Notes to the Consolidated Financial Statements

General information

LANXESS AG is entered as a stock corporation in the Commercial Register of the Cologne District Court under HRB 53652. Its registered office is at Kaiser-Wilhelm-Allee 40, 51369 Leverkusen, Germany.

The annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, to which the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have issued unqualified auditor's reports, are published in the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements of the LANXESS Group for fiscal 2012 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 7, 2013. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether or not it approves them.

Structure and components of the consolidated financial statements

The consolidated financial statements comprise the statement of financial position, the income statement and statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, which include the segment information.

The consolidated financial statements of the LANXESS Group were prepared in euros (€). Amounts are stated in millions of euros (€ million) except where otherwise indicated. Assets and liabilities are classified in the statement of financial position as current or non-current. Further details of their maturities are provided below in certain cases.

The consolidated financial statements were prepared on the basis of historical acquisition, generation, construction or production costs of the assets. Where different valuation principles are prescribed, these are used. They are explained in the section on accounting policies and valuation principles.

The income statement was prepared using the cost-of-sales method.

The fiscal year for these consolidated financial statements is the calendar year.

Financial reporting standards and interpretations applied

The consolidated financial statements of the LANXESS Group as of December 31, 2012 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (E.U.) and the corresponding interpretations, together with the additional requirements of Section 315 a Paragraph 1 of the German Commercial Code (HGB).

An amendment to IFRS 7 relating to disclosures required in the notes to the financial statements in connection with the transfer of financial assets took effect in fiscal 2012. However, this amendment is currently not relevant for the LANXESS Group.

New standards and interpretations issued but not yet mandatory

In 2012 the LANXESS Group did not yet apply certain further accounting standards and interpretations that had already been issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee but were not mandatory for that year. The application of these standards and interpretations is in some cases contingent upon their adoption by the E.U. It is therefore possible that the dates for mandatory application may ultimately be later than indicated below.

In November 2009 the IASB published IFRS 9. The new requirements this standard introduced for classifying and measuring financial assets were supplemented in October 2010 by requirements for the measurement of financial liabilities and the derecognition of financial instruments. The new standard represents the first of three phases in the complete replacement of IAS 39. If adopted by the E.U., IFRS 9 is to be applied for annual periods beginning on or after January 1, 2015. The LANXESS Group is currently evaluating the impact the application of IFRS 9 will have on its financial position and results of operations.

In May 2011 the IASB published three new standards – IFRS 10, IFRS 11 and IFRS 12 – and two revised standards – IAS 27 and IAS 28 – on accounting for participating interests in other entities. With regard to the three new standards, in June 2012 the IASB published changes to the transition arrangements. All five standards are to be applied in the E.U. for the first time for annual periods beginning on or after January 1, 2014. Earlier application is permissible provided that this is stated in the notes to the financial statements and all of the standards are early applied at the same time. An entity may, however, early provide some of the disclosures on interests in other entities required by IFRS 12 without being compelled to apply the other new or revised standards. The LANXESS Group is currently evaluating the impact the application of these standards will have on its financial position and results of operations.

In June 2011 the IASB issued an amendment to IAS 1. This specifies that items included in other comprehensive income must be divided into those that will subsequently be reclassified to profit or loss and those that will not. The revised version of IAS 1 is to be applied by the LANXESS Group from the start of fiscal 2013.

In June 2011 the IASB also issued a revised version of IAS 19. This addresses the recognition and measurement of expense for defined-benefit plans and termination benefits. It also results in altered disclosures on employee benefits. The revised version of IFRS 19 is to be applied for annual periods beginning on or after January 1, 2013.

Since the option currently used by the LANXESS Group for the recognition of actuarial gains and losses corresponds to the future mandatory method, application of the revised version of IAS 19 will not have a significant impact on the financial position and results of operations. If the LANXESS Group had already applied the new version of IAS 19 for fiscal 2012, the operating result would have been reduced by an amount in the low-single-digit million euro range and the financial result by an amount in the mid-single-digit euro range, with the opposite effect on other comprehensive income. The LANXESS Group assumes that in future fiscal years the charge on the operating result and the financial result will probably be in the low-single-digit million euro range, with the opposite effect on other comprehensive income.

