354)
Financial result		137,845	160,870
Income before income taxes		85,795	115,245
Extraordinary income		694	0
Income taxes	(5)	(8,119)	(46,038)
Net income		78,370	69,207
Carryforward to new account	(14)	64,550	45,493
Allocation to retained earnings		(39,185)	0
Distributable profit		103,735	114,700

Statement of Financial Position

LANXESS AG

€ thousand	Note	Dec. 31, 2010	Dec. 31, 2011
ASSETS			
Non-current assets	(9)		
Intangible assets			
Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder		9	8
Property, plant and equipment			
Furniture, fixtures and other equipment		83	104
Financial assets			
Investments in affiliated companies	(10)	738,864	738,864
Other loans	(11)	17,804	18,090
		756,760	757,066
Current assets			
Receivables and other assets			
Receivables from affiliated companies	(12)	1,161,543	1,703,557
Other assets	(13)	89,936	78,304
		1,251,479	1,781,861
Securities		107,031	201,426
Liquid assets		46,646	97,239
		1,405,156	2,080,526
Prepaid expenses		17,820	635
Total assets		2,179,736	2,838,227
EQUITY AND LIABILITIES			
Equity	(14)		
Capital stock (conditional capital €16,641 thousand)		83,203	83,203
Capital reserves		806,195	806,195
Other retained earnings		180,605	180,605
Distributable profit		103,735	114,700
		1,173,738	1,184,703
Provisions			
Provisions for pensions and other post-employment benefits	(15)	28,852	34,175
Tax provisions		2,008	16,553
Other provisions	(16)	56,581	53,819
		87,441	104,547
Liabilities			
Liabilities to banks	(17)	100,676	80,435
Trade payables	(18)	1,509	1,804
Payables to affiliated companies	(19)	806,450	1,464,279
Other liabilities	(20)	9,922	2,459
		918,557	1,548,977
Total equity and liabilities		2,179,736	2,838,227
Contingent liabilities from guarantees	(22)	1,233,060	1,839,214

Notes to the Financial Statements of LANXESS Aktiengesellschaft, Leverkusen for fiscal 2011

General

The Board of Management and Supervisory Board have issued a Declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) regarding the German Corporate Governance Code. This declaration has been made available to the stockholders, and the English version is permanently posted at www.lanxess.com, Investor Relations, Corporate Governance.

Presentation

The financial statements of LANXESS AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act that are applicable to large stock corporations.

To enhance clarity, certain items in the income statement and the statement of financial position are combined and are explained in the Notes.

The income statement is drawn up using the cost-of-sales method.

Financial income and expenses whose disclosure is not covered by a mandatory item are reflected in other financial income or expenses.

As the primary parent company of the LANXESS Group, LANXESS AG has prepared consolidated financial statements as of December 31, 2011, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

Accounting policies and valuation principles

Intangible assets that have been acquired are recognized at cost and amortized on a straight-line basis over their estimated useful lives. Self-created intangible assets are not capitalized.

Property, plant and equipment is carried at the cost of acquisition. Assets subject to depletion are depreciated. Write-downs are made for any declines in value that go beyond the depletion reflected in depreciation and are expected to be permanent. Additions made in the reporting year are depreciated using the straight-line method. Low-value assets costing up to €150.00 are recognized as expense in the year of acquisition. Low-value assets costing between €150.00 and €1,000.00 are combined in a collective item and depreciated over five years using the straight-line method.

Useful Lives of Intangible Assets, Property, Plant and Equipment

Software licenses	3 to 4 years
Computer equipment	3 to 4 years
Furniture and fixtures	4 to 10 years

Investments in affiliated companies are recognized at cost of acquisition.

Cash has been deposited in a fiduciary account to meet the obligations relating to the "demographic change fund" for employees defined in the collective bargaining agreement for the German chemical industry. This cash deposit is administered on behalf of LANXESS AG by the fiduciary agent Deutsche Treuinvest Stiftung and is ringfenced against other creditors' claims. It is recognized at fair value and offset against the corresponding obligations.

Loans receivable that are interest-free or bear low rates of interest are carried at present value; other loans receivable are carried at nominal value.

Marketable securities are valued at the lower of cost and fair value.

Receivables and other assets are stated at nominal value, less any necessary write-downs. The amounts of such write-downs reflect the probability of default.

Deferred taxes are calculated for temporary differences between commercial accounts and tax accounts as regards the valuations of assets, liabilities and deferred items. As the primary company of the LANXESS Group's fiscal entity in Germany, LANXESS AG therefore has to recognize temporary differences relating both to its own financial statements and to those of companies with which it forms a fiscal entity. In addition to temporary differences, tax loss carryforwards are also accounted for. Deferred taxes are based on the aggregate income tax rate for all companies in the LANXESS fiscal entity, which is currently 31.5%. The combined income tax rate comprises corporate income tax, trade tax and the solidarity surcharge. Any resulting tax liability would be recognized as a deferred tax liability in the statement of financial position. The option of capitalizing tax refunds is not utilized. In 2011 there was a net surplus of deferred tax assets, which is not recognized.

Provisions for pensions and other post-employment benefits are computed actuarially by the projected unit credit method on the basis of biometric probability using the Heubeck 2005 G mortality tables. Expected future salary and pension increases are taken into account. The current assumptions for salary increases are unchanged from the previous year at 2.50% for non-managerial employees and 2.75% for managerial employees. For older pension commitments the assumption used for the financial statements for 2011 has been increased to 1.75% (2010: 1.50%). For new pension commitments, the expected rate of increase is unchanged from the previous year at 1.00%. The discount rate used is 5.14% (2010: 5.15%) for pensions, 4.37% (2010: 4.36%) for early retirement benefits, 3.94% (2010: 4.07%) for phased early retirement programs, and 5.14% (2010: 5.15%) for miscellaneous post-employment benefits. The interest rates used to discount pension and other post-employment benefit obligations to December 31, 2011 are the average market interest rate for the past seven years for an assumed residual maturity as calculated and published by the German Bundesbank. The assumed residual maturity is 15 years for pensions and other post-employment benefits, five years for early retirement benefits and three years for phased early retirement programs.

The other provisions are established to cover all foreseeable risks and uncertain liabilities, based on reasonable estimates of the future settlement amounts of such commitments. Future price and cost increases are taken into account if there are sufficient objective indications that they will occur. Provisions due in more than one year are discounted over their remaining terms using the average market interest rate for the past seven fiscal years.

Liabilities are reflected at their settlement amounts.

Contingent liabilities arising from sureties and guarantees in respect of third-party liabilities are shown at the amounts equivalent to the loans or commitments actually outstanding to the beneficiary on the closing date.

Income and expenses are accrued in the fiscal year.

Foreign currency receivables and payables, forward currency contracts and other currency derivatives are valued using the limited market-to-market method. Foreign currency receivables and payables are valued at spot rates, while currency derivatives contracts concluded to hedge them are valued at the forward market rates on the closing date. Valuation gains and losses are offset against one another. Provisions for impending losses are established with respect to any excess of losses over gains. Gains are only recognized if they relate to receivables and payables due within one year. Foreign currency cash and cash equivalents and balances with banks are translated at the average exchange rates prevailing on the closing date.

Notes to the income statement

1 Sales

Sales revenues totaled €4,056 thousand (2010: €4,027 thousand) and related entirely to services provided to LANXESS Deutschland GmbH in Germany on the basis of a service agreement (version dated July 1, 2006).

2 Cost of sales

The cost of sales totaling €4,056 thousand (2010: €4,027 thousand) comprised expenses relating to the services provided. These were mainly personnel and general administration expenses.

3 Net interest expense

€ thousand	2010	2011
Other interest and similar income		
from third parties	3,756	3,930
from affiliated companies	18,998	13,789
	22,754	17,719
Interest and similar expenses		
to third parties	10,732	7,085
for the interest portion of provisions for pensions and other non-current personnel-related provisions	1,456	1,499
to affiliated companies	40,202	53,927
	52,390	62,511
Net interest expense	(29,636)	(44,792)

4 Other financial income (expenses) – net

€ thousand	2010	2011
Other financial expenses		
Expenses for forward commodity contracts	12,157	7,541
Exchange losses	741,318	546,571
Miscellaneous financial expenses	19,885	7,516
	773,360	561,628
Other financial income		
Income from forward commodity contracts	12,157	7,541
Exchange gains	736,360	541,784
Miscellaneous financial income	2,431	2,949
	750,948	552,274
	(22,412)	(9,354)

The exchange gains and losses are principally attributable to foreign currency items relating to LANXESS AG and to the valuation of foreign currency transactions undertaken with third parties on behalf of Group companies.

The miscellaneous financial expenses mainly related to changes in contractual loan conditions and to guarantee commission payments made to affiliated companies. Miscellaneous financial income consisted mainly of guarantee commission payments received from affiliated companies.

5 Income taxes

The tax expense of €46,038 thousand in 2011 (2010: €8,119 thousand) is the sum of the tax expense of €31,169 thousand for 2011 and €14,869 thousand in respect of previous years.

