Financial Report 2013

LANXESS
Energizing Chemistry

LANXESS Group Key Data

€ million	Q4 2012	Q4 2013	Change %	2012	2013	Change %
Sales	2,123	2,014	(5.1)	9,094	8,300	(8.7)
EBITDA pre exceptionals	239	176	(26.4)	1,223	735	(39.9)
EBITDA margin pre exceptionals	11.3%	8.7%		13.4%	8.9%	
EBITDA	228	123	(46.1)	1,186	624	(47.4)
Operating result (EBIT) pre exceptionals	137	55	(59.9)	847	288	(66.0)
Operating result (EBIT)	126	(262)	< (100)	808	(93)	< (100)
EBIT margin	5.9%	(13.0)%		8.9%	(1.1)%	
Net income (loss)	50	(204)	< (100)	508	(159)	< (100)
Earnings per share (€)	0.61	(2.45)	< (100)	6.11	(1.91)	< (100)
ROCE				15.6%	5.8%	
Cash flow from operating activities	414	330	(20.3)	838	641	(23.5)
Depreciation and amortization	102	385	> 100	378	717	89.7
Cash outflows for capital expenditures	315	226	(28.3)	696	624	(10.3)
Total assets				7,519	6,811	(9.4)
Equity (including non-controlling interests)				2,330	1,900	(18.5)
Equity ratio				31.0%	27.9%	
Net financial liabilities				1,483	1,731	16.7
Employees (as of December 31)				17,177	17,343	1.0

2012 figures restated

Contents

Report of the Supervisory Board

Dear Stockholders,

2013 was a very difficult year for LANXESS. While the company had posted very good growth in the prior years, demand in the rubber business began to slacken in 2012, a development which continued in the reporting year. In addition, the effects of a supply overhang caused by higher production capacities became evident in 2013. Changes in the competitive environment led to the recognition of impairment charges of €257 million in the fourth quarter. As a result of the difficult business situation overall, LANXESS saw a substantial decline in earnings compared to previous years and posted EBITDA pre exceptionals of just €735 million in fiscal 2013. Against the backdrop of the difficult business environment, LANXESS resolved in 2013 to take a range of efficiency measures and is continuing to implement these in 2014.

At the beginning of the current fiscal year, the Supervisory Board decided on a change of leadership of the Board of Management and approved the mutually agreed termination of the appointment of Dr. Axel C. Heitmann as member and Chairman of the Board of Management. The Supervisory Board appointed Matthias Zachert as the new Chairman of the Board of Management. Until he joined Merck KGaA in 2011, Mr. Zachert was Chief Financial Officer of LANXESS. He will take up his new position on April 1, 2014.

During 2013, the Supervisory Board duly and fully performed the tasks and duties incumbent upon it under the law, the articles of association and the rules of procedure for the Supervisory Board. It advised the Board of Management regularly on the management of the company and monitored its work. In particular, the Supervisory Board concerned itself with the company's below-forecast business performance.

The Supervisory Board was directly involved in all decisions of fundamental importance for the company. The Board of Management informed us regularly in written and oral reports about business performance, the situation of the Group, including the risk situation, strategic development and current issues. On the basis of these reports, we discussed significant business transactions in detail. We thoroughly examined the reports and the resolutions proposed by the Board of Management and discussed them at length in meetings of the full Supervisory Board and its committees. If the law, articles of association or other provisions required the Supervisory Board to approve the actions of the Board of Management, we discussed these actions and adopted resolutions on them.

The Chairman of the Supervisory Board, the Chairman of the Board of Management and the other members of the Board of Management were in regular contact outside of the Supervisory Board's meetings. We regularly discussed the present state of the company, matters of strategy, planning, business performance, risks, risk management and compliance, as well as material events.

Principal topics discussed by the Supervisory Board

The Supervisory Board met a total of six times in 2013.

We regularly discussed the challenging sales and earnings performance of the company and its segments, as well as the financial position. Additionally, the Board of Management kept us updated about the overall state of the economy, the situation in the chemical industry, the performance of LANXESS stock, and investment and acquisition plans. Other important issues addressed by the Supervisory Board are presented below.

The focus of the Supervisory Board meeting held on March 19, 2013 was the review of the annual financial statements and consolidated financial statements for fiscal 2012, the proposal for use of the distributable profit, and preparation of the motions for resolution by the Annual Stockholders' Meeting. The Supervisory Board also dealt at length with issues relating to corporate governance and defined the variable compensation components on the basis of target attainment in fiscal 2012, which had been highly successful. Another of the human resources issues addressed by the Supervisory Board was the adjustment of the base salary and pension entitlements of the members of the Board of Management.

At the meeting on May 7, 2013, the Supervisory Board approved the extension of Dr. Bernhard Düttmann's term of office as a member of the Board of Management by five years from April 1, 2014. In addition, the Board of Management reported on the status of construction of the butyl rubber plant in Singapore. We were also informed of the measures taken by the company in the areas of environmental protection and occupational and plant safety. The potential impact on LANXESS of the shale gas boom in the United States was also discussed.

At the meeting that took place immediately prior to the Annual Stockholders' Meeting on May 23, 2013, the Board of Management reported on the status of preparations for the relocation of company headquarters to Cologne and on human resources initiatives and measures.

On August 2, 2013, the Supervisory Board elected Dr. Janssen to succeed Dr. Middelmann as a member of the Presidial Committee of the Supervisory Board. The Board of Management informed us about the portfolio and restructuring measures in the Saltigo business unit. The Supervisory Board also continued its discussion of the human resources issues that were the subject of the meeting immediately prior to the Annual Stockholders' Meeting.

In the meeting held on November 8, 2013, the Board of Management reported on the company's financial policy. We also discussed the compliance situation in the LANXESS Group. In addition, the Board of Management updated us about the status of the Performance Butadiene Rubbers business unit's investment project in Singapore. In light of the revision of Section 4.2.2, Paragraph 2, Sentence 3 of the German Corporate Governance Code, the Supervisory Board approved peer groups for assessing the appropriateness of the compensation paid to members of the Board of Management within the context of vertical comparability.

At its meeting on December 11, 2013, the Supervisory Board reviewed in full and approved the corporate planning for 2014 proposed by the Board of Management. It also discussed the company's strategic alignment and capital expenditure policy. The Supervisory Board approved the revocation of the age limit for members of both the Board of Management and the Supervisory Board and correspondingly amended the rules of procedure of the Supervisory Board. Theo Walthie was appointed as a member of the Nominations Committee and Claudia Nemat as a member of the Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act, thus concluding the elections to the committees. Lastly, the Supervisory Board defined the conditions for the variable compensation components for the members of the Board of Management for fiscal 2014 and approved the participation of the members of the Board of Management in a new Long-Term Stock Performance Plan for the period from 2014 to 2017.

All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The Supervisory Board's meetings in 2013 were attended by all members, with the exception of one meeting at which two of the twelve members were absent. Committee meetings were attended by all members, with the exception of one meeting that one member was unable to attend. The stockholder representatives and employee representatives to the Supervisory Board worked together in a spirit of trust. They regularly held separate meetings at which they prepared the meetings of the full Supervisory Board.

Work of the committees

The Supervisory Board has four committees: the Audit Committee, the Presidial Committee, the Nominations Committee and the Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act. The committees are tasked with preparing the topics and resolutions to be discussed at meetings of the full Supervisory Board. They also, at times, exercise decision-making powers conferred on them by the Supervisory Board.

The Audit Committee met four times during the year. It dealt in particular with the annual financial statements of LANXESS AG for fiscal 2012, the consolidated financial statements and combined management report for fiscal 2012, the interim reports issued during fiscal 2013, and the condensed consolidated financial statements and interim management report included in the 2013 half-year financial report. It also extensively reviewed the risk management and internal control systems. Other topics discussed were the significant findings by the internal audit department, corporate planning, corporate governance, compliance, IT security and know-how protection, and the determination of the principal areas of focus for the audit of the 2013 financial statements. The external auditor attended two of the Audit Committee's four meetings and reported on the auditing activities.

The Presidial Committee convened five times during 2013 to prepare the meetings of the Supervisory Board and the decisions to be reached by the full Supervisory Board concerning human resources issues.

The Nominations Committee met once in fiscal 2013. The Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act did not have to convene.

The chairmen of the committees each reported on the meetings and the work of the committees at the meetings of the full Supervisory Board.

Corporate governance and declaration of compliance

In the year under review, the Supervisory Board discussed the German Corporate Governance Code (the Code) and its further development arising from the amendments of May 13, 2013. The joint declaration of compliance made on December 11, 2013 by the Board of

Management and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act can be viewed by stockholders at any time on the company's website. As expressed in the declaration, LANXESS AG complies with the Code's recommendations and suggestions except in a few justified cases. No conflicts of interest on the part of Supervisory Board members became known last year. Further information about corporate governance can be found in the Corporate Governance Report.

Financial statements of LANXESS AG and consolidated financial statements of the LANXESS Group

The Board of Management of LANXESS AG prepared the financial statements for the 2013 fiscal year in accordance with the rules of the German Commercial Code, the consolidated financial statements for fiscal 2012 in accordance with the International Financial Reporting Standards (IFRS) and the combined management report for 2012. These were all audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the auditor appointed by the Annual Stockholders' Meeting and engaged by the Supervisory Board. The auditor issued an unqualified opinion in each case.

The Supervisory Board convinced itself of the independence of the auditor and the persons acting on the auditor's behalf.

The audit reports and the documents relating to the financial statements were discussed at length with the Board of Management and the auditor at the Audit Committee meeting held on March 10, 2014. They were also discussed in detail on the basis of the required documents and notes at the Supervisory Board's financial statements meeting held on March 18, 2014. The responsible auditor was present for the discussions concerning the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. He reported on the material results of the audits. He was also available to the Audit Committee and full Supervisory Board to provide additional information.

Based on the recommendation of the Audit Committee as well as on its own review and in-depth discussions about the financial statements of LANXESS AG, the consolidated financial statements of the LANXESS Group, the combined management report and the proposal for appropriation of the profit, the Supervisory Board endorsed the auditor's conclusions and had no objections to raise. The Supervisory Board has approved the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, which were prepared by the Board of Management. The Supervisory Board endorsed the Board of Management's proposal for use of the distributable profit after close examination and extensive deliberations that carefully weighed the best interests of the company and the stockholders.

Composition of the Supervisory Board

The composition of the Supervisory Board changed during fiscal 2013. With the unexpected death of Dr. Middelmann in early July 2013, we lost an experienced Supervisory Board member who had been with us from the start. The Supervisory Board greatly valued Dr. Middelmann's commitment and input and will continue to hold his memory in high esteem. On July 25, 2013, the Local Court of Cologne appointed Ms. Claudia Nemat to replace him as a stockholder representative and member of the Supervisory Board of LANXESS AG. She will be standing for election by the stockholders at the 2014 Annual Stockholders' Meeting.

The Supervisory Board thanks the Board of Management, all of the Group's employees and the employee representatives for their enormous dedication and tremendous work.

Cologne, March 18, 2014

The Supervisory Board

Dr. Rolf Stomberg
Chairman

Combined Management Report of the LANXESS Group and LANXESS AG; Corporate Governance Report

Group structure

Legal structure

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

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

Principal Direct or Indirect Subsidiaries of LANXESS AG

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

Additions to the Group portfolio

Through the acquisition of Singapore-based PCTS Specialty Chemicals Pte. Ltd., which was completed in April 2013, LANXESS has become one of the leading suppliers of biocides for coatings in the growing Asia-Pacific region. Now integrated into the Material Protection Products business unit of our Performance Chemicals segment, PCTS specializes in the production of biocides for environmentally friendly water-based paints that meet stringent health, safety and environmental standards. The acquisition has given us access to biocide applications. At the same time, we are benefiting from PCTS's product expertise and know-how in coatings.

Also in the Performance Chemicals segment, we strengthened the phosphorus chemicals activities of our Functional Chemicals business unit by acquiring the operations of the French subsidiary of insolvent Dutch company Thermphos International B.V., Vlissingen, Netherlands. Completed in September 2013, this transaction included the production facilities of Thermphos in Epierre, France, and its customer list. Thermphos is one of the world's leading manufacturers of phosphorus pentoxide and polyphosphoric acid. Both of these products complement our existing portfolio and can be used as intermediates in a range of applications including flame retardants and pharmaceuticals.

Management and control organization

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

For additional information, please see the Corporate Governance Report.

Business

Business organization

The LANXESS Group is structured in three segments which, since January 1, 2013, comprise 14 business units. Each of these conducts its own operations and has global profit responsibility. We divided the Technical Rubber Products business unit in the Performance Polymers segment into two new units. The newly formed Keltan Elastomers business unit focuses exclusively on ethylene-propylene-diene rubber (EPDM). The remaining Technical Rubber Products portfolio was renamed the High Performance Elastomers business unit. In the second quarter of 2013, the Ion Exchange Resins business unit in the Performance Chemicals segment changed its name to Liquid Purification Technologies. This underscores the significant expansion of the product portfolio to include membrane filtration technology for reverse osmosis.

Group functions and service companies assigned to them support our business units by providing financial, legal, technical and other centralized services. Complementing this global alignment of the business units and group functions, the country organizations ensure the necessary proximity to markets and provide the organizational infrastructure required.

At the present time, we do not plan to make any other material changes to the legal or organizational structures described above in fiscal 2014.

