

Statement of financial position and financial condition of LANXESS AG

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

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

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

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

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

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

Employees

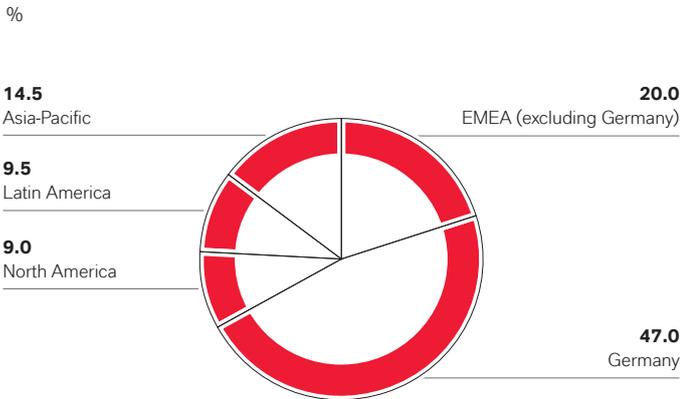
As of December 31, 2012, the LANXESS Group had a total of 17,177 employees, against 16,390 at the closing date of the prior year. This was 787 more than a year earlier. The number of employees increased primarily as a result of acquisitions plus additional new hires linked to our growth strategy. 14,068,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

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

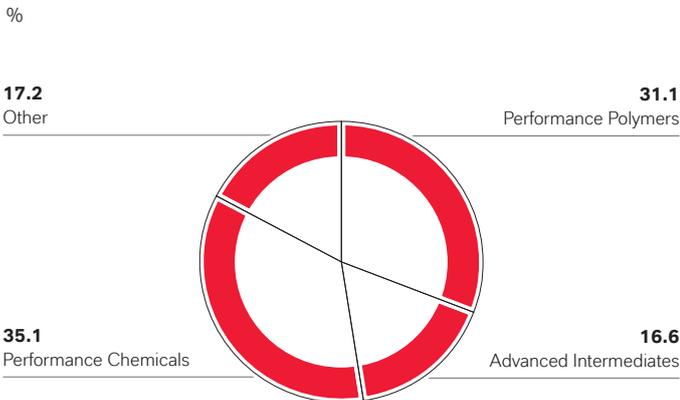
In the EMEA region (excluding Germany), the number of employees as of December 31, 2012 was 3,442, up from 3,357 in the previous year. In Germany, the headcount grew from 7,846 to 8,072. The number of employees in the North America region rose to 1,553, from 1,427 as of December 31, 2011, while Latin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

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

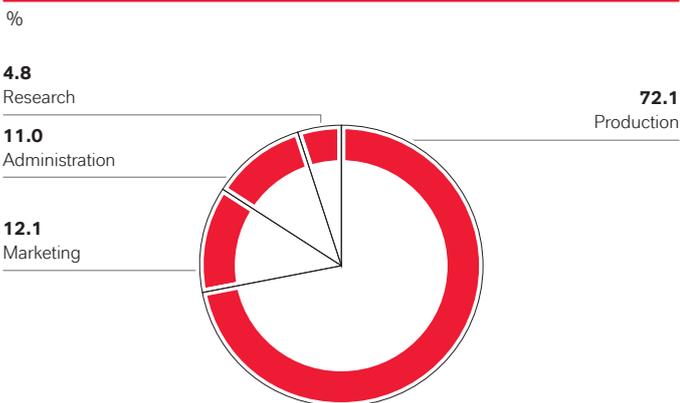
Employees by Region



Employees by Segment



Employees by Functional Area (Annual Average)



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

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

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

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

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

Working conditions and HR policy

Our success is fundamentally based on the performance, innovative strength and commitment of our employees. Only through focused and sustainable employee training and development can we ensure that we achieve our corporate goals and safeguard LANXESS's com-

We maintain a close dialogue with employee representative bodies in Germany, Europe and around the world to regularly discuss our corporate goals and involve these bodies in organizational change processes at an early stage. In Germany, the minimum notice period for any substantial operational changes is four weeks.