Tax expense does not include deferred taxes. As of December 31, 2011, LANXESS AG expected to receive a future tax benefit of €39,835 thousand resulting from temporary accounting differences, both in its own financial statements and in those of companies with which it forms a fiscal entity for tax purposes. This amount was calculated on the basis of a combined income tax rate of 31.5% (LANXESS AG and companies with which it has profit and loss transfer agreements).

Deferred tax liabilities mainly relate to differences in valuations of property, plant and equipment and equity interests in stock corporations. A deferred tax asset is recognized as a result of the higher pension obligations recognized in the commercial than in the tax accounts. Other deferred tax assets relate to provisions that are not tax-deductible, for example, provisions for impending losses and pre-retirement leave, and valuation differences, for example, between provisions for phased early retirement and for other operating expenses.

6 Personnel expenses

€ thousand	2010	2011
Wages and salaries	35,233	28,513
Social expenses and expenses for pensions and other benefits	1,114	6,080
of which for pensions	[492]	[5,429]
	36,347	34,593

The interest portion of personnel-related provisions, especially provisions for pensions, is recognized not in personnel expenses but in interest expense.

7 Employees

	Dec. 31, 2010	Average 2011	Dec. 31, 2011
General administration	127	133	135

8 Audit fees

All fees for the services of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft are published in the notes to the consolidated financial statements of the LANXESS Group.

Notes to the statement of financial position

9 Non-current assets

A breakdown of non-current assets and the changes in them during the year is shown in the statement of changes in non-current assets.

10 Shareholdings pursuant to Section 285 No. 11 of the German Commercial Code

The mandatory disclosures in accordance with Section 285 No. 11 of the German Commercial Code (HGB) are contained in the list of shareholdings.

11 Other loans

The other loans almost entirely comprised the pro-rata trust assets of LANXESS Pension Trust e.V. (LXS Trust). LANXESS AG transferred cash amounting to €17,802 thousand to LXS Trust in several tranches in previous years under a contractual trust arrangement (CTA) to secure pension obligations.

The current income and expenses of LXS Trust are retained. A result of €293 thousand (2010: €126 thousand) was recorded on these assets in 2011. The fair value of the assets of LXS Trust exceeded their carrying amount at year end.

In 2010 and 2011, cash payments were deposited with Deutsche Treuinvest Stiftung to meet the obligations relating to the “demographic change fund” for employees established by the collective bargaining agreement for the German chemical industry. The fair value of the

fiduciary assets corresponds to the fair value of the obligations under the “demographic change fund” amounting to €32 thousand. The carrying amounts of the fiduciary assets and the obligations recognized under other provisions have been netted. No income or expenses resulted for the year.

12 Receivables from affiliated companies

Receivables from affiliated companies totaling €1,703,557 thousand (2010: €1,161,543 thousand) related mainly to short-term loans receivable, including accrued interest, receivables from financial transactions and receivables under profit and loss transfer agreements. Trade receivables of €1,325 thousand related to the service agreement outlined in Note 1.

Loan receivables totaling €7,050 thousand are due in more than one year.

13 Other assets

Other assets comprised the following:

€ thousand	2010	2011
Tax receivables		
from sales taxes	21,307	25,158
from claims for tax refunds	62,167	52,966
Option premiums paid	5,894	0
Miscellaneous assets	568	180
	89,936	78,304

All of the other assets are due in 2012.

14 Equity

Changes in equity in 2011 were as follows:

€ thousand	Dec. 31, 2010	Withdrawal from	Allocation to	Dividend	Net income	Dec. 31, 2011
Capital stock	83,203	0	0	0	0	83,203
Capital reserves	806,195	0	0	0	0	806,195
Other retained earnings	180,605	0	0	0	0	180,605
Distributable profit	103,735	0	0	(58,242)	69,207	114,700
	1,173,738	0	0	(58,242)	69,207	1,184,703

The capital stock is divided into 83,202,670 no-par bearer shares.

The Annual Stockholders' Meeting on May 18, 2011, resolved to utilize the distributable profit for 2010, amounting to €103,735 thousand, as follows:

- to pay a dividend totaling €58,242 thousand (€0.70 per no-par share entitled to the dividend)
- to carry forward €45,493 thousand to new account.

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.

15 Provisions for pensions and other post-employment benefits

Pension provisions relate to pension obligations for present and former employees and commitments under early retirement programs.

16 Other provisions

The other provisions are established for vacation and overtime credits, the phased early retirement program, long-service anniversaries, bonuses, performance-related remuneration plans (LTIP, LTPB) for employees and other uncertain liabilities. Other uncertain liabilities mainly comprised the expected cost of the Annual Stockholders' Meeting for fiscal 2011 and both the performance-related and fixed components of the remuneration of the Supervisory Board.

The long-term, performance-based components of the compensation system are the Long-Term Incentive Program (LTIP) and the Long-Term Performance Bonus (LTPB).

The LTIP comprises three annual tranches for the years 2005 through 2007 and 2008 through 2010, and four annual tranches for the years 2010 to 2013.

With respect to the LTIP for 2005 through 2007, only the final tranche of the Stock Performance Plan (SP) remains open. Following the payment of amounts provisioned as of December 31, 2010 to eligible employees in 2011, the Economic Value Plan (EVP) is now closed. Payments have been made under the 2005 through 2007 tranches of the LTIP since 2008.

The SP is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 ChemicalsSM, and provides for a cash payment. The fair value of the commitments under this plan was calculated using a Monte Carlo simulation. This simulates the future returns on the stock and the reference index and determines the value of the rights on the basis of the expected payment. A two-dimensional normal distribution of returns is assumed. The expected volatility is based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 ChemicalsSM index.

The requirement for participation in the LTIP in 2005 through 2007 was a prior personal investment in LANXESS AG shares, which were subject to a lock-up period ending on January 31, 2010.

The LTIP for the years 2008 through 2010 comprises a virtual Stock Performance Plan only. Participation in the LTIP is contingent upon a personal investment in LANXESS AG shares, which must be held until February 1, 2013. Each tranche runs for a total of six years, comprising a three-year lock-up period and a three-year exercise period.

The LTIP for the years 2010 through 2013 is also comprised exclusively of a virtual Stock Performance Plan. Participation in the LTIP is contingent upon a personal investment in LANXESS AG shares, which must be held until January 31, 2017. Each tranche runs for a total of seven years, comprising a four-year lock-up period and a three-year exercise period.

The LTPB rewards the financial development of the Group based on business performance in two consecutive years. The bonus payment is a percentage of base salary. The first payments could be made in spring 2012 based on the company's performance in fiscal 2010 and 2011.

17 Liabilities to banks

Of the liabilities to banks totaling €80,435 thousand (2010: €100,676 thousand), €12,935 thousand are due within one year. Liabilities of €17,500 thousand have maturities of more than five years.

18 Trade payables

All trade payables are to third parties and are due within one year.

19 Payables to affiliated companies

Payables to affiliated companies amounting to €1,464,279 thousand (2010: €806,450 thousand) mainly comprise loans, including accrued interest, and liabilities relating to financial transactions.

Of these payables, an amount of €352,999 thousand is due within one year.

20 Other liabilities

€ thousand	2010	2011
Option premiums received	5,894	0
Tax liabilities	476	572
Liabilities for social expenses	891	1,200
Miscellaneous liabilities	2,661	687
	9,922	2,459
Amounts due within one year	9,922	2,459

21 Further information on liabilities

The residual maturities of liabilities are as follows:

Liabilities by Maturity

€ thousand	Dec. 31, 2010			Dec. 31, 2011		
	Up to 1 year	More than 1 and up to 5 years	More than 5 years	Up to 1 year	More than 1 and up to 5 years	More than 5 years
Liabilities to banks	20,676	50,000	30,000	12,935	50,000	17,500
Trade payables	1,509	0	0	1,804	0	0
Payables to affiliated companies	311,170	495,280	0	352,999	495,280	616,000
Other liabilities	9,922	0	0	2,459	0	0
	343,277	545,280	30,000	370,197	545,280	633,500

22 Contingent liabilities

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.

LANXESS AG has given the following guarantees on behalf of subsidiaries:

€ thousand	2010	2011
to holders of the bonds issued by LANXESS Finance B.V.	1,101,605	1,601,605
to banks	116,240	215,127
to suppliers	15,215	22,482
	1,233,060	1,839,214

In addition, LANXESS AG has provided guarantees on behalf of subsidiaries for payment obligations relating to future deliveries under long-term procurement agreements.

Based on the information available to us, the companies concerned should be able to fulfill the underlying obligations in all cases. The guarantees are not expected to be utilized.

Other mandatory disclosures

23 Notification of interests held in the company (Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act)

Notifications of interests held in LANXESS AG are set out in the disclosures pursuant to Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act (AktG).

24 Derivative financial instruments

In the course of their business, LANXESS AG and companies in the LANXESS Group are exposed to risks of changes in exchange rates and market prices. Derivative financial instruments are used in some cases to hedge against these risks. These comprise over-the-counter (OTC) instruments that are not traded on an exchange. They include, in particular, forward exchange contracts, currency options and forward commodity contracts.