The segments in brief

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

Performance Polymers

Business units	Butyl Rubber
	Performance Butadiene Rubbers
	Keltan Elastomers [1]
	High Performance Elastomers [1]
	High Performance Materials
Sites	Brilon, Dormagen, Hamm-Uentrop, Krefeld-Uerdingen, Leverkusen and Marl, Germany
	Antwerp and Zwijndrecht, Belgium
	Sittard-Geleen, Netherlands
	La Wantzenau and Port Jérôme, France
	Sarnia, Canada
	Gastonia and Orange, U.S.A.
	Cabo, Duque de Caxias and Triunfo, Brazil
	Nantong and Wuxi, China
	Jhagadia, India
	Singapore
Applications	Tires
	Automotive
	Electronics
	Electrical engineering
	Medical equipment

1) Effective January 1, 2013, Technical Rubber Products was divided into Keltan Elastomers and High Performance Elastomers.

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

Advanced Intermediates

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

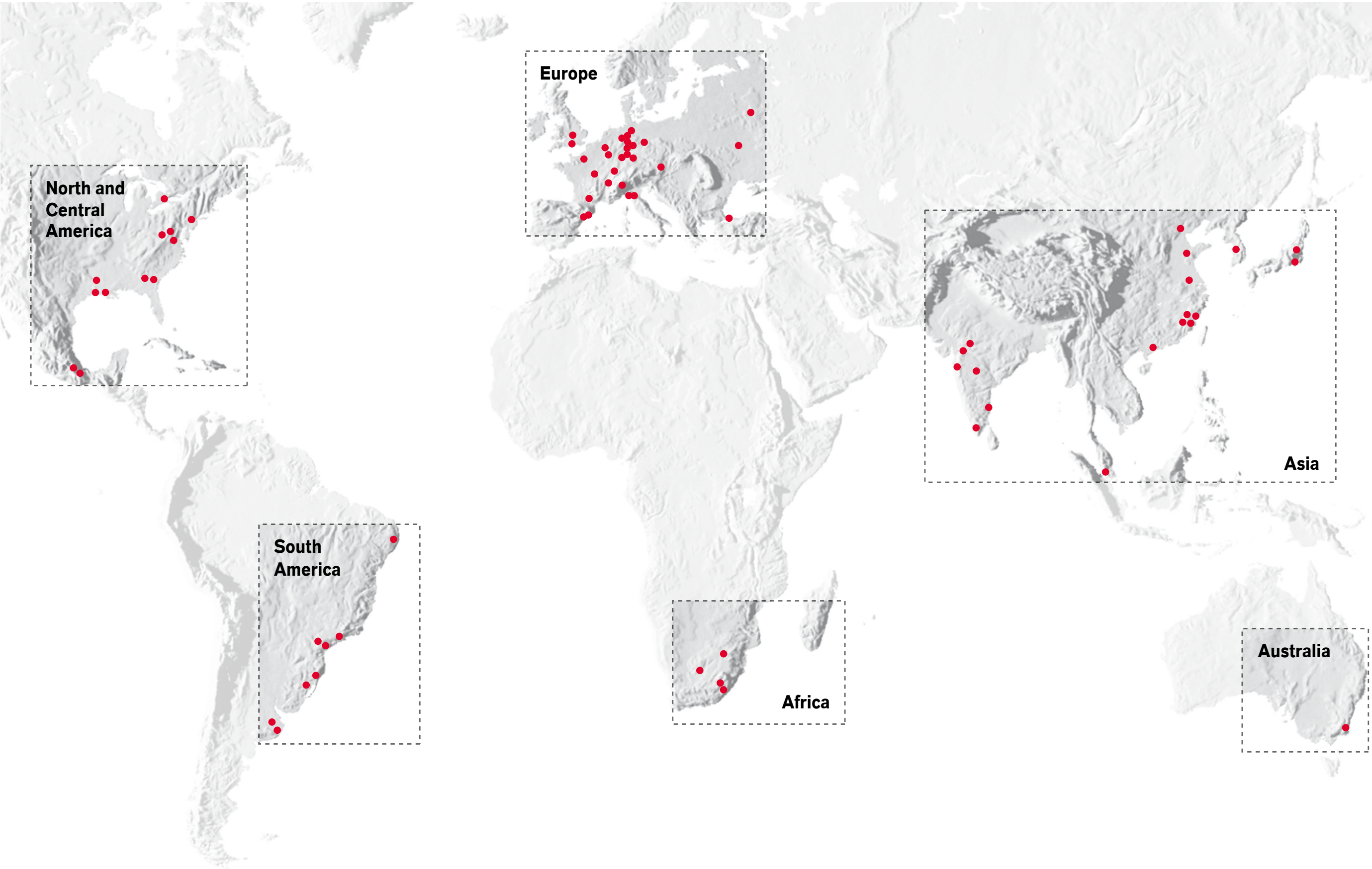
We have combined our application-oriented process and functional chemicals operations in the Performance Chemicals segment.

Performance Chemicals

Business units	Material Protection Products
	Inorganic Pigments
	Functional Chemicals
	Leather
	Rhein Chemie
	Rubber Chemicals
	Liquid Purification Technologies [1]
Sites	Bitterfeld, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany
	Epierre, France
	Antwerp, Belgium
	Branston, United Kingdom
	Filago, Italy
	Lipetsk, Russia
	Vilassar de Mar, Spain
	Merebank, Newcastle and Rustenburg, South Africa
	Burgettstown, Bushy Park, Chardon, Greensboro, Little Rock and Pittsburgh, U.S.A.
	Porto Feliz, Brazil
	Burzaco, Merlo and Zárate, Argentina
	Changzhou, Qingdao, Shanghai and Wuxi, China
	Jhagadia, India
	Toyohashi, Japan
	Singapore
	Sydney, Australia
Applications	Disinfection
	Protection and preservation of wood, construction materials, coatings and foodstuffs
	Color pigments
	Polymer additives
	Leather processing products
	Tire chemicals
	Water treatment products

1) Until March 31, 2013: Ion Exchange Resins

LANXESS has a Presence Throughout the World



Strategy

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

Through innovations and selective additions to our product portfolio, we have positioned ourselves as a reliable high-tech supplier of premium-quality products that actively supports its customers' innovation processes and thereby adds measurable value for them. This strengthens customer loyalty, sets us apart from our competitors and supports our efforts to generate adequate margins, even in highly competitive phases of the market cycle or segments.

Sustained megatrends offer potential for future success

Our strategy is aligned with four central megatrends:

- The growing demand for mobility, particularly in China, India and other large emerging economies, and the simultaneous need to make mobility more environmentally friendly.
- Agriculture, which will have to satisfy the sharp increase in global food requirements due to a rapidly growing world population.
- Urbanization, resulting worldwide in the migration of people from rural areas to cities. All these people will need living space, offices and a robust infrastructure. According to current forecasts, nearly 70% of the world population will be city-dwellers in 2050.
- The rising demand for water due to population growth and climate change will likely result in water becoming a commodity as valuable as oil in the not-too-distant future.

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

Earnings strategy

Against this backdrop, we are consistently aligning our product portfolio with markets that promise steady, above-average growth in the coming years. Accordingly, our regional focus is mainly on expanding our businesses and production capacities in the faster-growing BRICS countries, especially Brazil, India and China. We are concentrating particularly on organic growth.

Program to increase competitiveness

To mitigate the effects of changes to the competitive situation in what currently remains a challenging market environment, we initiated a program to increase competitiveness in the second half of 2013. Known as Advance, the program aims to generate annual savings of around €100 million from 2015 through efficiency enhancements and selective restructuring. It will result in exceptional charges of around €150 million in 2013 and 2014. Implementation is expected to reduce headcount by about 1,000 employees worldwide by 2015.

Among the areas affected by selective restructuring is the Rubber Chemicals business unit in the Performance Chemicals segment. We have closed this unit's Isithebe site in South Africa because it was no longer competitive and focused production capacity in Belgium. Our portfolio adjustments also include exploring strategic options for various non-core businesses such as the Perlon monofilaments product line of the High Performance Materials business unit, the accelerators and antioxidants of the Rubber Chemicals business unit and the nitrile butadiene rubber activities of the High Performance Elastomers business unit.

Capital expenditure strategy

We make capital expenditures with a view to increasing our international competitiveness, focusing on attractive growth opportunities in profitable markets. The following principles guide our capital expenditure policy:

- The focus is on expanding our portfolio of premium products that set us apart from our competitors.
- We invest in sustainably growing markets that are the strategic focus for our operating segments.
- Capital expenditures must satisfy clear financial criteria that, at a minimum, preserve the average return on capital employed (ROCE) achieved by the LANXESS Group during a normal business cycle.
- Capital expenditures are mostly financed out of the cash flow from operating activities or, if that is insufficient, from other available liquidity or credit lines.

Financing strategy

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

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

Growth of our company is enabled by its business operations and specific financing measures. Our goal is to generate positive earnings contributions along with a positive cash flow.

Value management and control system

Value Management and Control System

		2009	2010	2011	2012	2013
EBITDA pre exceptionals	€ million	465	918	1,146	1,223	735
EBITDA margin pre exceptionals	%	9.2	12.9	13.1	13.4	8.9
Capital employed	€ million	3,475	3,750	4,784	5,442	4,969
ROCE	%	5.9	17.0	17.2	15.6	5.8
Days of sales in inventories (DSI)	Days	55.1	53.7	60.1	64.7	58.0
Days of sales outstanding (DSO)	Days	47.0	46.3	49.9	47.4	47.8
Net financial liabilities	€ million	794	913	1,515	1,483	1,731
Net debt ratio		1.7x	1.0x	1.3x	1.2x	2.4x
Investment ratio	%	6.8	7.4	8.0	8.1	8.1

2012 figures restated

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

Our success is largely reflected by our earning power so our control system is focused on steering this parameter.

Earning power

The key indicator for steering the earning power of the LANXESS Group and the individual segments is EBITDA (earnings before interest, income taxes, depreciation and amortization) pre exceptionals. It is calculated from EBIT by adding back depreciation of property, plant and equipment, amortization of intangible assets and any exceptional items. The latter are effects of an unusual nature or magnitude. They may include write-downs, restructuring expenses, expenses for the design and implementation of IT projects and expenses for portfolio adjustments. Income from grants and subsidies from third parties for the acquisition and construction of property, plant and equipment are assigned using the gross method. No adjustments other than for gross depreciation and amortization are made when calculating EBITDA pre exceptionals.

Every operational decision or achievement is judged in the short and long term by its sustainable impact on EBITDA pre exceptionals. As part of the annual budget and planning process, targets are set for this benchmark of our company's success, which are then taken into account in determining employees' variable income components (see the "Employees" section of this combined management report). We use EBITDA pre exceptionals as our key controlling parameter because it facilitates assessment of the company's development over several reporting periods.

Of the exceptional items of €381 million incurred in 2013, €270 million were write-downs with no impact on EBITDA, €257 million of which were due to impairment testing at the business unit level. The exceptional items of €111 million which had an impact on EBITDA resulted primarily from measures related to the Advance program. The "Segment information" section of this combined management report details the distribution of these exceptional items among the segments.

Simple revenue data such as net sales are not among the Group's controlling parameters because they do not permit any direct conclusions about our profitability. Volatile raw material prices are a hallmark of our industry and their fluctuation throughout the year impacts our selling prices. This has an effect on sales, but largely no impact on the margins that are significant to our profitability. We therefore set no sales targets, either for the short term or medium term.

Company-specific lead indicators

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

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

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

Profitability

Return on capital employed (ROCE) has been implemented as a profitability ratio at Group level which indicates how efficiently we utilize our capital. This makes it an important criterion in capital expenditure decisions, for example.

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

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

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

Cost of capital

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

In 2012, ROCE was 15.6% and thus well above our weighted average cost of capital (WACC) after adjustment for comparability. It fell below the WACC to 5.8% in 2013.

Capital employment

To optimize our working capital at the operational level, we use two key performance indicators: DSI (days of sales in inventories) and DSO (days of sales outstanding). These represent inventories and receivables, respectively, in relation to sales for the previous quarter. In 2013, DSI was at 58.0 days (2012: 64.7 days) and DSO at 47.8 days (2012: 47.4 days).

Expenditures for property, plant and equipment are subject to rigorous capital discipline and are aligned systematically with those product areas with the greatest potential for success. We prioritize investment projects on the basis of financial indicators such as the pay-off period, net present value and ROCE. For more detailed information about our capital expenditure guidelines, please see "Capital expenditure strategy" above.

Debt

The net debt ratio, which we use solely at Group level, is defined as net financial liabilities divided by EBITDA pre exceptionals. Net financial liabilities are the total of current and non-current financial liabilities, less cash, cash equivalents and near-cash assets. The financial liabilities reflected in the statement of financial position are adjusted here for liabilities for accrued interest. Due to weaker earnings development in the reporting year and higher net financial liabilities at December 31, 2013, the net debt ratio increased to 2.4, against 1.2 at the previous year's reporting date. Our net financial liabilities rose by €248 million to €1,731 million.

Net Financial Liabilities

€ million	2009	2010	2011	2012	2013
Non-current financial liabilities	1,462	1,302	1,465	2,167	1,649
Current financial liabilities	94	176	633	167	668
Less					
Liabilities for accrued interest	(47)	(41)	(55)	(54)	(53)
Cash and cash equivalents	(313)	(160)	(178)	(386)	(427)
Near-cash assets	(402)	(364)	(350)	(411)	(106)
	794	**913**	**1,515**	**1,483**	**1,731**

Procurement and production

Procurement

LANXESS uses its centrally managed global procurement organization – Global Procurement & Logistics – to ensure a reliable supply of raw and other materials and services. Global Categories closely coordinate with our business units to pool their requirements in the raw materials, technical goods, packaging materials, energy, services and logistics segments. Our worldwide procurement network helps them leverage purchasing synergies, so that we can move efficiently in the market and exploit price advantages. We avoid delivery bottlenecks or reliance on individual suppliers using strategies like multiple sourcing. As a result, we experienced no delivery shortfalls or bottlenecks in the reporting period that had a material effect on our business development.