Employee compensation and benefits

We strive for a merit-based compensation system linked to our company's success and employees' individual performance. Compensation systems that include variable compensation components in addition to fixed remuneration have been implemented for 78% of our employees. Our managers are able to reward outstanding employee performance quickly and unbureaucratically. In fiscal 2012, this resulted in payments of €9 million worldwide (€6.4 million to employees in Germany) for outstanding individual performance.

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

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

Vocational training

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

In Germany, young people can opt to combine vocational training at LANXESS with university studies, or they can complete a traditional scientific, technical or commercial training program in our plants and departments. In addition to the combined IT vocational training and study program, we have strengthened our science offering with a combined program of university studies and vocational training in the fields of technical chemistry and business administration. We hope to offer more combined programs in the future.

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

Each year, under the motto "Prepare for the Future," we attract particularly highly skilled university graduates for our LANXESS corporate trainee programs. Through the end of 2012, 63 highly qualified university graduates had taken part in various intakes of our trainee programs. The aim is to prepare the participants for an international career within the LANXESS Group and establish a pool of versatile young managers with international experience to support the further expansion of our business activities worldwide.

In 2010, we created the China Management Trainee Program specifically for the Chinese market. This two-year program aims to prepare highly qualified business and technology graduates for management roles and create a pool of local talent. We continued this program in 2012, with a special focus on trainee positions in finance and technical production. In India, we have implemented two training programs.

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

Employee development

We assign great importance to motivating employees throughout their entire career to undertake continuing professional development and accept new challenges within the Group regardless of their age. To promote the talents of individual employees, LANXESS has established a systematic, multi-tiered process of global HR development conferences where future managerial employees from around the world are regularly evaluated with regard to their potential. In 2012, the LANXESS Academy continued promoting leadership and management skills with nearly all managers from around the world attending its modular programs as part of the uniform leadership system that is in effect throughout the LANXESS Group. In the period under review, a total of 331 employees participated in these special management programs. In addition, we provide extensive support to our young managers through focused coaching and modular leadership seminars.

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

In view of our ambitious growth targets, one focus of our human resources development activities in 2012 remained the International LANXESS Sales Academy (ILSA), which offers a tailored and practical training program to all sales employees worldwide. This one-year modular program aims to develop both the specialist knowledge and soft skills of our sales employees. It perfectly complements the programs already in place in the business units and countries by facilitating communication and the sharing of best practices across business units and national borders. We consider the targeted qualification of our global sales employees to be a significant success factor in the further improvement of our customer relationships. It also gives us a competitive edge in today's global markets. 200 first-level sales employees from all over the world participated in the program in the first two years.

Occupational safety

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

Idea management

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

occupational safety and environmental protection. In 2012, employees at LANXESS's German companies submitted a total of 3,157 suggestions, a rate of 430 per thousand employees. In the same period, 1,507 ideas were implemented, yielding total savings of €3.1 million. 1,035 of these ideas led to improvements in occupational safety and environmental protection.

Compensation report

Compensation of the Board of Management

The structure of the compensation system and the level of compensation for the members of the Board of Management are determined by the Supervisory Board. The appropriateness of the compensation is regularly reviewed. The criteria for determining the appropriateness of the compensation for an individual Board of Management member include, in particular, his duties, his personal performance, and the economic situation and sustainable growth of the LANXESS Group. Consideration is also given to the company's overall compensation structure and to compensation at comparable companies. The compensation structure is also designed to be competitive in the international market for highly qualified executives and provide the motivation to successfully work toward sustainable corporate development.

Effective January 1, 2010, the contracts of the members of the Board of Management were amended to implement the legislative changes entailed by the German Law on the Appropriateness of Management Board Compensation and the provisions of the German Corporate Governance Code. The 2010 Annual Stockholders' Meeting of LANXESS AG resolved to approve the compensation system that was introduced with these new contracts. This compensation system was applied when concluding the service contracts with all Board of Management members.

The components of the compensation for members of the Board of Management are the annual base salary; the variable components, which are the Annual Performance Payment, the Long-Term Incentive Plan/Long-Term Stock Performance Plan and the Long-Term Performance Bonus; and a retirement pension. The three variable components are linked to LANXESS's annual performance and, particularly, to its corporate success over a number of years. A cap has been defined for each of them. The compensation mix of 31% annual base salary and 69% variable compensation components is strongly aligned with the company's performance and long-term value creation.