The use of such instruments is governed by uniform guidelines and is subject to stringent internal controls. It is confined to hedging of the Group's operating business and the related investments and financing transactions. In the commodities area, LANXESS AG concludes derivatives contracts with external counterparties to hedge the market prices of raw materials and energy required by Group companies for their operating business.

The purpose of using derivative financial instruments is to reduce fluctuations in earnings and cash flows caused by changes in exchange rates and market prices.

There is a risk that the value of financial derivatives may change as a result of fluctuations in underlying parameters such as exchange rates. Where derivatives are used for hedging purposes, the possibility of a loss of value due to a drop in prices is offset by corresponding increases in the values of the hedged contracts.

In the case of derivatives with a positive fair value, a credit or default risk arises if counterparties cannot meet their settlement obligations. To minimize this risk, credit limits are assigned to individual banks, and framework agreements are used that allow offsetting of the fair value of open derivative positions in the event of insolvency of a counterparty.

The notional amount of financial derivative contracts concluded with external counterparties was €2,009 million as of December 31, 2011 (2010: €1,720 million). Back-to-back derivative contracts with a notional amount of €2,011 million (2010: €1,672 million) were concluded with Group companies. The total notional amount of derivatives was €4,020 million (2010: €3,392 million). This figure also includes valuation units.

The derivative instruments comprised the following:

€ thousand	Notional amount		Fair value		Carrying amount	
	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011
Forward exchange contracts						
positive fair values	1,529,339	1,987,718	34,635	53,054	0	0
negative fair values	1,517,864	1,988,638	34,576	52,389	0	185
	3,047,203	3,976,356	59	665	0	185
Currency options						
positive fair values	152,817	0	10,980	0	5,894	0
negative fair values	152,817	0	10,980	0	5,894	0
	305,634	0	0	0	0	0
Forward commodity contracts						
positive fair values	19,371	22,068	4,066	2,452	0	0
negative fair values	19,371	22,068	4,066	2,452	0	0
	38,742	44,136	0	0	0	0
	3,391,579	4,020,492	59	665	0	185

Financial derivatives used to hedge currency risks LANXESS AG used forward exchange contracts and currency options to hedge exchange rate risks.

Hedging is undertaken for highly probable forecast transactions by Group companies in foreign currencies.

Forward exchange contracts with a notional amount of €660.6 million (2010: €865.0 million) and a negative fair value of €29.8 million (2010: negative fair value of €14.3 million) were concluded with external counterparties to hedge highly probable forecast transactions by Group companies in foreign currencies. These were matched by transactions with Group companies with a notional amount of €653.9 million (2010: €865.0 million) and a positive fair value of €29.8 million (2010: €14.3 million). Changes in the value of the corresponding external and internal transactions move in opposite directions and will offset one another by 2013. These transactions were grouped in valuation portfolios and not recognized in the statement of financial position.

To hedge currency risks relating to receivables and payables of LANXESS AG and Group companies (exposure in the statement of financial position), LANXESS AG concluded forward exchange contracts with external counterparties with a notional amount of €1,326.7 million (2010: €835.5 million); these had a negative fair value of €6.8 million (2010: negative fair value of €4.2 million). Some of these transactions were passed through to Group companies. The notional amount of contracts with these internal counterparties was €1,335.1 million (2010: €787.3 million), and their fair value was €6.6 million (2010: €4.2 million). Where forward exchange contracts

concluded to hedge foreign currency receivables and payables of Group companies were passed through to the companies concerned by way of internal contracts, they were grouped in valuation portfolios together with the opposing transactions. At the closing date, valuation portfolios comprising external and internal transactions had net negative and positive fair values, respectively, of €6.6 million. The majority of them mature in 2012 and the remainder in 2016 at the latest. These transactions were not reflected in the statement of financial position.

The fair value of forward exchange contracts that were used to hedge foreign currency exposure in the statements of financial position of Group companies and were not matched by internal transactions was –€0.2 million (2010: +€0.1 million). The negative fair value is reflected in other provisions.

Further valuation units (micro hedges) comprised foreign currency loans from Group companies to LANXESS AG or vice versa for which forward exchange contracts had been concluded on a back-to-back basis. The hedged loans granted to Group companies had a total carrying amount of €25.5 million at year end, while the carrying amount of loans to LANXESS AG was €50.4 million. The net currency risk was €0.8 million. The external forward exchange contracts had a net positive fair value of €0.8 million and are all due in 2012. They were not recognized in the statement of financial position.

Financial derivatives used to hedge price risks Forward commodity contracts concluded with external counterparties, all of which mature within one year, were passed through to Group companies on a back-to-back basis. The results of the transactions closed out by year end were in balance. Valuation portfolios were established for open transactions, giving a net zero result.

Valuation methods The fair values of financial derivatives are determined using customary valuation methods, taking into account the market data (market value) on the closing date. The following principles were used:

- the fair values of forward exchange contracts were derived from their trading or listed prices using the "forward method." Currency options were valued using an asset pricing model based on the Black & Scholes model.
- the fair values of forward commodity contracts were also derived from their trading or listed prices by the "forward method".

To measure the effectiveness of hedge relationships, either the dollar-offset method or regression analysis is used, depending on the type of hedge.

25 Total compensation of the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 a of the German Commercial Code)

Total compensation of €9,370 thousand (2010: €11,365 thousand) was paid to the members of the Board of Management of LANXESS AG for fiscal 2011, comprising totaling €6,698 thousand (2010: €6,588 thousand) in annual compensation and €2,264 thousand (2010: €4,613 thousand) in multi-year compensation. In addition to the compensation reported as expense in the financial statements for 2010, further compensation of €408 thousand for 2010 was disbursed in 2011 (2010: €164 thousand for 2009).

The multi-year compensation includes payments made under the Long-Term Incentive Program (LTIP). 1,822,125 share-based compensation rights were granted in 2011 (2010: 3,999,000). The fair value of these rights at the grant date was €910 thousand (2010: €3,210 thousand). Expenses for the LTIP recognized in the consolidated financial statements amounted to €934 thousand (2010: €8,025 thousand).

Payments of €1,320 thousand (2010: €0 thousand) were made to one member in connection with his leaving the Board of Management in 2011.

In addition, expenses of €3,528 thousand (2010: €91 thousand) were incurred to provide retirement pensions for the Board of Management. The present value of the benefit obligation as of December 31, 2011 was €12,895 thousand (2010: €11,392 thousand).

Details of the compensation system for members of the Board of Management and an individual breakdown of the amounts paid are given in the Compensation Report section of the Management Report for fiscal 2011.

Remuneration of the Supervisory Board

€ thousand	2010	2011
Fixed compensation	647	1,160
Remuneration for committee membership	141	480
Attendance allowance	192	231
Long-term compensation	2,400	0
Total	3,380	1,871

In 2011 members of the Supervisory Board received total compensation of €1,871 thousand (2010: € 3,380 thousand). The provisions established for multi-year compensation for Supervisory Board members as of December 31, 2011 amounted to €1,500 thousand (2010: €1,500 thousand).

In addition, the employee representatives on the Supervisory Board who are employees of the LANXESS Group received salaries under their employment contracts. The amounts of these salaries represented appropriate compensation for the employees' functions and tasks within the Group.

Details of the compensation system for members of the Supervisory Board and the amounts paid to each member are given in the Compensation Report section of the Management Report for fiscal 2011.

26 Total remuneration of former members of the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 b of the German Commercial Code (HGB))

Payments of €1,799 thousand were made to former members of the Board of Management in 2011 (2010: €441 thousand). This amount includes the above-mentioned payments made to one member in connection with his leaving the Board of Management in 2011. In addition, €274 thousand (2010: €147 thousand) was recognized as current pension expense.

Provisions of €9,276 thousand were recognized as of December 31, 2011 (2010: €6,977 thousand) for ongoing pensions and pension entitlements of former members of the Board of Management.

27 Loans and advances granted to members of the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 c HGB)

There were no loans or advances to members of the Board of Management or the Supervisory Board as of December 31, 2011 nor had any other financial commitments been entered into for these individuals.

28 Corporate Officers

Supervisory Board Members of the Supervisory Board hold or held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as of December 31, 2011 or the date on which they ceased to be members of the Supervisory Board of LANXESS AG).

The following representatives of the company's stockholders are currently members of the Supervisory Board and/or were members of the Supervisory Board in 2011:

Dr. Rolf Stomberg (Chairman)

- Former Chief Executive of the Shipping, Refining and Marketing Division of The British Petroleum Co. p.l.c., London, U.K.
- Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, U.K.