Procuring chemical raw materials is a significant priority at LANXESS. Our aim is to secure our supplies on the basis of long-term contracts. The availability of raw materials has always played a crucial role in upcoming facility location decisions. For our butyl rubber plant in Singapore, which came on stream as scheduled in the reporting year, we are already sourcing a large proportion of the most important feedstocks via nearby pipelines. We will take the same approach to sourcing the raw materials for our plant to manufacture neodymium-based performance butadiene rubber (Nd-PBR), which we are currently building in Singapore. We procure key raw materials like butadiene and utilities like steam and biomass from the immediate vicinity at several of our other production sites, too. In this way, we not only minimize the costs and environmental impact of our transportation activities, but reduce the risk of delivery shortfalls caused by transportation issues in particular.

Our biggest suppliers of chemical raw materials in 2013 included BASF, Bayer, BP, Braskem, Enterprise Products, Evonik, ExxonMobil, INEOS, LyondellBasell, Nova Chemicals, Sabic, Shell Chemicals and Total.

Among the most important strategic raw materials by far for our production operations in 2013 were ammonia, butadiene, caustic soda, cyclohexane, ethylene, isobutylene, propylene, raffinate 1, styrene and toluene. In all, strategic raw materials accounted for a purchasing volume of about €3.2 billion in fiscal 2013 (2012: about €3.9 billion), or around 76% of our total expenditure for raw materials and goods in 2013, which amounted to approximately €4.2 billion (2012: about €4.7 billion). Around 83% of our total expenditure for raw materials and goods went to suppliers from countries in the upper third of the Country Sustainability Ranking. Our total procurement volume in 2013 was around €6.2 billion (2012: about €6.9 billion).

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

We systematically apply best-practice processes. These include e-procurement tools, such as e-catalogs and electronic marketplaces, many of which are integrated into our internal IT systems. In 2013, about 64% of all items ordered (2012: around 60%) were handled in e-procurement systems.

Our HSEQ management process begins when raw materials and services are procured. In the reporting year, our procurement transactions involved more than 20,000 suppliers. Based on the principles of the U.N. Global Compact, the International Labour Organization (ILO), Responsible Care® and other corporate responsibility codes, we expect our suppliers to comply with all applicable national and other laws and regulations on safeguarding the environment, ensuring health and safety in the workplace and using appropriate labor and hiring practices. These criteria, which are defined in our Supplier Code of Conduct, play a key role in our selection and evaluation of suppliers.

In 2012, we and five other international chemical companies founded the Together for Sustainability initiative to monitor compliance with our requirements, enhance supply chain transparency and minimize procurement risks. The goal of this initiative is to develop and implement a global audit process to assess and continuously improve sustainability activities along the chemical industry supply chain, focusing on human rights, child labor, working standards, occupational safety, environmental protection and business integrity. All members of the initiative have access to the growing number of assessment and audit results, which comprised 750 sustainability assessments and 150 audit reports at the end of 2013. These identified a greater need for action in respect of labor and human rights and occupational safety. In 2013, 103 follow-up audits were carried out to verify implementation of the corrective measures agreed with suppliers. These showed that the situation had improved.

Production

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

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

The following significant changes occurred in our global production network in 2013:

- Our Butyl Rubber business unit opened Asia's most modern butyl rubber facility in Singapore. The plant entered its commissioning phase in the first quarter of 2013 and started production in the second quarter as planned.
- The Keltan Elastomers business unit has converted its largest production line for Keltan® EPDM rubber at the site in Sittard-Geleen, Netherlands, to ACE™ technology.
- Our Advanced Industrial Intermediates business unit increased capacities for the intermediates cresol and dichlorobenzene at the site in Leverkusen, Germany, by 20% and 15%, respectively.
- As scheduled, our Leather business unit brought a new facility for manufacturing leather chemicals on stream in Changzhou, China.
- The Leather business unit also commissioned a new CO_2 concentration plant at the Newcastle site in South Africa.
- The Rhein Chemie business unit opened a new facility for high-performance curing bladders in Porto Feliz, Brazil.
- In Lipetsk, Russia, the Rhein Chemie business unit also opened LANXESS's first production facility in that country to manufacture rubber additives for the automotive and tire industries.
- As part of our program to increase competitiveness, we closed our Rubber Chemicals business unit's site at Isithebe, South Africa.

Including the measures described above, our cash outflows for capital expenditures came to €624 million in 2013. Details are given under "Capital expenditures" in the "Statement of financial position and financial condition" section of this combined management report. For additional information about the acquisitions made in the year under review, please see "Additions to the Group portfolio" in this combined management report.

Sales organization and customers

Sales

We sell our products all over the world, to several thousand customers in more than 150 countries across all continents. LANXESS's long-standing customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers' needs, we have set up very flexible marketing and sales structures. We manage our sales throughout the world through 52 companies owned by LANXESS itself. We continually extend our global presence so we are closer to our customers and can better evaluate strategic potential. In countries where we do not yet have our own company, we work with local sales partners.

To keep as close as possible to customers and ensure they receive individual support, each of our business units manages its own sales organization. Another competitive advantage is provided by our 52 production sites in 17 countries. Wherever possible, customers are supplied from production sites in the same region, yielding advantages in terms of time and costs.

In 2013, we expanded our e-business activities in purchasing, sales and logistics. Altogether, more than 800,000 orders and the respective automated follow-up notices were handled as e-business. This capability is provided by the LANXESS one Internet portal and the system-to-system connections via ELEMICA. We will continue to expand this process, which provides benefits for all involved, by adding further partners and technical services. The net sales invoice values accounted for by e-business came to approximately €1.75 billion, an increase of about 4% on the previous year.

Selling costs for fiscal 2013 came to 9.1% of LANXESS Group sales, up 0.7 percentage points on the prior-year level of 8.4%.

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

Selling Costs

	2009	2010	2011	2012	2013
Selling costs (€ million)	530	646	732	763	755
% of sales	10.5	9.1	8.3	8.4	9.1
Breakdown by segment					
Performance Polymers	178	216	262	284	286
Advanced Intermediates	92	122	127	125	126
Performance Chemicals	253	300	320	335	328
Reconciliation	7	8	23	19	15

Customers

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

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

Shares of Sales by Industry Sector

%	2013
Tires	~ 25
Chemicals	~ 15
Automotive	~ 15
Agrochemicals	~ 10
Construction, electrical/electronics, leather/footwear	~ 20
Others (cumulative share)	~ 15

In fiscal 2013, our top ten customers accounted for about 24% of total sales (2012: 26%). None of our customers accounted for more than 10% of Group sales. 57 (2012: 50) customers accounted for annual sales in excess of €20 million.

The number of customers in each segment varied widely. The Performance Polymers segment had some 3,500 customers in 2013 (2012: 3,300), while Advanced Intermediates and Performance Chemicals had about 3,000 (2012: 3,000) and 11,600 (2012: 11,800), respectively. This information is based on the number of customer accounts in each segment. Each segment includes all customer groups and sales categories. However, one customer may do business with more than one segment.

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

Research and development

Research and development makes an important contribution toward increasing our competitiveness and expanding our business through the development of innovative processes and products as well as the ongoing optimization of existing production processes.

Therefore, we continued to systematically drive forward our research and development activities in 2013. Existing products and processes were refined and optimized with a short- to medium-term time horizon. In addition, the Innovation & Technology Group Function focused above all on initiating medium- to long-term research projects to ensure success in the high-growth areas of the future and thus safeguard the Group's sustainable performance.

In this connection, we entered into two new alliances with research institutes in China. One of these is investigating the polymerization behavior of typical rubber monomers with a view to expanding our product portfolio, while the other is aimed at developing thermoplastics for new application areas. Both of these initiatives support our ambition to be a pioneer in the field of green mobility.

Innovations in the Performance Polymers segment, which focuses on the mobility megatrend, include the development of two new grades of neodymium-based performance butadiene rubber. They have the high molecular weights that are essential for manufacturing tires with particularly low rolling resistance. Thanks to the new polymer chain modification technology we use, our customers can process these rubber grades more easily and effectively. We also succeeded in manufacturing bio-based polybutylene terephthalate (PBT), a component of our high-tech plastic Pocan®, at our world-scale facility in Hamm-Uentrop, Germany. Here, sugar – a renewable feedstock – was converted into the raw material butanediol using a strategic partner's commercially proven process. This marks an important step forward in our efforts to offer bio-based versions of Pocan® in the future and further expand our position as the leading company in the field of specialty chemicals for green mobility.

The Saltigo business unit in the Advanced Intermediates segment started developing new applications for the insect repellent Saltidin®, which can be added to sunscreens or impregnated into textiles.

In the Performance Chemicals segment, we drove forward our research and development activities in the area of water treatment, for example. Here we succeeded in developing ion exchange resins with a small bead radius that enhance the efficiency of certain membrane-based electrolytic water treatment technologies, thereby extending the service life of both the resin and the membranes. This results in lower operating costs because less regenerating agent is needed and less wastewater is produced. We also introduced a new technology and service concept for beamhouse operations in the area of leather processing. The newly developed products for the beamhouse ensure significantly better process design, particularly from an ecological point of view, partly by reducing the amount of waste produced.

Cost trend and employees

Our total research and development expenses in 2013 decreased by 3.1% on the prior year to €186 million, or 2.2% of sales (2012: €192 million, or 2.1% of sales). The Butyl Rubber, High Performance Materials, High Performance Elastomers, Keltan Elastomers and Saltigo business units accounted for the largest share of these expenditures in 2013 at 59% (2012: 61%). Butyl Rubber, Saltigo, Material Protection Products, High Performance Elastomers and Liquid Purification Technologies were the business units most active in research in terms of their ratios of research and development expenses to sales.

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

Research and Development Expenses

	2009	2010	2011	2012	2013
Research and development expenses (€ million)	101	116	144	192	186
% of sales	2.0	1.6	1.6	2.1	2.2

At the end of 2013, we employed 931 people (2012: 843) in our research and development laboratories worldwide. We created the Group Senior Scientist awards in 2012 to honor top researchers and scientific experts for their achievements, generate motivation and prospects for careers in research and development, and place the focus even more firmly on innovation. The first awards have already been made for outstanding achievements in the area of sustainable science and technology with commensurate contributions to earnings.

Number of Employees in Research and Development

	2009	2010	2011	2012	2013
Year end	489	519	731	843	931
% of Group employees	3.4	3.5	4.5	4.9	5.4

Our largest research and development units are at the sites in Leverkusen, Krefeld-Uerdingen and Dormagen, Germany; Sittard-Geleen, Netherlands; London, Canada; and Qingdao and Wuxi, China. The development and testing of high-performance rubber products for energy-saving green tires and high-tech plastics for lightweight construction applications in the automotive industry are examples of the work we perform there. We also operate a development center for high-tech plastics in Hong Kong to strengthen our relations with automakers in the Asia-Pacific growth region.

Fields of activity and patent strategy

In 2013, we conducted around 260 research and development projects (2012: 235), around 150 of which (2012: 145) aimed to develop new products and applications or improve existing ones. Some 110 projects (2012: around 90) concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity. We plan to have roughly 20% of the research and development projects we started in 2013 in the market or technical implementation stages by the end of 2014 (2012: about 25%).

The results of our research and development work are protected by patents, where this is possible and expedient. In the course of 2013, we submitted 89 priority applications worldwide. As of December 31, 2013, the full patent portfolio included approximately 1,140 patent families covering around 7,500 property rights.

Organizational focus

Our research programs are directly and systematically aligned with the major global megatrends: the greater need for mobility, sharply rising global food requirements, increasing urbanization and the growing demand for water. Business units with a substantial proportion of products in very mature markets, such as Advanced Industrial Intermediates, concentrate on constantly improving their production facilities and processes (process optimization). Other business units focus their research and development activities more on optimizing their products and product quality and on developing new products to meet market requirements and customers' special needs.

Our basic research is conducted mainly via alliances with universities and research institutes. Generating knowledge in this way is substantially more cost-efficient than if we were to maintain our own resources for this purpose. In 2013, we had a total of 197 (2012: 203) major research and development alliances, 73 (2012: 78) of which were with universities, 72 (2012: 66) with suppliers or customers, and 52 (2012: 59) with research institutes.

Innovation & Technology Group Function

As a central unit, the Innovation & Technology Group Function complements our business units' research work with new, longer-term, cross-business unit projects to ensure that potential synergies are exploited to the full and innovations can be applied in various LANXESS units.

We further expanded this group function in 2013 to allow better use of available synergies. When we divided our Technical Rubber Products business unit into the new Keltan Elastomers and High Performance Elastomers business units, the Technical Service Center in Dormagen and the Polymer Testing Center in Leverkusen (both Germany) – with additional sites in Qingdao, China, and Sittard-Geleen, Netherlands – were integrated into this group function. As a result, these facilities are now available to all business units.

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

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

Product innovation is focused on the development of new products and new applications for existing products as well as on product modifications. The development of new products is more broadly based than in the business units, the main topics are generally applicable to multiple business units, and there is a medium- to long-term time horizon. Here, too, our research goals are derived from the global megatrends. Since launching our Xplore ideas platform on the company intranet, we regularly issue challenges that result in the development of ideas and solutions for future-oriented innovations worldwide. The great success of this platform has made a significant contribution to the promotion of our corporate innovation culture. We have already transformed a large number of ideas into concrete projects with the help of standardized processes. These projects are regularly evaluated with regard to their technological and financial attractiveness.