The following accounting standards and interpretations currently have no impact, or no material impact, on the LANXESS Group.

Standard/Interpretation		Date of publication	Mandatory for LANXESS as of fiscal year	Adoption by the E.U.
IAS 12	Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12	Dec. 20, 2010	2013	yes
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1	Dec. 20, 2010	–	yes
IFRS 13	Fair Value Measurement	May 12, 2011	2013	yes
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Oct. 19, 2011	2013	yes
IFRS 7 and IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 and IAS 32	Dec. 16, 2011	2013/2014	yes
IFRS 1	Government Loans – Amendments to IFRS 1	March 13, 2012	–	yes
Various IAS and IFRS 1	Annual Improvements to IFRSs 2009–2011 Cycle	May 17, 2012	2013	no
IFRS 10, IFRS 12 and IAS 27	Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27	Oct. 31, 2012	2014	no

Presentation changes and restatement of prior-year figures

There has been no change of presentation compared with 2011, nor have any figures been restated.

Consolidation methods

The financial statements of the consolidated companies were prepared using uniform accounting policies and valuation principles.

If the fiscal year of a consolidated company does not end on December 31, interim financial statements are prepared for the purpose of consolidation.

Intra-Group profits, losses, sales, income, expenses, receivables and payables are eliminated.

Scope of consolidation

The consolidated financial statements of the LANXESS Group include LANXESS AG and all subsidiaries under the direct or indirect control of LANXESS AG. Control exists if LANXESS AG holds more than half of the voting rights in a company or is otherwise able to govern the company's financial and operating policies in order to obtain benefits from its activities. Special purpose entities, where control is exercised from an economic viewpoint, are also included in the consolidated financial statements. A company is consolidated as of the date from which LANXESS AG is able to exercise control (acquisition date) and deconsolidated when this is no longer the case.

Investments in entities in which the LANXESS Group exerts a significant influence, generally through an ownership interest between 20% and 50%, are accounted for using the equity method.

Entities that in aggregate are immaterial to the Group's financial position and results of operations are not consolidated, but included in the consolidated financial statements at cost of acquisition.

Changes in the scope of consolidation are stated in the section headed "Companies consolidated," which also contains a list of companies.

Fully consolidated companies

Business combinations are accounted for using the acquisition method. The cost of a business combination is stated as the aggregate of the fair values, at the date of acquisition, of the assets transferred, liabilities incurred or assumed, and any equity instruments issued in exchange for control of the acquiree. It also contains the fair value of assets and liabilities resulting from contingent consideration contracts.

For the first-time consolidation, the assets, liabilities and contingent liabilities identified in the course of the acquisition are measured at fair value as of the acquisition date.

For each business combination, there is an option to include any shares not acquired either at their fair value or at the pro-rata share of the fair value of the acquiree's net assets. They are reported in the statement of financial position as equity attributable to non-controlling interests.

Acquisition-related costs – except those incurred to issue debt or equity securities – are recognized in profit or loss.

Goodwill is measured as of the acquisition date as the excess of the consideration transferred, the amount of any non-controlling interests and the fair value of any previously held equity interest over the fair value of the net assets acquired. Negative goodwill is immediately recognized in profit or loss after the purchase price allocation has been re-examined.

Investments accounted for using the equity method

The cost of acquisition of an entity accounted for using the equity method (associate) is adjusted annually by the percentage of any change in its equity corresponding to LANXESS's percentage interest in the entity. If any impairment exceeds the carrying amount of the entity, an impairment loss is recognized for the associated non-current assets. If the carrying amount of the entity and the associated assets are reduced to zero, additional impairments would be recognized as a liability if the owner has entered into a legal or substantive obligation, e.g. to offset pro-rata losses or has made payments for the entity.

Differences arising from the first-time accounting for investments using the equity method are determined according to the same principles as for consolidated subsidiaries. Any goodwill is included in the carrying amount of the associate.

Joint ventures are also included in the consolidated financial statements using the equity method. Proportionate consolidation is not used.