Further offices:

- LANXESS Deutschland GmbH, Leverkusen* (Chairman)
- Biesterfeld AG, Hamburg*
- Smith & Nephew plc, London, U.K.
- OAO Severstal, Cherepovets, Russia
- Ruspetro plc, London, U.K.
- HOYER GmbH, Hamburg (Vice Chairman)
- KEMNA Bau Andreae GmbH & Co. KG, Pinneberg

Dr. Friedrich Janssen

Former member of the Board of Management of E.ON Ruhrgas AG, Essen

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*
- National-Bank AG, Essen*
- E.ON Avacon AG, Helmstedt*
- E.ON Energy Trading SE, Düsseldorf*
- E.ON Hanse AG, Quickborn*
- E.ON Ruhrgas AG, Essen*
- Stadtwerke Göttingen AG, Göttingen*
- HDI-Gerling Sach Serviceholding AG, Hannover
- Thüga Assekuranz Services München Versicherungsmakler GmbH, Munich
- Hoberg & Driesch GmbH, Düsseldorf

Robert J. Koehler

Chairman of the Board of Management of SGL Carbon SE, Wiesbaden

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*
- Heidelberger Druckmaschinen AG, Heidelberg* (Chairman)
- Klöckner & Co. SE, Duisburg*
- Demag Cranes AG, Düsseldorf* (until September 23, 2011)
- Benteler International AG, Salzburg, Austria (Chairman)
- SGL Carbon S.p.A., Lainate, Milan, Italy
- SGL Carbon SDN BHD, Banting, Malaysia
- SGL Carbon S.A., La Coruña, Spain

Rainer Laufs

- Self-employed consultant
- Former Chairman of the Management Board of Deutsche Shell AG, Hamburg

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*
- WCM Beteiligungs- und Grundbesitz AG, Frankfurt am Main* (Chairman)
- Petrotec AG, Düsseldorf* (Chairman)
- Avancos Technicas Services GmbH, Hamburg (until November 22, 2011)
- BorsodChem Zrt., Kazincbarcika, Hungary (until January 31, 2011)

Dr. Ulrich Middelmann

Former Vice Chairman of the Executive Board of ThyssenKrupp AG, Duisburg/Essen

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*
- Deutsche Telekom AG, Bonn*
- Commerzbank AG, Frankfurt am Main*
- ThyssenKrupp Steel Europe AG, Duisburg* (until December 31, 2011)
- ThyssenKrupp Materials International GmbH, Essen* (until December 31, 2011)
- Hoberg & Driesch GmbH, Düsseldorf

Theo H. Walthie

Self-employed consultant

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*

The following representatives of the company's employees are currently members of the Supervisory Board and/or were members of the Supervisory Board in 2011:

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)
- 50Hertz Transmission GmbH, Berlin* (Vice Chairman)
- Vattenfall Europa AG, Berlin*
- DMT GmbH, Essen* (Vice Chairman)
- Evonik Wohnen GmbH, Essen (Vice Chairman)
- Evonik Immobilien GmbH, Essen (Vice Chairman)
- GSB – Gesellschaft zur Sicherung von Bergmannswohnungen mbH, Essen (Vice Chairman)
- GSG Wohnungsbau Braunkohle GmbH, Köln (Vice Chairman)

Axel Berndt

Member of the Works Council at the Leverkusen site

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*
- Aliseca GmbH, Leverkusen*

Wolfgang Blossey (member until May 31, 2011)

District Secretary of the German Mining, Chemical and Energy Industrial Union, Hannover

Further offices:

- INEOS Deutschland GmbH, Cologne*
- INEOS Köln GmbH, Cologne*

* Statutory supervisory boards

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*

Thomas Meiers

District Secretary of the German Mining, Chemical and Energy Industrial Union, Cologne

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*
- INEOS Deutschland Holding GmbH, Cologne*
- INEOS Köln GmbH, Cologne*
- Sasol Germany GmbH, Hamburg* (until November 30, 2011)

Gisela Seidel

Chairman of the Works Council at the Dormagen site

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*

Hans-Jürgen Schicker

Chairman of the Works Council at the Uerdingen site

Further offices:

- LANXESS Deutschland GmbH, Leverkusen*

* Statutory supervisory boards

Board of Management The following individuals are currently members of the Board of Management and/or were members of the Board of Management in 2011:

Member of the Board of Management	External offices	Offices within the LANXESS Group
Dr. Axel C. Heitmann Chairman of the Board of Management	<ul style="list-style-type: none"> • Member of the Presidium of the German Chemical Industry Association (VCI) • Member of the Asia-Pacific Committee of German Business (APA) • Member of the Board of Trustees of Konvent für Deutschland e.V. • Member of the Board of Trustees of the North Rhine-Westphalia chapter of Stifterverband für die Deutsche Wissenschaft • Member of the Advisory Board of Goethe-Institut e.V. • Member of the Association of Friends of Philharmonie KölnMusik e.V. 	<ul style="list-style-type: none"> • Chairman of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd.
Dr. Werner Breuers Board of Management member	<ul style="list-style-type: none"> • Member of the Supervisory Board of Currenta Geschäftsführungs-GmbH • Member of the Board of Trustees of the VCI's Chemical Industry Fund • Member of the Board of Trustees of the DWI of RWTH Aachen University • Member of the German Committee on Eastern European Economic Relations • Member of the Advisory Board of the Association for Chemistry & Economics (VCW) 	<ul style="list-style-type: none"> • 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 Board of Management member, Chief Financial Officer (appointed April 1, 2011)	<ul style="list-style-type: none"> • Member of the Supervisory Board of Gesellschaft für Kommunikation SE (GfK), Nuremberg • Member of the Board of Directors of Deutsches Aktieninstitut (DAI) • Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU) 	<ul style="list-style-type: none"> • Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Corp.
Dr. Rainier van Roessel Board of Management member, Industrial Relations Director	<ul style="list-style-type: none"> • 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) 	<ul style="list-style-type: none"> • Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS S.A. de C.V. • Executive member of the Board of Administration of LANXESS N.V. • Chairman of the Supervisory Board of Rhein Chemie Rheinau GmbH • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. • Chairman of the Board of Directors of Holding Hispania S.L. • Chairman of the Board of Directors of LANXESS Chemicals S.L. • Chairman of the Board of Directors of LANXESS Corp. • Chairman of the Board of Directors of LANXESS Pte. Ltd. • Chairman of the Governing Board of LANXESS Srl. • Member of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd. • Chairman of the Board of Directors of LANXESS India Private Ltd.
Matthias Zachert (stepped down from the Board of Management effective March 31, 2011)	<ul style="list-style-type: none"> • Member of the Board of Directors of Deutsches Aktieninstitut (DAI)¹⁾ • Member of the Advisory Board of Institut für Unternehmensplanung (IUP)¹⁾ • Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU)¹⁾ 	

1) The offices listed for Mr. Zachert are those he held as of the date he stepped down.

Changes in non-current assets

LANXESS AG

€ thousand	Gross carrying amounts				Amortization/depreciation and write-downs		Net carrying amounts	
	Jan. 1, 2011	Additions	Disposals	Dec. 31, 2011	Accumulated Dec. 31, 2011	2011	Dec. 31, 2011	Dec. 31, 2010
Intangible assets								
Software licenses	50	4	42	12	4	5	8	9
	50	4	42	12	4	5	8	9
Property, plant and equipment								
Furniture, fixtures and other equipment	148	47	23	172	68	26	104	83
	148	47	23	172	68	26	104	83
Financial assets								
Investments in affiliated companies	738,864	0	0	738,864	0	0	738,864	738,864
Other loans	18,513	158	6	18,665	575	(134) ¹⁾	18,090	17,804
	757,377	158	6	757,529	575	(134)	756,954	756,668
Total non-current assets	757,575	209	71	757,713	647	(103)	757,066	756,760

1) Write-ups

Disclosures pursuant to Section 160 Paragraph 1 No. 8 of the German Stock Corporation Act (AktG)