For instance, we have developed a new technology that makes it quicker and easier to produce a lightweight fiber-reinforced component using the reaction injection molding process. The low-viscosity monomer is directly injected into the (textile) fiber-filled mold, where it then polymerizes. Together with the Institute of Plastics Processing and a renowned Austrian manufacturer of injection molding equipment, we presented this technology at the K 2013 plastics fair in Düsseldorf, Germany.

We have further expanded our broad network of external partners through the establishment of new alliances with universities, institutes and leading companies in various fields such as biotechnology, nanotechnology, microtechnology and membrane technology.

We also collaborate with the Russian Academy of Sciences (RAS) – one of the world's most distinguished scientific institutions – and have established a research network with leading Russian institutes and universities. After jointly hosting a prestigious scientific symposium as part of Germany Year in Russia in 2012, LANXESS and RAS held their annual joint workshop in 2013, as envisaged by their collaboration agreement. The aim is to meet regularly to exchange views on current scientific trends and developments, possibly leading to further cooperation projects.

Corporate responsibility

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

We consider compliance with laws and ethical principles to be the basis for sustainable corporate governance. The "Code for Legal Compliance and Corporate Responsibility at LANXESS," which is applicable throughout the Group, specifies minimum standards and gives our employees advice and guidance on complying with these standards. Our compliance management system was audited by Deloitte & Touche GmbH in 2012. The audit was completed without observation and with an unqualified audit opinion.

We have been supporting the Responsible Care® initiative since 2006, when we became a signatory to the Global Charter initiated by the International Council of Chemical Associations (ICCA). We are also committed to the established principles of the world's largest corporate social responsibility initiative, the U.N Global Compact. Since we signed up in 2011, we have continued to raise our sustainability profile.

Integrated management system

At LANXESS, a central management system provides the necessary global structures to ensure responsible commercial practices. In addition to internal directives and operating procedures, strict quality and environmental standards in line with ISO 9001 and ISO 14001 apply worldwide. External, independent experts regularly audit the progress of system integration at new sites and the performance of our management system worldwide. Confirmation of our compliance with ISO 9001 and ISO 14001 takes the form of a global matrix certificate. We successfully completed a follow-up audit in 2013.

As of September 26, 2013, our matrix certificate covered 48 companies with 77 sites in 23 countries. In 2013, our production sites in Greensboro and Gastonia in the United States and the site we acquired from DSM in Triunfo, Brazil, were included in the certificate as planned. For our sites in the United States, we have also received certification to RC 14001 (RC = Responsible Care®). In addition, we have implemented an energy management system at our facilities in Germany which was certified for the first time to ISO 50001 in 2013.

Environment data

We use a proprietary electronic system for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. Data for all indicators except the LTIFR are gathered only at those production sites in which the company has a holding of more than 50%. In the year under review, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft assessed our data recording processes and system in the course of a business audit. Our HSE indicators for 2013 were audited with a view to achieving a "limited assurance" rating.

Product stewardship

We expressly support the protection goals of the European chemical legislation REACH, which aims to ensure a high level of safety for human health and the environment in the manufacture and use of chemicals. We met the December 1, 2008, deadline for preregistering all substances of relevance to LANXESS with the European Chemicals Agency (ECHA) in Helsinki, Finland. We then registered a total of 360 substances that we produce in or import to the European Union in volumes exceeding 100 and 1,000 tons annually by the respective deadlines in 2010 and 2013. Lastly, all substances with volumes exceeding one ton must be registered in Europe by the third deadline on May 31, 2018.

Social commitment

Our not-for-profit activities focus on providing support for science education in schools. In 2008, we launched the extensive LANXESS education initiative that underscores our clear commitment to Germany as a business location and as a base for the chemical industry. LANXESS has also initiated projects focusing particularly on the promotion of science education at almost all its sites across the globe. To date, we have invested some €6 million in educational projects, €4 million of this sum in Germany.

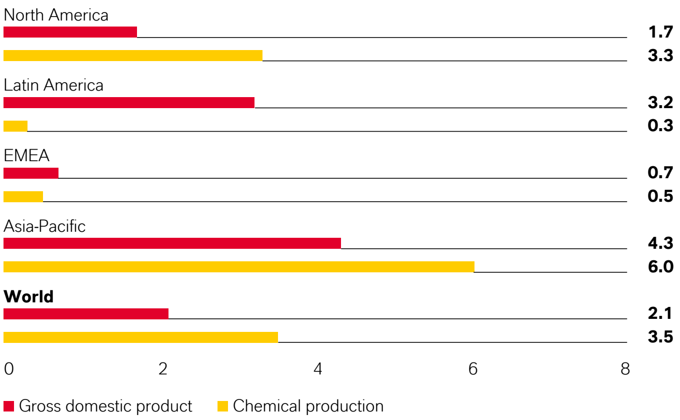
Legal environment

There were no changes in the legal environment in 2013 that would have had a material impact on the cash flows, financial condition or results of operations of the LANXESS Group or LANXESS AG.

Business conditions

GDP and Chemical Production in 2013

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

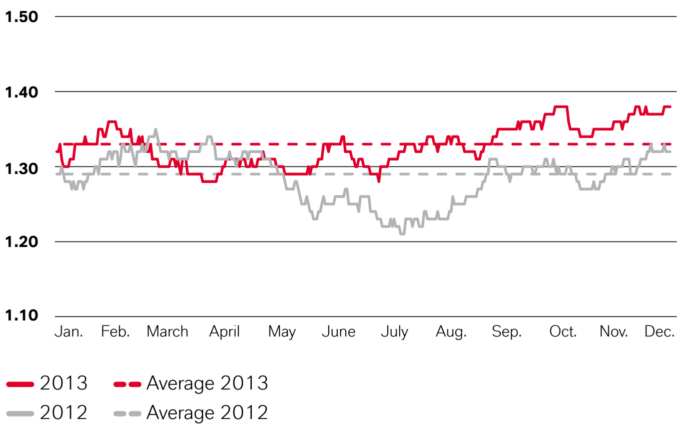


The economic environment

Global economic growth in 2013 was relatively modest at 2.1%, which was slightly below the prior-year level. Europe saw weak development overall given the need to consolidate public budgets, coupled with restrained consumer spending. However, the situation varied slightly from region to region. In Western Europe, the economy stagnated in light of zero growth. Germany's gross domestic product grew by just 0.4%, while the economies of Central and Eastern European countries expanded slightly by 1.3%. The United States was unable to fully exploit its growth potential because of the renewed budget crisis and the automatic spending cuts this entailed. Nevertheless, the country contributed to economic growth of 1.7% in the NAFTA region. On account of the weak growth in the industrialized countries, the emerging economies also posted more modest growth rates. The Chinese economic region expanded by 7.3%, buoyed by incentives to counter a temporary phase of weakness in the second quarter. In India, the pace of economic development slowed against the backdrop of lower consumption and declining business confidence. Nevertheless, the economy still expanded by 4.6%. Brazil posted economic growth of 2.5%, supported by a rise in investment but only a moderate increase in consumption.

The fluctuations in the exchange rate between the euro and the U.S. dollar were less pronounced in 2013 than in the previous year. With an expansionary monetary policy and extremely low interest rates in both currency zones, the euro started the year at US$1.32. Until mid-year it moved between US$1.28 and US$1.36. While the prevailing conditions remained largely unchanged, the dollar began a continuous slide against the euro, which was worth US$1.38 at the end of the year. This represented a decrease in the value of the U.S. currency of around 4.5% in 2013. The euro's average rate for the year was US$1.33, up from US$1.29 in the previous year. Due to the regional positioning of our business, a weaker U.S. dollar generally has a negative effect on our earnings. Centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

Value of the U.S. Dollar against the Euro



On the raw material markets, prices declined over the course of the year. We are particularly affected by the prices of petrochemical raw materials, as they have a material impact on our production costs. The price of our most important strategic raw material, butadiene, declined substantially against the prior-year period – especially in the middle of the year – reaching its lowest level in September. Until the third quarter, price decreases in Asia were more pronounced than in Europe and North America, so prices trended more favorably toward Asia during this period.

The chemical industry

The general economic trends had an impact on the chemical industry as well, where production grew by 3.5%. The Chinese economic region posted the strongest growth at 8.3%, whereas expansion in other regions was somewhat more restrained. Against the backdrop of the ongoing positive situation in the NAFTA region's end markets, production there increased by 3.3%. In Brazil, production grew by 1.7%, just slightly more than in the previous year. In Western Europe, on the other hand, the customer industries for chemical precursors were impacted by a weak economic dynamic, resulting in a decline of 0.2%.

Evolution of major user industries

In contrast with previous years, global tire production increased by just 3.1% in 2013. This growth was centered on the Chinese economic region, which expanded by 9.3% due to higher exports to the United States following expiration of punitive import tariffs. In the NAFTA region, production declined by 2.0%. The trend in the original equipment business was largely in line with automobile production. Outside Europe, the market for replacement tires in general proved robust. In the heavy-duty commercial vehicle sector, demand for replacement tires declined in the NAFTA region but expanded in Europe and Brazil.

The pace of growth in global automotive production slowed significantly to 2.7% in 2013, compared with 4.9% in 2012. The Chinese economic region was the strongest performer with an increase of 12.0%, which significantly contributed to expansion of 4.0% overall in Asia. By contrast, India posted very weak development, with production declining by 12.6%. Latin America and the NAFTA region saw growth rates of 7.5% and 4.7%, respectively. With many countries in the eurozone facing the need to consolidate public budgets and reduce debt levels, automotive production in Western Europe remained weak and shrank by 2.3%.

Global production of chemicals for the agricultural industry expanded by 3.4% due to continued high demand for agricultural products for the manufacture of food, animal feed and biofuels. Output in the NAFTA region was up 7.3% on the weak prior year, which had been impacted by drought. Whereas Latin America posted growth of 2.5%, Asia expanded output by 3.5% in line with the overall market trend. By contrast, production in Western Europe dipped slightly by 0.5%.

The construction industry worldwide posted growth of 2.6%. The Chinese economic region especially saw positive development, with expansion of 8.8% driven by infrastructure projects. Compared to a weak prior year marked by the crisis, the construction sector in the NAFTA region grew by 3.1%, despite cuts in public budgets. Residential construction in particular proved robust. In Latin America, too, construction was up 2.9%. By contrast, Europe continued to feel the effects of the financial and sovereign debt crises, which saw the construction industry in Western Europe contract by 1.3%. At 5.8%, the decline was even more pronounced in Central and Eastern Europe.

Evolution of Major User Industries in 2013

Change vs. prior year in real terms (%) (projected)	Tires	Automotive	Agrochemicals	Construction
Americas	(0.2)	5.3	4.5	3.1
NAFTA	(2.0)	4.7	7.3	3.1
Latin America	5.0	7.5	2.5	2.9
EMEA	(0.6)	(2.4)	1.8	(1.2)
Germany	(0.2)	(1.7)	(4.1)	(1.0)
Western Europe	(4.1)	(2.3)	(0.5)	(1.3)
Central and Eastern Europe	4.6	0.9	7.4	(5.8)
Asia-Pacific	5.8	4.0	3.5	5.7
World	**3.1**	**2.7**	**3.4**	**2.6**

Key events influencing the company's business

Fiscal 2013 was characterized by ongoing pressure to consolidate public budgets in many European countries and recurring uncertainty surrounding the development of public spending in the United States associated with the debt ceiling. In addition, expansionary monetary policies resulted in some marked shifts in exchange rates for the currencies of relevance to world trade: the euro, the U.S. dollar and the Japanese yen.

In the industrialized countries, efforts to consolidate public budgets and a certain degree of private spending restraint held back growth in some customer industries, such as automotive and tires. In turn, this had a knock-on effect on industrial production in the emerging economies.

The market environment impacted fundamental price structures, especially in our Performance Polymers segment. In principle, the decline in procurement costs for key raw materials, especially butadiene, resulted in corresponding adjustments to our selling prices. Pricing underwent additional structural changes as new suppliers entered the market and established suppliers expanded existing capacities for certain products, causing shifts in the previous supply situation. The regional differences in price trends for butadiene and the strong depreciation of the Japanese yen against the euro and the U.S. dollar gave Japanese and other Asian manufacturers competitive advantages during 2013. This led to some increases in the supply of rubber products from Asia, which resulted in additional price pressure in all regions. The EPDM rubber business underwent structural changes: Expanding production capacities increased the pressure on prices while our competitive situation worsened compared with that of U.S. producers who have access to cheaper raw materials and energy supplies thanks to shale gas extraction in the United States. In addition, production costs in the reporting year were impacted by start-up costs in the Butyl Rubber business unit associated with our butyl rubber plant in Singapore and in connection with new capacities in other business units of the segment.

Steady demand for agricultural products stabilized volume sales of our products for agrochemicals.

The development in the automotive and tire industries also impacted business performance in the Performance Chemicals segment. However, the broad customer diversification of this segment cushioned these effects.

All regions saw sales declines. The Asia-Pacific region proved the most robust with a low-single-digit percentage decrease compared to the other regions. After adjustment for currency and portfolio effects, North America recorded the strongest business contraction.

The changes in the competitive environment resulted in a negative impact on anticipated cash flows at the time our consolidated financial statements were prepared. In some of our business units, these cash flows no longer reflected the carrying amounts at that time. As a result, impairment testing in the reporting year led to impairment charges of €257 million, which were recorded in other operating expenses as exceptional charges with no impact on EBITDA. Our Keltan Elastomers and High Performance Elastomers business units (Performance Polymers segment) recognized impairment charges of €174 million and €54 million, respectively, while our Rubber Chemicals business unit (Performance Chemicals segment) posted a figure of €29 million. Other write-downs totaled €22 million, of which €13 million were recorded as exceptional charges.

Comparison of forecast and actual business

At the end of 2012, we had assumed that important customer industries like the automotive and tire sectors would perform well in fiscal 2013, especially in the Americas and Asia. We also expected positive momentum to come from the agrochemical industry. Looking back, our expectations were partially fulfilled: Adjusted for portfolio and currency effects, sales of the Performance Polymers segment in Asia grew by around 2% but contracted by a double-digit percentage in North America and Latin America. The decline in sales resulted from decreasing selling prices on account of increasing competition, especially for standard rubber products. An additional factor was the downward trend in raw material prices. The demand for agrochemicals remained strong.

In our half-year report, we had predicted that EBITDA pre exceptionals for the full year 2013 would come in at between €700 million and €800 million. We narrowed this guidance to between €710 million

Comparison of Forecast and Actual Business 2013

	Forecast for 2013 in Annual Report 2012/ Q1 Interim Report	Forecast for 2013 in H1 Interim Report	Forecast for 2013 in Q3 Interim Report	Actual 2013
Business development: Group				
EBITDA pre exceptionals	Below €1 billion	€700 million to €800 million	€710 million to €760 million	€735 million
Business development: segments				
Performance Polymers	Most dynamic development in the emerging markets of Asia	Continuing weak demand; most dynamic development in the emerging markets of Asia	Continuing difficult market environment; stimulus from USA and China	Difficult market environment; most dynamic development in China
Advanced Intermediates	Good demand for agrochemicals	Continuing good demand	Unchanged	Continuing good demand for agrochemicals
Performance Chemicals	Demand stimulus from North America and Asia	Unchanged	Unchanged	Demand stimulus from Asia, especially in the second half of the year
Raw material prices	Sideways movement in procurement costs and continuing volatility	Unchanged	Unchanged	Significantly lower price level
Financial condition: Group				
Cash outflows for capital expenditures	€650 million to €700 million	Approx. €600 million	Approx. €600 million	€624 million

and €760 million in our third-quarter report. A result of €735 million was posted in the year under review, which is in the middle of the guidance range.

We had forecasted volatile lateral development of raw material prices in 2013 and initially assumed a comparatively high price level. By contrast, price trends for butadiene significantly drove down procurement prices. As a result, the price level for our raw materials at year end was some 10% below the prior year end.

At the end of 2012, we had anticipated cash outflows for capital expenditures of between €650 million and €700 million. After focusing the allocation of resources on key strategic projects, we targeted around €600 million. Cash outflows for capital expenditures of €624 million in 2013 were slightly above this target.

For LANXESS AG, we had assumed net income in 2013 on the level of the previous year. However, due mainly to the reduction in income from investments in affiliated companies, net income of €35 million was substantially below the prior-year value of €104 million.

Business performance of the LANXESS Group

- Substantial and largely price-driven sales decline of 8.7%
- All regions below prior-year level
- EBITDA pre exceptionals down some 40% to €735 million
- EBITDA margin pre exceptionals at 8.9%
- Net loss of €159 million due especially to write-downs totaling €279 million, €257 million of which were recognized in the business units of the Performance Polymers and Performance Chemicals segments following impairment testing

Key Financial Data

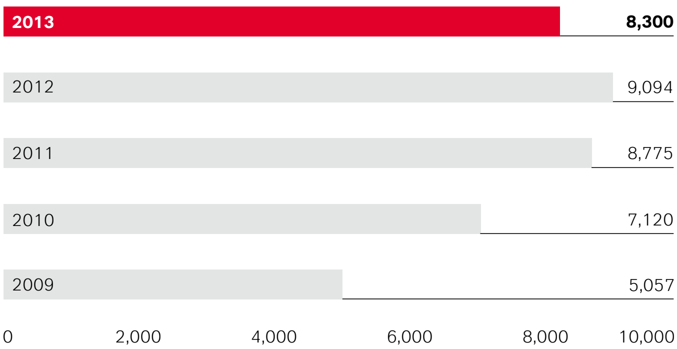
€ million	2012	2013	Change %
Sales	9,094	8,300	(8.7)
Gross profit	2,106	1,548	(26.5)
EBITDA pre exceptionals	1,223	735	(39.9)
EBITDA margin pre exceptionals	13.4%	8.9%	–
EBITDA	1,186	624	(47.4)
Operating result (EBIT) pre exceptionals	847	288	(66.0)
Operating result (EBIT)	808	(93)	< (100)
EBIT margin	8.9%	(1.1)%	–
Financial result	(148)	(146)	1.4
Income before income taxes	660	(239)	< (100)
Net income	508	(159)	< (100)
Earnings per share (€)	6.11	(1.91)	< (100)

2012 figures restated

Sales and earnings

Group Sales

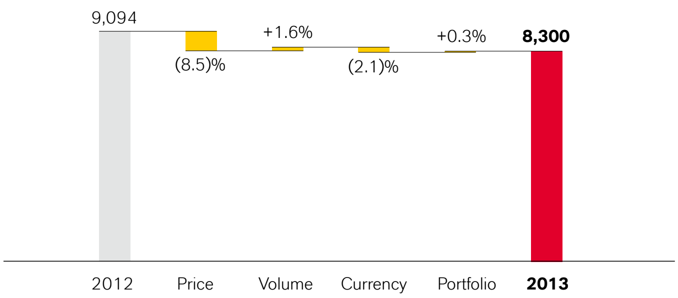
€ million



In 2013, LANXESS Group sales declined by 8.7% from €9,094 million in the prior year to €8,300 million. An increase of 1.6% in sales generated by volume growth did not offset the impact of lower selling prices. After adjustment for negative currency effects and positive portfolio effects, operational sales dropped by 6.9%.

Effects on Sales

€ million/%



Sales in our Performance Polymers segment decreased by a substantial 13.3% in 2013 and thus contributed in large part to LANXESS's negative business performance. The dominant factor in this development was the significant decline in selling prices of 15.1%, driven primarily by decreasing raw material prices and the challenging competitive situation. This decline was partly offset by volume growth of 3.5%, especially in the second half of the year, which was facilitated by factors such as newly available capacities for high-performance rubber products and high-tech plastics. A negative currency effect resulted in a decrease of 2.0%, more than offsetting a positive portfolio effect of 0.3% from the acquisition of Bond-Laminates GmbH.

The Advanced Intermediates segment posted a slight sales decrease of 1.6%. Price increases canceled out the negative development of sales volumes, which were characterized by contrasting trends in the coatings market on the one hand and the agrochemicals market on the other hand. There was also a negative currency effect of 1.5%.

In our Performance Chemicals segment, sales declined by 3.2%. This was attributable above all to negative currency effects of 3.0%. Selling prices were mostly stable over the reporting period. Recovery in demand in the second half of the year raised volume sales to just below the prior-year level. There was a slightly positive portfolio effect from the acquisitions made in 2012 and 2013. These activities were assigned to the Rhein Chemie, Material Protection Products and Functional Chemicals business units.

Sales by Segment

€ million	2012	2013	Change %	Proportion of Group sales %
Performance Polymers	5,176	4,486	(13.3)	54.1
Advanced Intermediates	1,674	1,647	(1.6)	19.8
Performance Chemicals	2,203	2,132	(3.2)	25.7
Reconciliation	41	35	(14.6)	0.4
	9,094	**8,300**	**(8.7)**	**100.0**

Sales declined in all regions, especially in North America and Latin America. The Performance Polymers segment was affected by this development in almost all markets in both absolute and relative terms. Business in the Asia-Pacific region proved comparatively robust, with sales declining by 2.5%.

Order book status

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

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

Gross profit

The cost of sales decreased by 3.4% from the prior year to €6,752 million, which was lower in percentage terms than sales. Gross profit fell back by €558 million, or 26.5%, to €1,548 million. The gross profit margin fell accordingly, from 23.2% to 18.7%. One main reason for this development was the decline in selling prices, which exceeded the decrease in procurement prices for raw materials, especially butadiene. Moreover, production costs increased because of inflation and newly available capacities, mainly in the Performance Polymers segment. The gross profit margin was additionally impacted by net negative currency effects. In the second half of the year, demand started to recover and made a net positive contribution to gross profit. This was slightly underpinned by portfolio effects from businesses acquired in 2012 and 2013. Capacity utilization, at roughly 78%, was 3 percentage points below the prior-year level because the positive demand trend which developed in the second half of the year was served in part from inventories. The resulting idle capacity costs adversely affected earnings.

EBITDA and operating result (EBIT)

Selling expenses declined by €8 million to €755 million in 2013, mainly due to lower personnel expenses.

Research and development costs were down 3.1%, to €186 million. The number of employees in R&D grew to 931 as of December 31, 2013, up substantially from 843 on December 31, 2012.

General administrative expenses decreased from €339 million to €301 million in 2013, mainly due to lower personnel expenses. At 3.6%, the ratio of general administrative expenses to sales was slightly below the prior-year figure of 3.7%.

The other operating result, which is the balance between other operating income and expenses, decreased substantially by €395 million to minus €399 million. Adjusted for exceptional items, the other operating result came to minus €18 million, which was €53 million lower than in 2012. Net exceptional charges of €381 million were incurred in the reporting year, €111 million of which impacted EBITDA and mainly related to the Advance program for improving competitiveness across all segments as well as to expenses associated with the design and implementation of IT projects. The exceptional charges of €270 million that had no impact on EBITDA were primarily due to impairment charges recognized in the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals business units. In the prior year, net exceptional items amounted to €39 million, €37 million of which impacted EBITDA. Exceptional charges related primarily to reorganization projects and portfolio measures as well as expenses for improvements to the IT infrastructure.

EBITDA Pre Exceptionals by Segment

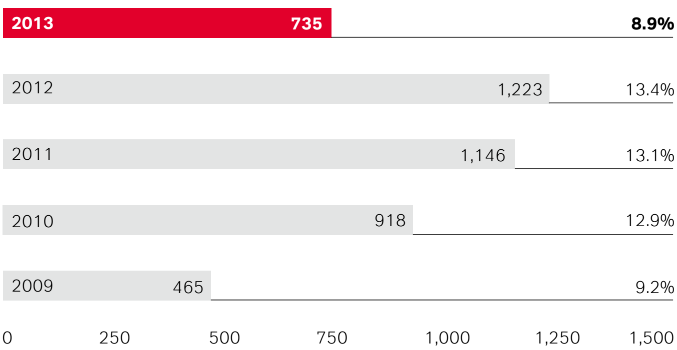
€ million	2012	2013	Change %
Performance Polymers	817	389	(52.4)
Advanced Intermediates	305	286	(6.2)
Performance Chemicals	281	231	(17.8)
Reconciliation	(180)	(171)	5.0
	1,223	**735**	**(39.9)**

2012 figures restated

Our operating result before depreciation and amortization (EBITDA) pre exceptionals decreased by €488 million, or 39.9%, to €735 million in 2013, from €1,223 million the year before. This decline was primarily due to the fact that selling prices fell more than raw material prices and to the largely production-related increase in costs. Negative currency effects also had a downward impact. Positive volume trends and slight portfolio effects were not sufficient to offset the decline. The Group's EBITDA margin pre exceptionals fell to 8.9% from 13.4% in 2012.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



2012 figures restated

EBITDA pre exceptionals in our Performance Polymers segment receded by €428 million, or 52.4%, against the prior year. The positive volume trend could not compensate for the lower selling prices. EBITDA pre exceptionals was held back by lower selling prices, which declined by more than the amount of the decrease in raw material prices on account of the increasing competitive pressure. Inventory effects, exchange rate developments and start-up costs additionally had a negative impact. The Advanced Intermediates segment posted EBITDA pre exceptionals of €286 million, a decline of 6.2% from €305 million in the prior-year period. While raw material and selling price effects were positive, the increase in production costs and exchange rate trends in particular had a negative impact. The Performance Chemicals segment posted EBITDA pre exceptionals of €231 million, a decrease of €50 million or 17.8%. This was primarily due to increased production costs, declining volumes and net negative price effects. EBITDA pre exceptionals in the reconciliation improved by €9 million to minus €171 million.

The reconciliation of EBITDA pre exceptionals to the operating result (EBIT) was as follows:

Reconciliation of EBITDA Pre Exceptionals to Operating Result (EBIT)

€ million	2012	2013	Change %
EBITDA pre exceptionals	1,223	735	(39.9)
Depreciation and amortization	(378)	(717)	(89.7)
Exceptional items in EBITDA	(37)	(111)	<(100)
Operating result (EBIT)	**808**	**(93)**	**<(100)**

2012 figures restated

The operating result (EBIT) dropped very substantially from €808 million to minus €93 million in fiscal 2013.