Notified by	Date of change	Threshold	Voting rights		Attributable voting rights
		%	%	absolute	
Norges Bank (Norwegian state), Oslo, Norway	Nov. 15, 2011	5.00	5.04	4,190,288	Norges Bank (Norwegian state), Oslo, Norway (pursuant to Section 22 Paragraph 1 Sentence 1 No. 1 German Securities Trading Act WpHG)
Allianz Global Investors Kapitalanlage-gesellschaft mbH, Frankfurt am Main, Germany	Nov. 10, 2011	3.00	3.04	2,528,038	Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt am Main, Germany (0.57% pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act WpHG)
Fidelity					
FIL Holdings Limited, Hildenborough, U.K. ¹⁾	Nov. 8, 2011	3.00	3.13	2,601,347	FIL Holdings Limited, Hildenborough, U.K. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 German Securities Trading Act WpHG)
FIL Investments International, Hildenborough, U.K. ¹⁾	Nov. 8, 2011	3.00	3.13	2,601,347	FIL Investments International, Hildenborough, U.K. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act WpHG)
FIL Limited, Hamilton HMCX, Bermuda ¹⁾	Nov. 8, 2011	3.00	3.13	2,601,347	FIL Limited, Hamilton HMCX, Bermuda (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act WpHG)
TIAA-CREF Investment Management					
TIAA-CREF Investment Management, LLC, New York, U.S.A. ¹⁾	Oct. 26, 2011	3.00	2.98	2,479,195	TIAA-CREF Investment Management, LLC, New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act WpHG)
College Retirement Equities Fund, New York, U.S.A. ¹⁾	Oct. 26, 2011	3.00	2.98	2,479,195	TIAA-CREF Investment Management, LLC, New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act WpHG)
TIAA-CREF Funds, New York, U.S.A.	Aug. 2, 2011	3.00	2.92	2,428,314	TIAA-CREF Funds, New York, U.S.A. (pursuant to Section 22 Paragraph 1 German Securities Trading Act WpHG)
J.P. Morgan					
J.P. Morgan Asset Management (UK) Limited, London, U.K. ¹⁾	June 30, 2011	3.00	2.90	2,411,697	J.P. Morgan Asset Management (UK) Limited, London, U.K. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 German Securities Trading Act WpHG)
J.P. Morgan Investment Management Inc, New York, U.S.A. ¹⁾	June 30, 2011	3.00	2.90	2,411,697	J.P. Morgan Investment Management Inc., New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Paragraph 2 German Securities Trading Act WpHG)
J.P. Morgan Asset Management (Taiwan) Limited, Taipei, Taiwan ¹⁾	June 30, 2011	3.00	2.90	2,411,697	J.P. Morgan Asset Management (Taiwan) Limited, Taipei, Taiwan, (pursuant to Section 22 Paragraph 1 Sentence No. 6 in conjunction with Paragraph 2 German Securities Trading Act WpHG)
J.P. Morgan Chase Bank, National Association, Columbus, U.S.A. ¹⁾	June 30, 2011	3.00	2.90	2,411,697	J.P. Morgan Chase Bank, National Association, Columbus, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence No. 6 in conjunction with Paragraph 2 German Securities Trading Act WpHG)
BlackRock					
BlackRock Inc., New York, U.S.A. ¹⁾	Feb. 11, 2011	5.00	5.10	4,244,545	Black Rock Inc., New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 German Securities Trading Act WpHG)
BlackRock Advisors Holdings, Inc., New York, U.S.A. ¹⁾	Feb. 11, 2011	3.00	3.19	2,656,943	BlackRock Advisors Holdings, Inc., New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 German Securities Trading Act WpHG)
BlackRock International Holdings Inc., New York, U.S.A. ¹⁾	Feb. 11, 2011	3.00	3.08	2,563,117	BlackRock International Holdings Inc., New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 German Securities Trading Act WpHG)
BR Jersey International Holdings L.P., St. Helier, U.K. ¹⁾	Feb. 11, 2011	3.00	3.08	2,563,117	BR Jersey International Holdings L.P., St. Helier, U.K. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 German Securities Trading Act WpHG)
BlackRock Financial Management, Inc., New York, U.S.A. ¹⁾	Dec. 3, 2010	3.00	4.20	3,497,153	BlackRock Financial Management, Inc., New York, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 German Securities Trading Act WpHG)
BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A. ¹⁾	Dec. 3, 2010	3.00	4.20	3,497,153	BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A. (pursuant to Section 2 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 German Securities Trading Act WpHG)
Dodge & Cox					
Dodge & Cox, San Francisco, U.S.A. ¹⁾	Aug. 17, 2010	10.00	9.93	8,258,284	Dodge & Cox, San Francisco, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act WpHG)
Dodge & Cox, San Francisco International Stock Fund, California, U.S.A. ¹⁾	Aug. 17, 2010	10.00	9.76	8,119,784	Dodge & Cox, San Francisco International Stock Fund, California, U.S.A. (pursuant to Section 22 Paragraph 1 Sentence 1 No. 6 German Securities Trading Act WpHG)

1) The voting rights reported by the J.P. Morgan companies, Dodge & Cox, TIAA-CREF Investment Management and the Fidelity companies are not additive.

List of shareholdings

LANXESS AG, either directly or indirectly, holds at least 20% of the shares in the following companies (information pursuant to Section 285 No. 11 HGB). The figures stated for equity and net income/loss are derived from the annual financial statements prepared in accordance with local law.

Company Name and Domicile	Interest held (%)	Equity (€ million)	Result (€ million)
Fully consolidated companies			
Germany			
Aliseca GmbH, Leverkusen	100	0	0 ¹⁾
DuBay Polymer GmbH, Hamm	50	22	2
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100	67	0 ¹⁾
LANXESS Accounting GmbH, Leverkusen	100	0	0 ¹⁾
LANXESS Buna GmbH, Marl	100	8	0 ¹⁾
LANXESS Deutschland GmbH, Leverkusen	100	1,499	0 ¹⁾
LANXESS Distribution GmbH, Langenfeld	100	4	0 ¹⁾
LANXESS International Holding GmbH, Leverkusen	100	0	0 ¹⁾
LXS Dormagen Verwaltungs-GmbH, Dormagen	100	32	0 ¹⁾
Perlon-Monofil GmbH, Dormagen	100	2	0 ¹⁾
Rhein Chemie Rheinau GmbH, Mannheim	100	45	0 ¹⁾
Saltigo GmbH, Langenfeld	100	28	0 ¹⁾
EMEA (excluding Germany)			
Europigments, S.L., Barcelona, Spain	52	6	1
LANXESS (Pty.) Ltd., Modderfontein, South Africa	100	99	18
LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia	100	5	2
LANXESS Chemicals, S.L., Barcelona, Spain	100	4	1
LANXESS CISA (Pty.) Ltd., Newcastle, South Africa	100	60	8
LANXESS Elastomères S.A.S., Lillebonne, France	100	85	6
LANXESS Elastomers B.V., Heerlen, Netherlands	100	140	44
LANXESS Emulsion Rubber S.A.S., La Wantzenau, France	100	50	7
LANXESS Finance B.V., Amsterdam, Netherlands	100	9	1

Company Name and Domicile	Interest held (%)	Equity (€ million)	Result (€ million)
Fully consolidated companies			
EMEA (excluding Germany) (continued)			
LANXESS Holding Hispania, S.L., Barcelona, Spain	100	806	187
LANXESS International SA, Granges-Paccot, Switzerland	100	139	118
LANXESS Limited, Newbury, U.K.	100	18	1
LANXESS Mining (Proprietary) Ltd., Modderfontein, South Africa	100	10	3
LANXESS N.V., Antwerp, Belgium	100	332	46
LANXESS Rubber N.V., Zwijndrecht, Belgium	100	150	6
LANXESS S.A.S., Courbevoie, France	100	64	3
LANXESS S.r.l., Milan, Italy	100	17	8
OOO LANXESS, Dzerzhinsk, Russia	100	3	(1)
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100	98	1
Sybron Chemicals International Holdings Ltd., Newbury, U.K.	100	0	0
North America			
LANXESS Corporation, Pittsburgh, U.S.A.	100	142	59
LANXESS Inc., Sarnia, Canada	100	211	19
LANXESS Sybron Chemicals Inc., Birmingham, U.S.A.	100	24	2
Rhein Chemie Corporation, Chardon, U.S.A.	100	(11)	2
Sybron Chemical Holdings Inc., Wilmington, U.S.A.	100	24	2
Unitex Chemical Corporation, Greensboro, U.S.A.	100	41	0
Verichem Inc., Pittsburgh, U.S.A.	100	6	0
Latin America			
LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil	100	347	15
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100	65	(20)
LANXESS S.A. de C.V., Mexico City, Mexico	100	3	2
LANXESS S.A., Buenos Aires, Argentina	100	26	(3)
Rhein Chemie Argentina S.A., Buenos Aires, Argentina	100	3	0
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100	3	1

1) Result after profit transfer

Company Name and Domicile

	Interest held (%)	Equity (€ million)	Result (€ million)
Fully consolidated companies			
Asia-Pacific			
LANXESS Elastomers Trading (Shanghai) Co., Ltd., Shanghai, China	100	5	3
LANXESS (Changzhou) Co., Ltd., Changzhou, China	100	24	0
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100	4	(5)
LANXESS Butyl Pte. Ltd., Singapore	100	224	130
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100	11	1
LANXESS Hong Kong Limited, Hong Kong, China	100	103	10
LANXESS India Private Ltd., Thane, India	100	110	(4) ²⁾
LANXESS K.K., Tokyo, Japan	100	39	2
LANXESS Korea Limited, Seoul, South Korea	100	5	2
LANXESS Pte. Ltd., Singapore	100	67	14
LANXESS PTY Ltd., Homebush Bay, Australia	100	9	0
LANXESS Shanghai Pigments Co., Ltd., Shanghai, China	100	18	2
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100	1	(1)
LANXESS Wuxi Chemical Co., Ltd., Wuxi, China	100	53	5
Nexachem Trading (Qingdao) Co., Ltd. (formerly: Rhein Chemie LOA (Qingdao) Limited), Qingdao, China	100	(1)	(1)
Rhein Chemie Japan Ltd., Tokyo, Japan	100	16	2
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90	25	3

Company Name and Domicile

	Interest held (%)	Equity (€ million)	Result (€ million)
Associates accounted for using the equity method			
Germany			
Currenta GmbH & Co. OHG, Leverkusen	40	98	6

Asia-Pacific

LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China	50	20	(1)
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Joint ventures accounted for using the equity method**Asia-Pacific**

Anhui Tongfeng Shengda Chemical Co., Ltd., Tongling, China	25	0	1
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Non-consolidated immaterial subsidiaries**Germany**

LANXESS Middle East GmbH, Leverkusen	100	0	0
Vierte LXS GmbH, Leverkusen	100	0	0 ¹⁾

EMEA (excluding Germany)

Darchem International Ltd., Havant, U.K.	100	1	0
LANXESS Kimya Ticaret Limited Şirketi, Istanbul, Turkey	100	0	0
OOO LANXESS Lipetsk, Lipetsk, Russia	100	2	0
Rustenburg Chrome Mine Holdings (Pty.) Ltd., Modderfontein, South Africa	74	0	0
W. Hawley & Son Ltd., Newbury, U.K.	100	0	0

North America

LANXESS Energy LLC, Wilmington, U.S.A.	100	0	0
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Latin America

Comercial Andinas Ltda., Santiago, Chile	100	0	0
Petroflex Trading S.A., Montevideo, Uruguay	100	0	1

Other non-consolidated immaterial companies**Latin America**

Hidrax Ltda., Taboão da Serra, Brazil	39	2	0
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1) Result after profit transfer

2) Financial statements as of March 31, 2011

Management Report of LANXESS Aktiengesellschaft, Leverkusen for fiscal 2011

General

LANXESS AG serves primarily as the management holding company for the LANXESS Group. Subordinated to LANXESS AG are LANXESS Deutschland GmbH and LANXESS International Holding GmbH, both of which are wholly owned subsidiaries with which it has profit and loss transfer agreements. LANXESS Deutschland GmbH owns all subsidiaries in Germany and several in other countries, while LANXESS International Holding GmbH administers some of the foreign activities acquired or established by the LANXESS Group since 2007. The economic performance of LANXESS AG thus depends essentially on that of the operating companies in the LANXESS Group and on the development of the chemical industry.

Sales and earnings performance

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 direct and indirect subsidiaries and thus bundle all operational business activities.

The sales revenues of €4,056 thousand (2010: €4,027 thousand) reported in the income statement relate to services provided for LANXESS Deutschland GmbH. After deducting the cost of sales, which mainly comprises personnel and general administration expenses, the gross profit was zero.

The remaining general administration expenses of €45,417 thousand (2010: €50,309 thousand) principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The decrease was mainly due to compensation components that were dependent on the performance of the stock. After other operating income of €1,231 thousand (2010: €7 thousand) and other operating expenses of €1,439 thousand (2010: €1,748 thousand), the company reported an operating loss of €45,625 thousand (2010: €52,050 thousand).

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, income from loans classified as financial assets, write-downs of financial assets and marketable securities, and other financial income and expense, was positive at €160,870 thousand (2010: €137,845 thousand). This positive result was essentially due to the profit transfer of €215,410 thousand (2010: €190,528 thousand) from LANXESS Deutschland GmbH, while the other items diminished the financial result. The improvement in earnings at LANXESS Deutschland GmbH was principally due to the favorable business trend. Income from loans classified as financial assets amounted to €295 thousand (2010: €129 thousand), while write-downs of €602 thousand (2010: €715 thousand) were made on marketable securities. The company recorded net interest expense of €44,729 thousand (2010: €29,636 thousand) and the balance of other financial income and expense was negative at –€9,354 thousand (2010: –€22,412 thousand). The worsening of the negative net interest position was largely attributable to additional loans obtained from affiliated companies during 2011. In the previous year the other financial income and expense reflected costs for early repayments of loans.

LANXESS AG reported income before income taxes of €115,245 thousand (2010: €85,795 thousand). The extraordinary income recorded in the previous year resulted from the effects of changes in currency valuations following the adoption of the German Accounting Law Modernization Act (BilMoG) as of January 1, 2010. The tax expense of €46,038 thousand in 2011 (2010: €8,119 thousand) comprised tax expense of €14,869 thousand in respect of previous years and tax expense of €31,169 thousand for 2011. The tax result in the previous year was mainly influenced by the utilization of tax loss carryforwards. Net income was €69,207 thousand (2010: €78,370 thousand).

Including the income of €45,493 thousand carried forward, the distributable profit amounted to €114,700 thousand.

Asset and capital structure

In the light of its function as a strategic holding company and “liquidity pool,” the statement of financial position for LANXESS AG is dominated by financial assets, Group liquidity and the resulting receivables from, and payables to, subsidiaries.

Total assets of LANXESS AG as of December 31, 2011 were €2,838,227 thousand (2010: €2,179,736 thousand). This was €658,491 thousand or 30.2% more than at year end 2010.

Non-current assets amounted to €757,066 thousand (2010: €756,760 thousand), which was 26.7% of total assets. As in the previous year, financial assets include the interest in LANXESS Deutschland GmbH amounting to €738,839 thousand.

Current assets accounted for €2,080,526 thousand (2010: €1,405,156 thousand), which was 73.3% of total assets. Receivables from subsidiaries accounted for 60.0% of total assets and related principally to financial transactions and short-term loans. Increased investment of cash and cash equivalents brought the proportion of securities in total assets to 7.1%. Cash and cash equivalents accounted for 3.4% of total assets. LANXESS AG also has credit lines totaling €1.4 billion arranged with an international consortium of banks as a multi-currency syndicated revolving credit facility and credit lines totaling a further €213 million with a number of financial institutions.

With equity at €1,184,703 thousand (2010: €1,173,738 thousand), equity coverage of total assets fell to 41.7% due to the increase in total assets. The change in the equity of LANXESS AG was mainly due to the dividend payment of €58,242 thousand for 2010 and the net income of €69,207 thousand for 2011 (2010: €78,370 thousand). Equity coverage of non-current assets was 156.5%.

On December 31, 2011 liabilities amounted to €1,653,524 thousand (2010: €1,005,998 thousand), which was 58.3% of total equity and liabilities.

The provisions of €104,547 thousand (2010: €87,441 thousand), amounting to 3.7% of total equity and liabilities, mainly related to commitments to employees, statutory obligations and expenses relating to fiscal 2011.

The liabilities totaling €1,548,977 thousand (2010: €918,557 thousand) accounted for 54.6% of total equity and liabilities. Significant sources of financing were payables to subsidiaries amounting to €1,464,279 thousand (2010: €806,450 thousand), which was 51.6% of total equity and liabilities, and liabilities to banks amounting

to €80,435 thousand (2010: €100,676 thousand), which was 2.8% of total equity and liabilities. The increase in payables to subsidiaries was due to long-term loans totaling €616,000 thousand obtained from LANXESS Finance B.V.

Employees

The number of employees at year end rose to 135 (2010: 127). The average headcount in 2011 was 133 (2010: 126).

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.

In 2010, a new contractual basis was established for the work of the Board of Management that takes into account and implements the provisions of the German Law on the Appropriateness of Management Board Compensation and the German Corporate Governance Code. The 2010 Annual Stockholders' Meeting of LANXESS AG resolved to approve the compensation system that was introduced with these new contracts. This compensation system was also applied in concluding the service contract with Dr. Bernhard Düttmann, who was appointed to the Board of Management effective April 1, 2011.

In 2011, in addition to the annual base salary, the compensation of the members of the Board of Management included three variable components aligned with LANXESS's annual performance and, particularly, with its corporate success over a number of years. A cap has been defined for each of the variable compensation components. The compensation mix of 31% annual base salary and 69% variable compensation components is strongly aligned with the company's performance and long-term value creation.

Compensation Mix for Members of the Board of Management

%	
Annual base salary	31
Annual Performance Payment	36
Long-Term Incentive Plan/Long-Term Stock Performance Plan	19
Long-Term Performance Bonus	14
	100

The individual compensation components are as follows:

The fixed compensation comprises the annual base salary and remuneration in kind, the latter consisting mainly of the tax value of perquisites such as the use of a company car. The annual base salary of the members of the Board of Management is market-oriented and in line with that paid at other comparable companies. The aggregate amount of the fixed compensation came to €2,747 thousand in fiscal 2011.

The annual performance-based component, known as the Annual Performance Payment (APP), is based on corporate business targets and other conditions, such as the attainment of certain Group EBITDA targets, which are defined by the Supervisory Board before the beginning of the respective fiscal year. The APP is equivalent to 115% of the annual base salary in the case of 100% target attainment, with the maximum payment limited to 150% of this variable compensation component. Compensation from the performance-based APP in 2011 totaled €3,951 thousand. Actual payments in 2012 may differ from this amount, which was calculated in advance.