Reconciliation of EBIT to Net Income (Loss)

€ million	2012	2013	Change %
Operating result (EBIT)	**808**	**(93)**	**< (100)**
Income from investments accounted for using the equity method	1	0	(100.0)
Net interest expense	(96)	(106)	(10.4)
Other financial income and expense	(53)	(40)	24.5
Financial result	**(148)**	**(146)**	**1.4**
Income (loss) before income taxes	**660**	**(239)**	**< (100)**
Income taxes	(151)	71	> 100
Income (loss) after income taxes	**509**	**(168)**	**< (100)**
of which:			
attributable to non-controlling interests	1	(9)	< (100)
attributable to LANXESS AG stockholders [net income (loss)]	508	(159)	< (100)

2012 figures restated

Financial result

The financial result came in at minus €146 million in fiscal 2013, compared with minus €148 million for the prior year. The pro-rated income from investments accounted for using the equity method, primarily Currenta GmbH & Co. OHG, Leverkusen, Germany, came to €0 million, against €1 million the previous year. Interest expense was up slightly year on year. The capitalization of a portion of borrowing costs, some of which related to the construction of the new butyl rubber plant in Singapore, had a positive effect on the financial result. The amount capitalized was lower than the previous year and was not sufficient to offset the decline in interest income. In total, net interest expense was €10 million higher than in the previous year at €106 million. The balance of other financial income and expense items also included a value adjustment of €6 million in the carrying amount of the interest in BioAmber Inc., Minneapolis, United States, in light of that company's share price performance. For the same reason, a value adjustment of €18 million was made in the carrying amount of the interest in Gevo Inc., Englewood, United States, in 2012.

Income before income taxes

Due to the negative EBIT, income before income taxes declined by €899 million to minus €239 million.

Income taxes

In fiscal 2013, the Group had tax income of €71 million, compared with tax expense of €151 million the year before. The Group's tax rate was 29.7%, after 22.9% in the previous year.

Net income/Earnings per share/Earnings per share pre exceptionals

The LANXESS Group posted a net loss of €159 million, a decline of €667 million year on year. A loss of €9 million was attributable to non-controlling interests.

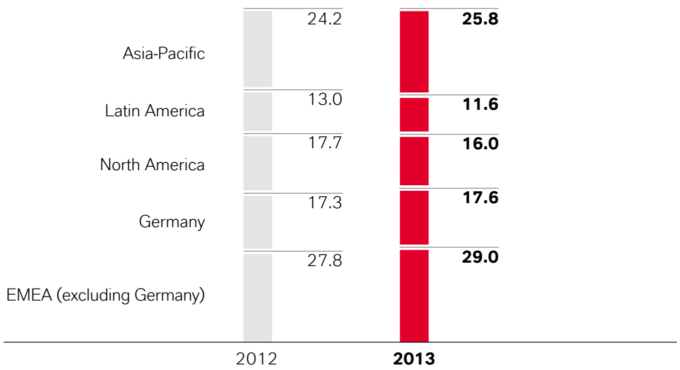
With the number of LANXESS shares in circulation unchanged, earnings per share dropped very sharply from €6.11 in 2012 to minus €1.91.

Earnings per share pre exceptionals were €1.37, against €6.44 the year before. This value was calculated from the earnings per share adjusted for exceptional items and attributable tax effects. In the reporting year, exceptional items came to €381 million after €39 million in 2012.

Business trends by region

Sales by Market

%



Sales by Market

	2012		2013		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	2,526	27.8	2,404	29.0	(4.8)
Germany	1,577	17.3	1,458	17.6	(7.5)
North America	1,611	17.7	1,332	16.0	(17.3)
Latin America	1,185	13.0	966	11.6	(18.5)
Asia-Pacific	2,195	24.2	2,140	25.8	(2.5)
	9,094	**100.0**	**8,300**	**100.0**	**(8.7)**

EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) receded by €122 million, or 4.8%, to €2,404 million in 2013. Adjusted for slight portfolio effects, sales decreased by 4.6%. Sales of the Advanced Intermediates segment were slightly above the prior-year level. Our Performance Polymers and Performance Chemicals segments, by contrast, posted sales declines in the high- and low-single-digit percentage range. Especially in Western Europe – above all in France, Belgium, the Netherlands and Spain – sales decreased by mostly low-double-digit percentages compared to the previous year. However, sales were bolstered by positive growth in demand in other countries such as Italy and Turkey. Business also trended positively in the Czech Republic, Slovenia and Portugal.

The EMEA region (excluding Germany) accounted for 29.0% of Group sales, up 1.2 percentage points on the prior-year level.

Germany

In Germany, our sales came to €1,458 million in 2013, down €119 million, or 7.5%, on the previous year. Whereas Performance Chemicals and Performance Polymers saw business contract by single- to double-digit percentages, our Advanced Intermediates segment posted sales close to the prior-year level.

Germany's share of Group sales rose slightly from 17.3% to 17.6%.

North America

Sales in this region came to €1,332 million, down €279 million or 17.3% from the previous year. Adjusted for negative currency effects and slight portfolio effects, sales were down by 14.8%. This decrease was due mainly to the development of business in the Performance Polymers segment, which posted a sales decline well into the double-digit percentage range. The positive performance of the Advanced Intermediates segment and the largely unchanged sales of the Performance Chemicals segment could not offset this decrease.

At 16.0%, North America's share of Group sales was 1.7 percentage points lower than in the prior year.

Latin America

Sales in Latin America receded by €219 million, or 18.5%, to €966 million in the reporting period. After adjusting for negative currency effects, sales declined by 14.6%. This trend resulted from tangibly weaker business performance in the Performance Polymers and Advanced Intermediates segments, which saw sales declines in the double-digit percentage range. By contrast, the Performance Chemicals segment posted sales just above the prior-year level. Brazil was the main driver of development in the region.

Latin America's share of Group sales dropped from 13.0% to 11.6%.

Asia-Pacific

Sales in the Asia-Pacific region dipped slightly by €55 million, or 2.5%, to €2,140 million in 2013. After adjustment for currency effects and portfolio effects resulting from the 2012 acquisition of Bond-Laminates GmbH and the purchase in 2013 of PCTS Specialty Chemicals Pte. Ltd., Singapore, sales grew by 1.0%. Our Performance Polymers and Performance Chemicals segments achieved operational growth in the low- to mid-single-digit range, while sales in the Advanced Intermediates segment declined by a low-single-digit percentage. We posted a pleasing development of business in China and Singapore, but saw tangible decreases especially in Japan and also in Malaysia and Indonesia.

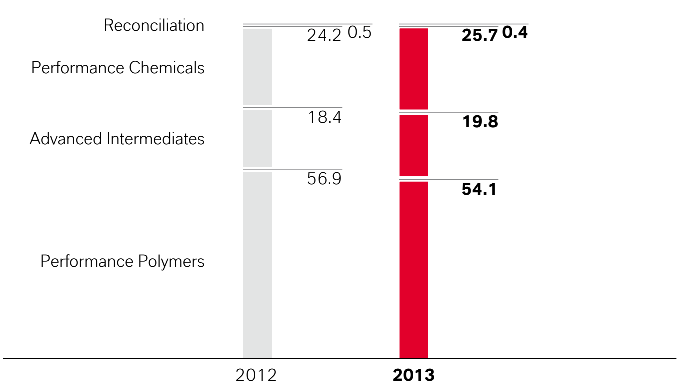
Asia-Pacific's share of Group sales increased year on year, from 24.2% to 25.8%. Thus, it expanded its position as the second-strongest region behind EMEA (excluding Germany) in terms of sales.

Segment information

- Performance Polymers: lower selling prices outweigh impact of higher volumes on sales and earnings
- Advanced Intermediates: higher selling prices mostly offset lower volumes; negative currency effects impact sales; agrochemicals business remains good
- Performance Chemicals: lower sales resulting from reduced volumes and negative currency effects; higher production costs weigh down earnings

Sales by Segment

%



Performance Polymers

Overview of Key Data

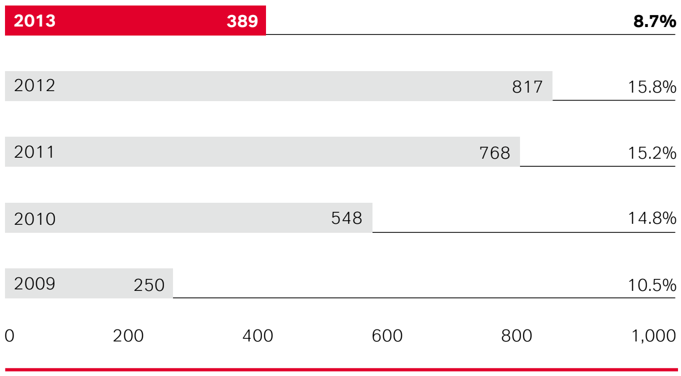
	2012		2013		Change
	€ million	Margin %	€ million	Margin %	%
Sales	5,176		4,486		(13.3)
EBITDA pre exceptionals	817	15.8	389	8.7	(52.4)
EBITDA	808	15.6	372	8.3	(54.0)
Operating result (EBIT) pre exceptionals	608	11.7	135	3.0	(77.8)
Operating result (EBIT)	599	11.6	(117)	(2.6)	< (100)
Cash outflows for capital expenditures	434		385		(11.3)
Depreciation and amortization	209		489		> 100
Employees as of Dec. 31	5,348		5,379		0.6

Business in our Performance Polymers segment declined in 2013 compared to the strong prior year. Sales decreased by 13.3% to €4,486 million. A persistently difficult market environment coupled with significantly lower and volatile prices for raw materials, especially the key raw material butadiene, resulted in a negative price effect of 15.1%. This was mitigated by a volume effect of 3.5%, due in part to capacity expansions. The acquisition of Bond-Laminates GmbH, Brilon, Germany, in September 2012 produced a positive portfolio effect of 0.3%, which was outweighed by negative exchange rate developments.

All business units in this segment were impacted by declining selling prices, whereas volumes developed differently. The Butyl Rubber business unit posted higher volumes, due in part to the capacity added by the completion of the butyl rubber facility in Singapore. By contrast, the Performance Butadiene Rubbers business unit, which, like Butyl Rubber, has close ties to the tire industry and thus to the replacement tire and original equipment manufacturer markets, registered a drop in selling prices driven by raw material prices as well as slightly lower volumes. Our High Performance Materials business unit saw a positive volume trend that was attributable to, among other things, the expansion of its compounding activities. Sales were also supported by portfolio effects resulting from acquisitions. The Keltan Elastomers and High Performance Elastomers business units were impacted by lower selling prices. The exchange rate effect was negative in all of the segment's business units. Sales declined, in part substantially, in all reporting regions but especially in North America, Latin America and Germany, where decreases were in the double-digit percentage range.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



EBITDA pre exceptionals in the Performance Polymers segment decreased by €428 million, or 52.4%, to €389 million. Increasing competition and lower raw material prices resulted in declining selling prices. The cost relief derived from lower raw material prices and the positive development of the segment's volumes could not compensate for the effects of lower selling prices. Earnings were additionally hampered by inventory devaluations, destocking, start-up costs for a new plant and shifts in exchange rates. This was mitigated by a slight portfolio effect from Bond-Laminates GmbH, Brilon, Germany, which was acquired in September 2012. The segment's EBITDA margin pre exceptionals declined from 15.8% to 8.7%.

Exceptional items amounted to €252 million, €17 million of which impacted EBITDA. Most of the exceptional charges were impairment charges recognized by the Keltan Elastomers and High Performance Elastomers business units. The exceptional charges that impacted EBITDA were largely related to measures associated with the Advance program. The exceptional charges of €9 million from the previous year that fully impacted the segment's EBITDA included expenses relating to the integration of acquired business activities.

Advanced Intermediates

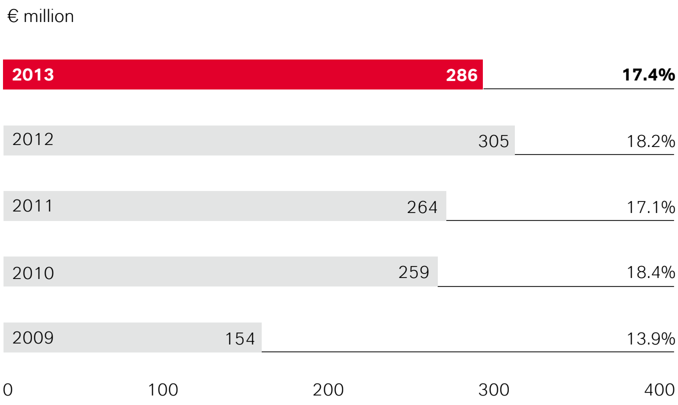
Overview of Key Data

	2012		2013		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,674		1,647		(1.6)
EBITDA pre exceptionals	305	18.2	286	17.4	(6.2)
EBITDA	311	18.6	287	17.4	(7.7)
Operating result (EBIT) pre exceptionals	238	14.2	209	12.7	(12.2)
Operating result (EBIT)	244	14.6	210	12.8	(13.9)
Cash outflows for capital expenditures	92		96		4.3
Depreciation and amortization	67		77		14.9
Employees as of Dec. 31	2,841		2,854		0.5

Our Advanced Intermediates segment recorded sales of €1,647 million in 2013, slightly below the prior-year level. Selling price increases generated a positive price effect of 1.0% that was offset by a negative volume effect of almost the same magnitude. Exchange rates also had a negative effect on sales of 1.5%.

Both of the segment's business units were able to impose higher selling prices. Whereas the Saltigo business unit also profited from a slight increase in demand, volumes in the Advanced Industrial Intermediates business unit were just below the prior-year level. Both business units saw stable demand for agrochemicals in particular but were hampered by negative exchange rate movements. Sales in Latin America and Asia-Pacific decreased. By contrast, Germany and EMEA (excluding Germany) saw a constant trend and business performance in North America was gratifying.