The following table shows details of the annual compensation paid to individual members of the Board of Management of LANXESS AG:

Annual Compensation of the Board of Management

€ '000	Fixed compensation	Variable compensation ¹⁾	Total
Dr. Axel C. Heitmann	943	1,423	2,366
Dr. Werner Breuers	547	862	1,409
Dr. Bernhard Düttmann (effective April 1, 2011)	569 ²⁾	646	1,215
Dr. Rainier van Roessel	538	862	1,400
Matthias Zachert (until March 31, 2011)	150	158	308
	2,747	3,951	6,698

1) Payment in 2012; in the case of Mr. Zachert, settlement at the end of his service in 2011

2) Including one-time payments

In March 2011, on account of the company's exceptional performance in fiscal 2010, the Supervisory Board approved the payment of a special bonus to Dr. Heitmann, Dr. Breuers and Dr. van Roessel equal to 20% of APP target income. This bonus amounted to €190 thousand for Dr. Heitmann and €109 thousand each for Dr. Breuers and Dr. van Roessel. Mr. Zachert received a total of €1,320 thousand in connection with the end of his service on the Board of Management, part of which was in settlement of his entitlement to variable compensation components.

One element of long-term compensation is the Long-Term Incentive Plan (LTIP), which was succeeded in 2010 by the Long-Term Stock Performance Plan (LTSP). This compensation component is based on the performance of LANXESS stock. The LTIP and LTSP respond to the call by legislators for a stronger focus on long-term company performance. The LTIP is divided into three three-year tranches. For the first program, which was for the period from 2005 to 2007 and ended in 2011, it comprised the Stock Performance Plan (SP) and the Economic Value Plan (EVP), while for the period from 2008 to 2010 it consisted only of the SP. This is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 ChemicalsSM.

Participation in the LTIP required a prior personal investment each year in LANXESS shares to a value of 13% of the annual base salary. Under each plan, these shares were subject to a five-year lock-up period. First payments under the LTIP were made after three years, provided defined conditions had been satisfied. In the event of 100% target attainment by the SP and EVP for 2005 to 2007, the payment per tranche was 43.3% of the individual target income, which is the annual base salary plus the APP assuming 100% target attainment. For 2008 to 2010, 100% target attainment by the SP brings a payment per tranche of 50% of the individual target income.

Because the LTIP expired in 2010, the Supervisory Board approved a new plan for the years 2010 through 2013. The LTSP is divided into four four-year tranches and is also based on the performance of LANXESS stock against the Dow Jones STOXX 600 ChemicalsSM 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.

The personnel expenses incurred in fiscal 2011 for the SP entitlements granted amount to €816 thousand for Dr. Heitmann, €559 thousand each for Dr. Breuers and Dr. van Roessel, and €20 thousand for Dr. Düttmann. These personnel expenses are theoretical amounts and are not to be equated with the actual gains realized when the entitlements are exercised in the future. The entitlements granted to Mr. Zachert lapsed when he stepped down from the Board of Management. This resulted in income of €1,020 thousand.

Also in the interests of long-term corporate performance, a Long-Term Performance Bonus (LTPB) is a further variable compensation component which rewards target attainment only after two successive fiscal years. It was first pledged to the members of the Board of Management in 2010. The basis for calculating the LTPB is the individual APP target attainment for the fiscal years in question. The exact amount of the LTPB results from the average individual APP target attainment for the two fiscal years. Assuming an average APP target attainment of 100%, the LTPB amounts to 45% of the annual base salary. The first payments could be made in spring 2012 on the basis of fiscal 2010 and 2011. Actual payments in 2012 may differ from this amount, which was calculated in advance.

The following table provides additional information about the long-term compensation paid:

Long-Term Compensation of the Board of Management			
	SP rights granted in 2011 (exercisable from 2015)		LTPB ¹⁾
	Number of rights	Fair values € '000	€ '000
Dr. Axel C. Heitmann	532,125	266	556
Dr. Werner Breuers	306,375	153	336
Dr. Bernhard Düttmann (effective April 1, 2011)	322,500	161	126
Dr. Rainier van Roessel	306,375	153	336
Matthias Zachert (until March 31, 2011)	354,750	177	0
	1,822,125	910	1,354

1) Payment in 2012 and 2013, respectively

On termination of their service contracts, the members of the Board of Management receive benefits under the company pension plan. These benefits are paid when the beneficiary reaches age 60 or if the beneficiary is permanently unable to work. They are paid to surviving dependents in the event of the beneficiary's death.

The pension plan for the members of the Board of Management is a defined contribution plan stipulating a basic contribution of 25% of annual base salary. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP. Effective January 1, 2011, the members of the Board of Management may increase the amount they pay themselves from deferred compensation to up to 25% of the APP. The company makes a contribution equal to 25% of the APP. From the date of entitlement, up to 30% of the accumulated capital – including the interest thereon – may be converted to a pension benefit. There are claims arising from provisions in place before 2006 that are granted as vested rights. If the service contract ends before the beneficiary reaches the age of 60, the company pays certain additional benefits up to a defined ceiling.

LANXESS has set up provisions for the future claims of Board of Management members. The total service cost recognized in the 2011 annual financial statements for this purpose was €3,528 thousand. The present value of the benefit obligation as of December 31, 2011 was €12,895 thousand.

The present value of the acquired rights as of December 31, 2011 amounted to €7,969 thousand for Dr. Heitmann, €1,290 thousand for Dr. Breuers, €460 thousand for Dr. Düttmann and €3,176 thousand for Dr. van Roessel.

Obligations to former members of the Board of Management, including Mr. Zachert, who stepped down during the year under review, totaled €9,276 thousand as of December 31, 2011.

Payments of €1,799 thousand were made to former members of the Board of Management. These include the payments made to Mr. Zachert in connection with the end of his service in 2011.

In fiscal 2011, the members of the Board of Management received indemnification should their service contracts be terminated for defined reasons at the instigation of the company or in the event of a material change of control over the company. The terms depended on the respective circumstances and, regardless of the remaining term of the service contract, included severance payments amounting to up to two times the annual base salary or, in the event of a change of control, three times the annual base salary, plus the APP and LTPB assuming 100% target achievement.

No additional benefits have been pledged to any member of the Board of Management in the event of termination of their service. In 2011, no member of the Board of Management received benefits or assurances of benefits from third parties in respect of their duties as members of the Board of Management.

No loans were granted to members of the Board of Management in fiscal 2011.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by Section 12 of the company's articles of association. From fiscal 2011, it was changed in respect of the fixed remuneration and attendance allowance following a resolution of the Annual Stockholders' Meeting held on May 18, 2011. The members of the Supervisory Board of LANXESS AG now receive fixed compensation of €80 thousand per year. The Chairman of the Supervisory Board receives three times, and the Vice Chairman one and a half times, this amount. Serving as the chair or a member of Supervisory Board committees is compensated separately in accordance with the German Corporate Governance Code. Supervisory Board members who belong to a committee receive one half of the fixed compensation amount in addition. The chair of the Audit Committee receives a further half. Supervisory Board members who chair a committee other than the Audit Committee receive a further quarter. However, no member may receive in total more than three times the fixed compensation amount.

Supervisory Board members are reimbursed for their expenses in addition and also receive an attendance allowance of €1.5 thousand for each Supervisory Board meeting and each committee meeting they attend, with the exception of meetings of the Committee formed pursuant to Section 27 (3) of the German Codetermination Act and meetings of the Nominations Committee. With respect to their membership on the supervisory boards of LANXESS Group companies, the members of the Supervisory Board were remunerated only for their service on the Supervisory Board of LANXESS Deutschland GmbH in the amount of €5 thousand each.

The Supervisory Board members also receive a long-term incentive based on the company's performance during the standard term of an individual's membership on the Supervisory Board (five years). Unlike the fixed compensation component, this variable compensation component is not paid every year, but only once at the end of the standard term of office. If a Supervisory Board member serves a shorter term, the amount is prorated.

Payment of the variable compensation depends on how LANXESS's stock performs relative to the Dow Jones STOXX 600 ChemicalsSM index during a member's five-year term. The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected are each compared to the respective average for the 90 trading days prior to the Annual Stockholders' Meeting at the conclusion of which the members' terms end. The variable compensation is only payable if the stock has outperformed the benchmark index. The exact amount of the variable compensation depends on the extent to which the stock price outperformed the benchmark index in the preceding five years. If LANXESS stock has outperformed the Dow Jones STOXX 600 ChemicalsSM by up to 10 percentage points, the variable compensation amounts to €50 thousand for this five-year period; if it has outperformed the index by between 10 and 20 percentage points, €100 thousand is paid, and if the degree of outperformance is greater than this, the compensation is €150 thousand.

No variable compensation was paid in fiscal 2011.

The expected compensation payable for the term of office that began with the conclusion of the Annual Stockholders' Meeting on May 28, 2010 and runs until the conclusion of the Annual Stockholders' Meeting that resolves to ratify the Supervisory Board members' actions for fiscal 2014 was valued at a total of €1,500 thousand (previous year: €1,500 thousand) at December 31, 2011 and reported as a provision.

None of the members of the Supervisory Board received benefits for services provided individually during the reporting period. No loans or advances were granted to members of the Supervisory Board during the reporting year.