EBITDA and EBITDA Margin Pre Exceptionals



EBITDA pre exceptionals in the Advanced Intermediates segment decreased by €19 million, or 6.2%, to €286 million. Higher selling prices and relief provided by lower raw material costs were counteracted by lower volumes, especially in the Advanced Industrial Intermediates business unit. Performance was additionally hampered by higher production costs and negative exchange rate trends. The EBITDA margin pre exceptionals fell from 18.2% to 17.4%.

Exceptional income in the reporting year amounted to €1 million. The reversal of provisions for the realignment of the Saltigo business unit was offset by expenses for further measures relating to the Advance program.

Performance Chemicals

Overview of Key Data

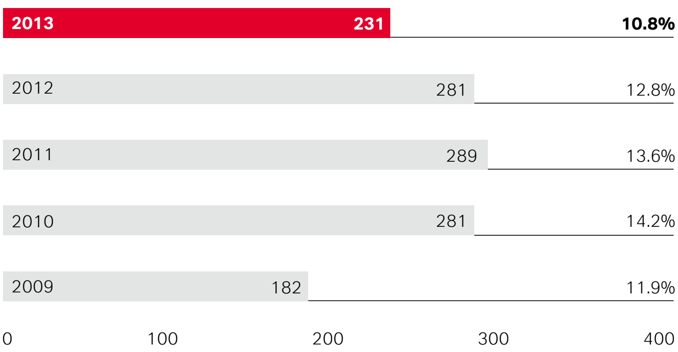
	2012		2013		Change
	€ million	Margin %	€ million	Margin %	%
Sales	2,203		2,132		(3.2)
EBITDA pre exceptionals	281	12.8	231	10.8	(17.8)
EBITDA	264	12.0	181	8.5	(31.4)
Operating result (EBIT) pre exceptionals	196	8.9	139	6.5	(29.1)
Operating result (EBIT)	177	8.0	54	2.5	(69.5)
Cash outflows for capital expenditures	135		111		(17.8)
Depreciation and amortization	87		127		46.0
Employees as of Dec. 31	6,031		5,837		(3.2)

Sales in our Performance Chemicals segment declined by €71 million, or 3.2%, to €2,132 million in 2013. The decrease was mainly attributable to negative currency effects of 3.0%, additionally exacerbated by slightly negative price and volume effects. These were mitigated by a small portfolio effect of 0.5% related to businesses that had been acquired for our Material Protection Products, Functional Chemicals and Rhein Chemie business units.

Overall, the segment's volumes and selling prices were below the prior-year level although the individual business units trended differently. The Functional Chemicals, Rhein Chemie and Liquid Purification Technologies business units saw a positive volume effect. In the Liquid Purification Technologies business unit, the business with water treatment products posted pleasing development. The Rhein Chemie business unit benefited particularly from increased volumes on the Asian market. By contrast, the Material Protection Products, Inorganic Pigments and Leather business units were hampered by negative volume trends. Our Rubber Chemicals business unit was able to grow prices, thus compensating for lower volumes. Currency effects had a negative impact in all of the segment's business units. The percentage sales decrease was largest in Latin America and Germany.

EBITDA and EBITDA Margin Pre Exceptionals

€ million



EBITDA pre exceptionals for the Performance Chemicals segment receded by €50 million, or 17.8%, from the prior year to €231 million. This decline was attributable above all to increased production costs and slightly higher raw material prices alongside decreasing volumes and lower selling prices. A small portfolio effect was more than offset by adverse exchange rate movements. The EBITDA margin pre exceptionals receded from 12.8% to 10.8%.

The segment recorded exceptional items of €85 million in the reporting year, €35 million of which did not impact EBITDA. They were mostly accounted for by impairment charges recognized by the Rubber Chemicals business unit. The exceptional charges that impacted EBITDA related especially to measures associated with the Advance program.

Reconciliation

Overview of Key Data

€ million	2012	2013	Change %
Sales	41	35	(14.6)
EBITDA pre exceptionals	(180)	(171)	5.0
EBITDA	(197)	(216)	(9.6)
Operating result (EBIT) pre exceptionals	(195)	(195)	0.0
Operating result (EBIT)	(212)	(240)	(13.2)
Cash outflows for capital expenditures	35	32	(8.6)
Depreciation and amortization	15	24	60.0
Employees as of Dec. 31	2,957	3,273	10.7

2012 figures restated

EBITDA pre exceptionals for the Reconciliation came to minus €171 million, compared with minus €180 million in the prior year. The exceptional charges of €45 million, which fully impacted EBITDA, primarily related to measures associated with the Advance program, expenses for the design and implementation of IT projects and for portfolio adjustments, to the extent that these expenses could not be allocated to specific segments or business units. The exceptional charges of €17 million reported in the Reconciliation in 2012, all of which impacted EBITDA, related to expenses for the design and implementation of IT projects and for portfolio adjustments, to the extent that these expenses could not be allocated to specific segments or business units.

Statement of financial position and financial condition

Statement of financial position

- Reduction in total assets, mainly due to a decrease in working capital and impairment charges in the Performance Polymers and Performance Chemicals segments
- Equity ratio below prior year, primarily due to net loss
- Net financial liabilities above prior year at €1,731 million

Structure of the Statement of Financial Position

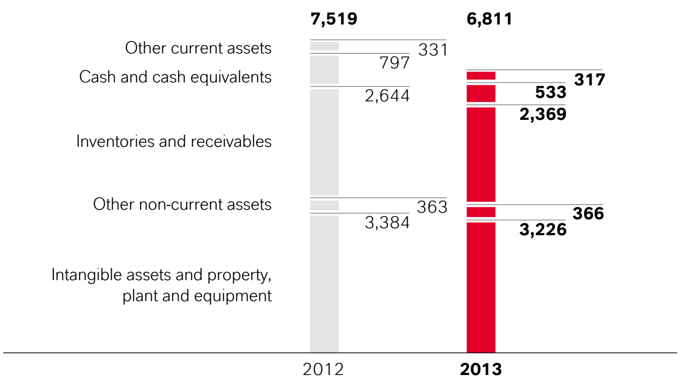
	Dec. 31, 2012		Dec. 31, 2013		Change
	€ million	%	€ million	%	%
Assets					
Non-current assets	3,747	49.8	3,592	52.7	(4.1)
Current assets	3,772	50.2	3,219	47.3	(14.7)
Total assets	**7,519**	**100.0**	**6,811**	**100.0**	**(9.4)**
Equity and liabilities					
Equity (including non-controlling interests)	2,330	31.0	1,900	27.9	(18.5)
Non-current liabilities	3,559	47.3	3,029	44.5	(14.9)
Current liabilities	1,630	21.7	1,882	27.6	15.5
Total equity and liabilities	**7,519**	**100.0**	**6,811**	**100.0**	**(9.4)**

2012 figures restated

Structure of the statement of financial position Total assets of the LANXESS Group amounted to €6,811 million as of December 31, 2013, a decrease of €708 million, or 9.4%, on the prior-year figure. This was primarily due to the decline in near-cash assets, the reduction of working capital and write-downs. The latter mainly impacted the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals business units. The sum of depreciation, amortization and write-downs exceeded capital expenditures for property, plant and equipment. The ratio of non-current assets to total assets increased from 49.8% to 52.7%. On the equity and liabilities side, equity decreased due to negative currency translation adjustments in other equity components and to the net loss recorded. At the end of 2013, the equity ratio was 27.9%, after 31.0% in the previous year.

Structure of the Statement of Financial Position – Assets

€ million



Non-current assets fell by €155 million, or 4.1%, to €3,592 million. Additions from capital expenditures for intangible assets and property, plant and equipment totaled €676 million, against the prior-year figure of €734 million. They were offset primarily by depreciation and amortization of €438 million, against €374 million in the previous year, and by write-downs on intangible assets and property, plant and equipment of €279 million, against €4 million in 2012. Cash outflows for purchases of property, plant, equipment and intangible assets, at €624 million, were below the prior-year figure of €696 million on account of our stringent project prioritization. The first-time full consolidation of LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, previously accounted for as an associate, and the first-time consolidation of PCTS Specialty Chemicals Pte. Ltd., Singapore, which was acquired in April 2013, led to additions in the mid-double-digit million euro range. The carrying amount of investments accounted for using the equity method increased by €4 million to €12 million. This change resulted mainly from the net-asset driven adjustment to the carrying amount of the interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, and to the change in the accounting for LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, in the consolidated financial statements. By contrast, the decline in investments in other affiliated companies was mostly influenced by the fair-value remeasurement of the strategic minority interest in BioAmber Inc., Minneapolis, United States, in light of that company's recent share performance. At €55 million, other non-current financial assets were substantially below the prior-year level, primarily due to the decrease in receivables associated with pension obligations. The ratio of non-current assets to total assets was 52.7%, up from 49.8% on December 31, 2012.

Current assets decreased by €553 million, or 14.7%, against the prior-year value of €3,772 million, to €3,219 million. The ratio of current assets to total assets declined to 47.3% from 50.2% in the previous year. On account of lower raw material prices and targeted inventory reductions, also supported by exchange rate development, inventories decreased by €228 million, or 14.9%, to €1,299 million. Days of sales in inventories (DSI) improved from 64.7 to 58.0. Trade receivables decreased by €47 million to €1,070 million against the previous year, mainly due to negative currency effects. Days of sales outstanding (DSO) were virtually unchanged at 47.8. Minimal portfolio effects from the acquisitions made during the reporting year had no significant influence on net working capital. Near-cash assets decreased by €305 million to €106 million following the sale of shares in money market funds. Cash and cash equivalents rose by €41 million compared to the end of 2012, to €427 million. This development was also influenced by the sale of money market paper.

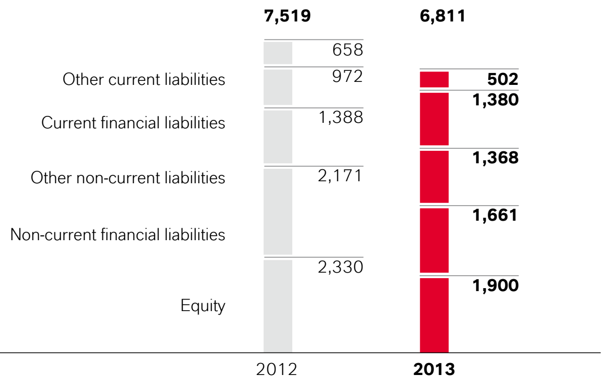
The LANXESS Group has significant internally generated intangible assets that are not reflected in the statement of financial position due to accounting rules. These include the brand equity of LANXESS and the value of other brands of the Group. A variety of measures was deployed in the reporting period to continually enhance these assets, which helped us to maintain our business units' sound market positions.

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

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

Structure of the Statement of Financial Position – Equity and Liabilities

€ million



2012 figures restated

Equity, including non-controlling interests, amounted to €1,900 million, down from €2,330 million in the previous year. The equity ratio was 27.9% after 31.0% at the end of 2012. Prominent factors in the equity decrease were negative currency translation adjustments in other equity components and the net loss recorded. The dividend payout of €83 million to LANXESS AG stockholders in May 2013 also had an effect.

Non-current liabilities decreased by €530 million to €3,029 million as of December 31, 2013. This resulted mainly from the other non-current financial liabilities, which were €518 million lower than the previous year at €1,649 million. The decrease was largely due to the reclassification into other current financial liabilities of the €500 million Eurobond maturing in April 2014. By contrast, provisions for pensions and other post-employment benefits increased by €50 million as against the end of 2012, to €943 million. This increase mainly related to the Advance program and additional vested rights established in the reporting period. Other long-term provisions decreased by a similar magnitude for reasons that include a decline in long-term personnel-related commitments. The ratio of non-current liabilities to total assets was 44.5%, slightly down from 47.3% at the end of 2012.

Current liabilities increased by a substantial €252 million, or 15.5%, to €1,882 million against December 31, 2012. This was largely the result of the aforementioned reclassification into other current financial liabilities of the €500 million Eurobond. At €690 million, trade payables were down substantially on the €795 million reported at the end of 2012 due to a slight decrease in purchasing volumes and lower prices for our strategic raw materials. The increase in current liabilities was also curtailed by the decrease in other current provisions, primarily due to their utilization for bonus payments to employees for fiscal 2012 and to lower allocations in the reporting year. The ratio of current liabilities to total assets was 27.6% at December 31, 2013, compared with 21.7% at the end of 2012.

Net financial liabilities increased by €248 million from the previous year to €1,731 million. Cash outflows for capital expenditures, interest and dividends exceeded cash inflows from operating activities.