The following table breaks down the compensation received by each member of the Supervisory Board for their work on the Supervisory Board in fiscal 2011:

Compensation of the Supervisory Board in the 2011 Fiscal Year¹⁾

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

1) Figures exclude value-added tax

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

Pursuant to Section 289 Paragraph 4 Nos. 1 to 9 of the German Commercial Code, we hereby make the following declarations:

- The capital stock of LANXESS AG amounted to €83,202,670 as of December 31, 2011 and is composed of 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.
- 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.
- We received no reports of direct or indirect equity investments in the capital of LANXESS AG exceeding 10% of total voting rights.
- No shares carry special rights granting control authority.
- 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.
- Sections 84 and 85 of the German Stock Corporation Act and Section 31 of the German Codetermination Act apply to the appointment and dismissal of Board of Management members. Under the provisions of these sections, Board of Management members are appointed by the Supervisory Board for a term not exceeding five years. Such appointment may be renewed or the term of office may be extended, provided that the term of each such renewal or extension shall not exceed five years. Appointments require a majority of at least two-thirds of the Supervisory Board members' votes. Section 6 Paragraph 1 of the articles of association states that the Board of Management must consist of at least two members. Over and above this, the number of members of the Board of Management is determined by the Supervisory Board. The Supervisory Board may appoint a chairman of the Board of Management and a vice chairman of the Board of Management. Alternative members of the Board of Management may be appointed. The Supervisory Board may revoke the appointment of a member of the Board of Management or the appointment of a member as Chairman of the Board of Management for cause (Section 84 Paragraph 3 of the German Stock Corporation Act).

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

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

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

Conditional capital The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011, authorized the Board of Management until May 17, 2016, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as “bonds”) – either as registered or as bearer bonds – with

a total nominal value of up to €2,000,000,000, with or without limited maturity, and to grant option rights to, or impose option obligations on, the holders or creditors of warrant bonds, profit-participation rights with warrants or income bonds with warrants, and/or to grant conversion rights to, or impose conversion obligations on, the holders or creditors of convertible bonds, convertible profit-participation rights or convertible income bonds in respect of bearer shares of the company representing a total pro-rata increase of up to €16,640,543 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4 Paragraph 4 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €16,640,534 (Conditional Capital).

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

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

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

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

In addition, pursuant to Section 4 Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 28, 2010 authorized the Board of Management until May 27, 2015, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds

issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Further details are given in Section 4 Paragraph 3 of the articles of association.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the compensation report in this Management Report. Such agreements, albeit with different terms, also exist between the company and members of the first and second levels of upper management. In addition, the terms of the €500 million Euro Benchmark Bond issued by LANXESS Finance B.V. in 2005 contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. The bond was guaranteed by LANXESS AG. The same applies to the terms of the €500 million and €200 million Euro Benchmark Bonds issued by LANXESS Finance B.V. in the 2009 fiscal year, the €500 million Euro Benchmark Bond issued by LANXESS Finance B.V. in the 2011 fiscal year as well as the CN¥500 million bond issued by LANXESS Finance B.V. in February 2012, which are all guaranteed by LANXESS AG. The company has signed an agreement with one major bank for a loan of €93 million. This agreement may be terminated without notice or repayment of the outstanding loan may be required if another company or person gains control of more than 50% of LANXESS AG. The same applies to two additional loan agreements for €200 million and €120 million that LANXESS Finance B.V. signed with investment banks in fiscal 2011. The company also entered into an agreement with a syndicate of banks concerning a credit facility that is currently at €1,408 million. This agreement can also be terminated without notice if another company or person takes control over more than 50% of LANXESS AG. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.
9. The service contracts between the company and the members of the Board of Management of LANXESS AG as well as between the company and members of the first and second levels of upper management of LANXESS AG contain compensation agreements applicable in the event of a change of control, as such change is more particularly described in the respective contracts.

Report pursuant to Section 289 a of the German Commercial Code

The Board of Management and Supervisory Board have issued the Declaration on Corporate Governance pursuant to Section 289 a of the German Commercial Code (HGB). This declaration has been made available to the stockholders and the English version is permanently posted at www.lanxess.com, Investor Relations, Corporate Governance.

Report on risks and opportunities

The risks and opportunities for LANXESS AG are governed by the risks and opportunities of the manufacturing companies of the LANXESS Group, brief details of which are given below.

Risk report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Accounting Group Function, which reports to the CFO, is responsible for the accounting process and therefore for preparing the financial statements for LANXESS AG. The financial statements of LANXESS AG are subject to a full audit by the auditor.

The control and monitoring of LANXESS's accounting processes ensure that generally accepted accounting practices in line with the applicable laws and standards, particularly the German Commercial Code (HGB), are applied at LANXESS and guarantee the reliability of the company's financial reporting. The accounting-related internal control system used by LANXESS is based on generally accepted standards (COSO model). There were no material changes to this system during the period under review. 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. The principle of the separation of functions as expressed in structured authorization and approval procedures and the dual-control principle as well as continual plausibility testing are

applied throughout the 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.

Regular coordination with other financial group functions, particularly the Treasury, Tax and Controlling group functions, assists the financial reporting process, e.g. inventory valuations and the mapping of derivatives transactions. A continual exchange of information with the operating business units and other group functions makes it possible 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.

The full Board of Management prepares the financial statements which are then forwarded to the Supervisory Board's Audit Committee without delay. Upon recommendation by the Audit Committee, the financial statements are approved by the Supervisory Board at its financial statements meeting. The Supervisory Board, and especially its Audit Committee, deals 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.

Monitoring of risk management and the internal control system 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.

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

Demographic trends LANXESS takes an active approach to managing the risk of demographic trends as well. To ensure continued access to a highly skilled workforce, we launched a comprehensive package of measures known as XCare in 2009, starting in Germany. Interdisciplinary working groups are cooperating closely with employee representatives at LANXESS to develop innovative concepts to preempt and actively address shifts resulting from demographic change – ranging from increasing the number of trainee positions to measures allowing older employees to enjoy a longer working life.

The successive introduction of a long-term worktime account is also part of these efforts. This will enable employees in Germany to flexibly tailor their transition to retirement by building up credit from various time and income components over an extended period. Another area of activity is health. The goal is to increase productivity, while continuing to reduce the risk of lost workdays. Measures aimed at prevention and reintegration have been successfully expanded. In 2011, we also worked closely with our employee representatives to reach agreement on a multi-stage concept that will make it easier for employees to care for family members while continuing their jobs. One feature of the concept is individually agreed part-time working for caregivers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks in procurement markets On the procurement side, the principal risk lies in the volatility of raw material and energy prices. If the price of the materials we use increases, our production costs increase. If the price of the materials we use decreases, write-downs may have to be recognized on inventories. We mitigate this risk by following a sensible inventory and procurement policy. Most of the company's raw material needs are met by long-term supply contracts that have price escalation clauses, and many agreements with customers also contain price escalation clauses. We also hedge this risk in some cases via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks (see also "Financial risks"). Detailed information is contained in Note [24] ("Derivative financial instruments") to the Financial Statements. To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, we pursue an appropriate inventory strategy and line up alternative sources of supply. We also face increases in our personnel expenses because of future wage increases. Such an increase in the cost of human resources can be just as detrimental to earnings as increases in raw material prices, as described above, but in the case of personnel we cannot hedge the risk in futures markets or pass it on to the customer. In order to cushion the impact of such negative developments on our cost base, we pursue a market-oriented pricing policy that is in line with the premium nature of our products. Additionally, we are constantly looking for ways to use our resources more efficiently so that we can offset higher costs by raising productivity.

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

Financial Risks

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

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

Detailed information about our financial risks and how we manage them is contained in Note [24] ("Derivative financial instruments") to the 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.

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

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

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

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

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

Opportunity report

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

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

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

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

Here the LANXESS Group is aligned to the four global megatrends of mobility, agriculture, urbanization and water.

Outlook

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

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

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

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

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

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

LANXESS AG expects the personnel and administration expenses incurred for performing its tasks as a management holding company to remain level in 2012 and 2013. Apart from this, the earnings position of LANXESS AG will be dominated by the financial result (net interest position, the balance of income and losses from investments in affiliated companies, and other financial income and expense). In 2012 and 2013 we expect the net interest position to remain negative, while the balance of income and losses from investments in affiliated companies should slightly improve. The earnings situation at the Group's manufacturing companies will significantly affect their ability to pay dividends and thus the net income of LANXESS AG.

Events after the end of the fiscal year

No events of material significance have occurred since the end of the 2011 fiscal year.

Responsibility Statement

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

Leverkusen, February 28, 2012

LANXESS Aktiengesellschaft, Leverkusen

The Board of Management

Dr. Axel C. Heitmann

Dr. Bernhard Düttmann

Dr. Werner Breuers

Dr. Rainier van Roessel

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the LANXESS Aktiengesellschaft, Leverkusen, for the business year from 1 January to 31 December 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report

are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Cologne, February 29, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki
German Public Auditor

Carsten Manthei
German Public Auditor

Financial Calendar 2012

May 9

Interim Report Q1 2012

May 15

Annual Stockholders' Meeting

August 7

Interim Report H1 2012

September 20

LANXESS Capital Markets Day

November 6

Interim Report Q3 2012

Please do not hesitate to contact us
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