The Group's key ratios developed as follows:

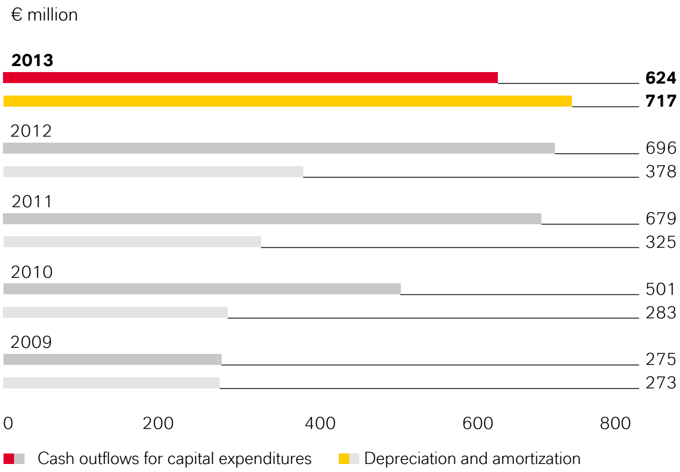
Ratios

%		2009	2010	2011	2012	2013
Equity ratio	Equity[1] / Total assets	28.5	31.1	30.2	31.0	27.9
Non-current asset ratio	Non-current assets / Total assets	47.0	48.3	50.7	49.8	52.7
Asset coverage I	Equity[1] / Non-current assets	60.7	64.3	59.4	62.2	52.9
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	165.8	153.9	137.3	157.2	137.2
Funding structure	Current liabilities / Total liabilities	30.9	37.2	43.5	31.4	38.3

1) Including non-controlling interests

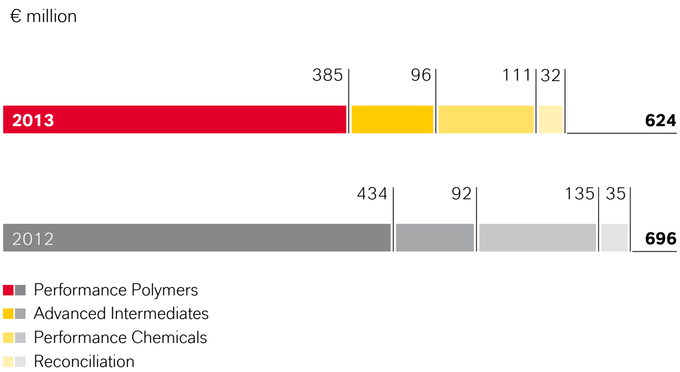
Capital expenditures In 2013, capital expenditures for property, plant and equipment and intangible assets came to €676 million, compared with €734 million the year before, and led to cash outflows of €624 million (2012: €696 million). Depreciation and amortization totaled €717 million in the same period (2012: €378 million). This figure included €270 million in write-downs reported as exceptional items (2012: €2 million). Adjusted for these write-downs, capital expenditures in support of our growth strategy exceeded depreciation and amortization by a substantial 51% (2012: 95%).

Cash Outflows for Capital Expenditures vs. Depreciation and Amortization



Asia-Pacific. Capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in all segments, especially capacity improvements for the Advanced Industrial Intermediates business unit and the expansion of several plants for the High Performance Elastomers business unit. The continued large share of capital expenditures made in the Asia-Pacific region in the reporting year is due primarily to the construction of a new production plant for high-performance neodymium-based performance butadiene rubber (Nd-PBR) for the Performance Butadiene Rubbers business unit in Singapore and the construction of a new production plant for EPDM rubber for the Keltan Elastomers business unit in Changzou, China.

Cash Outflows for Capital Expenditures by Segment



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

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

Less than two-thirds of the capital expenditures in 2013 went toward expansion or efficiency improvement measures, while the rest went to maintain existing facilities. This underlines our goal of generating further organic growth through investment, as described under "Earnings strategy" in the "Strategy" section of this combined management report.

In regional terms, 34% of our capital expenditures in the reporting period were made in Germany, 20% in the EMEA region (excluding Germany), 7% in North America, 7% in Latin America and 32% in

In the Performance Polymers segment, capital expenditures amounted to €405 million (2012: €455 million), €385 million (2012: €434 million) of which were cash outflows. Depreciation and amortization amounted to €489 million (2012: €209 million). The major capital expenditures in this segment were made in the Performance Butadiene Rubbers business unit. Capital expenditures in the Advanced Intermediates segment amounted to €113 million (2012: €104 million). Cash outflows came to €96 million (2012: €92 million), exceeding the depreciation and amortization of €77 million (2012: €67 million). This figure includes capital expenditures in the Advanced Industrial Intermediates business unit for expansion of the cresol plant in Leverkusen, Germany. In the Performance Chemicals segment, capital expenditures came to €117 million (2012: €139 million), €111 million (2012: €135 million) of which were cash outflows. Depreciation and amortization stood at €127 million (2012: €87 million). Key capital expenditures were the construction of a new CO_2 concentration unit in Newcastle, South Africa, for the Leather business unit and the construction of a state-of-the-art plant for iron oxide red pigments in Ningbo, China, for the Inorganic Pigments business unit.

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

Selected Capital Expenditure Projects 2013

Segment	Site	Description
Performance Polymers		
Butyl Rubber	Singapore	Construction of a new butyl rubber plant, start-up in the first quarter of 2013
Performance Butadiene Rubbers	Singapore	Construction of a new butadiene rubber plant, start-up in the first half of 2015
High Performance Elastomers	Dormagen, Germany	Expansion of production capacities for chloroprene rubbers
Keltan Elastomers	Sittard-Geleen, Netherlands	Investment to convert EPDM rubber production to the innovative Keltan® ACE™ technology, completion in 2013
Keltan Elastomers	Changzhou, China	Construction of an EPDM rubber plant, start-up in 2015
High Performance Materials	Porto Feliz, Brazil	Construction of a new compounding plant for high-tech plastics, completion in 2014
High Performance Materials	Antwerp, Belgium	Expansion of glass fiber capacities
High Performance Materials	Antwerp, Belgium	Construction of a new polyamide plastics plant, completion in 2014
Advanced Intermediates		
Advanced Industrial Intermediates	Leverkusen, Germany	Expansion of cresol production, completion mid-2013
Performance Chemicals		
Rhein Chemie	Porto Feliz, Brazil	Construction of a plant for high-performance curing bladders, start-up in 2013
Rhein Chemie	Lipetsk, Russia	Construction of a new plant for rubber additives and release agents, start-up in 2013
Liquid Purification Technologies	Leverkusen, Germany	Construction of a production line for weakly acidic cation exchange resins, completion mid-2014
Inorganic Pigments	Ningbo, China	Construction of a state-of-the-art production facility for iron oxide red pigments
Leather	Changzhou, China	Construction of a new plant for leather chemicals, start-up in April 2013
Leather	Newcastle, South Africa	Construction of a CO_2 concentration unit, start-up in the fourth quarter of 2013

Expansion of the Group portfolio Please see "Additions to the Group portfolio" in this combined management report for more information on the subsidiaries and affiliates added to our portfolio in fiscal 2013.

Financial condition

- Business-related decline in operating cash flow to below prior-year level
- Inflow from reduction in cash tied up in working capital due to lower inventories
- Cash used for investing activities reflects extensive capital expenditures for growth projects
- Liquidity position remains sound

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

Cash Flow Statement

€ million	2012	2013	Change
Income before income taxes	660	(239)	(899)
Depreciation and amortization	378	717	339
Other items	(82)	53	135
Net cash provided by operating activities before change in working capital	**956**	**531**	**(425)**
Change in working capital	(118)	110	228
Net cash provided by operating activities	**838**	**641**	**(197)**
Net cash used in investing activities	**(674)**	**(342)**	**332**
Net cash provided by (used in) financing activities	**46**	**(260)**	**(306)**
Change in cash and cash equivalents from business activities	210	39	(171)
Cash and cash equivalents as of December 31	386	427	41

2012 figures restated

Cash provided by operating activities, before changes in working capital, decreased by €425 million to €531 million in fiscal 2013. This was mainly due to the €899 million decrease in income before income taxes to minus €239 million. Due to the expanded asset base, resulting from our extensive investment activities in recent years, and write-downs recognized especially in the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals business units, depreciation and amortization increased from €378 million to €717 million. The other items in 2012 included payments that had to be made to counterparties under roll-over hedges for intra-Group foreign currency loans due to the marked decrease in the value of the euro. These payments did not affect earnings.

The decrease in working capital compared to December 31, 2012 resulted in a cash inflow of €110 million. The outflow from the change in working capital in 2012 was €118 million. The development during the reporting period was mainly attributable to changes in inventories resulting from lower raw material prices and the specific reduction of inventories. This was offset in part by a decrease in trade payables. The net cash provided by operating activities was €641 million, against €838 million in 2012.

LANXESS's investing activities in fiscal 2013 resulted in a cash outflow of €342 million, down from €674 million in the previous year. Disbursements for intangible assets and property, plant and equipment came to €624 million, which was below the prior-year level of €696 million. The cash outflows for the acquisition of subsidiaries and other businesses, net of acquired cash and cash equivalents and subsequent purchase price adjustments, amounted to €15 million, against €44 million the previous year. The acquisitions made in the reporting year were PCTS Specialty Chemicals Pte. Ltd.. Singapore, and the phosphorus chemicals portfolio of Thermphos France S.A.R.L., Epierre, France. Cash inflows from financial assets came to €290 million and mainly comprised the proceeds from the sale of shares in money market funds. These were diminished by a cash outflow to offset the loss reported by Currenta GmbH & Co. OHG, Leverkusen, Germany.

Free cash flow – the difference between the cash inflows from operating activities and the cash used in investing activities – increased by €135 million to €299 million.

Net cash used in financing activities came to €260 million, against a net inflow of €46 million the year before. Cash outflows of €58 million were attributable to the net repayment of borrowings. Interest payments and other financial disbursements of €119 million were comparable with the previous year's amount of €123 million. An outflow of €83 million was accounted for by the dividend paid to the stockholders of LANXESS AG for fiscal 2012 (2012: €71 million).

The net change in cash and cash equivalents from business activities in fiscal 2013 was €39 million, against €210 million the previous year. After taking into account currency-related and other changes in cash and cash equivalents of €2 million, cash and cash equivalents at the closing date amounted to €427 million, against €386 million at the previous year's closing date. Taken together with near-cash assets (short-term investment of liquid assets in money market funds) of €106 million, against €411 million the previous year, the Group retained a sound liquidity position of €533 million as of December 31, 2013, compared to €797 million at the end of 2012.

Principles and objectives of financial management LANXESS pursues a conservative financial policy characterized by the forward-looking management of financial risks. Our aim is to be able to provide sufficient liquidity to our business operations at all times, regardless of cyclical fluctuations in the real economy or financial markets. The debt level is largely aligned to the ratio systems of the leading rating agencies for investment-grade companies. Measured as the ratio of net financial debt to EBITDA pre exceptionals, the debt level should stay within a range of 1.0 to 1.5 through a normal business cycle. In addition to liquidity risk, financial management also covers other financial risks, such as interest and foreign exchange risks. Here too, we aim to mitigate the financial risks that arise and increase planning reliability, partly by using derivative financial instruments. Detailed information about the management of these risks is contained in the "Risk report" in this combined management report and under Note [35], "Financial instruments," to the consolidated financial statements.

LANXESS Group ratings Access to the capital markets and good relations with German and international commercial banks are essential for achieving our financial management objectives. Accordingly, ongoing dialogue and communication with banks, investors and rating agencies are of crucial importance. In fiscal 2013, the latter assessed LANXESS's creditworthiness with ratings of BBB and Baa2, but with a negative outlook. Justifying this change in outlook, the rating agencies cited factors such as the currently weaker financial data and the uncertainty as to how soon these can be brought back into line with their specifications.

Development of LANXESS Ratings and Rating Outlook Since 2009

	2009	2010	2011	2012	2013
Standard & Poor's	BBB/stable May 28, 2009	BBB/stable Sep. 1, 2010	BBB/stable Aug. 23, 2011	BBB/stable Aug. 31, 2012	BBB/negative June 27, 2013
Moody's Investors Service	Baa2/stable May 26, 2009	Baa2/stable May 19, 2010	Baa2/stable Nov. 23, 2011	Baa2/stable Sep. 26, 2012	Baa2/negative Aug. 14, 2013
Fitch Ratings	BBB/stable July 20, 2009	BBB/stable Dec. 17, 2010	BBB/stable Nov. 22, 2011	BBB/stable Sep. 13, 2012	BBB/negative Aug. 15, 2013

Financing analysis LANXESS started fiscal 2013 with a very sound financial and liquidity position.

Over the course of 2013, we made no significant changes to our financial portfolio, which we had already substantially improved in fiscal 2012. These improvements included the timely creation of financial reserves for redemption of the €500 million bond that matures in April 2014. We funded our growth program from business operations and using existing liquidity and credit lines.

LANXESS launched a €2.5 billion debt issuance program in March 2009. On this basis and aligned with the prevailing market conditions, bonds can be placed on the capital market very flexibly with respect to timing and volume. As of December 31, 2013, just under €2.0 billion of the €2.5 billion financing facility had been utilized to issue bonds and private placements. Utilization will be correspondingly reduced after redemption of our €500 million bond when it matures in April 2014. Capital market financing is an important component in LANXESS's financing mix and ensures the diversification of our financing sources.

Current financial liabilities increased from €167 million in 2012 to €668 million at December 31, 2013. This increase was primarily due to the reclassification from non-current into current financial liabilities of the €500 million bond which matures in April 2014.

We made only limited use of finance leases, which are reported as financial liabilities in the statement of financial position. As of December 31, 2013, the financial liabilities from finance leases amounted to €49 million, against €78 million in the previous year. The LANXESS Group uses operating leases mainly for operational reasons and not as a means of financing. Minimum future payments relating to operating leases totaled €492 million, against €496 million the previous year.

As of December 31, 2013, LANXESS had no material financing items not reported in the statement of financial position in the form of factoring, asset-backed structures or project financing, for example.

LANXESS's total financial liabilities, net of accrued interest, declined from €2,280 million in 2012 to €2,264 million at December 31, 2013. Net financial liabilities – the total financial liabilities net of cash and near-cash assets – rose by €248 million, from €1,483 million to €1,731 million.

Of the total financial liabilities, 98% bear a fixed interest rate over the term of the financing, which is almost level with the previous year. Interest rate changes therefore do not have a material effect on LANXESS's financial condition considering the current financing structure. The proportion of loans and bonds denominated in euros averaged 96% in the reporting year, which was level with the prior year. The weighted average interest rate for our financial liabilities was unchanged at 4.8% at year end 2013.

The overview on the following page shows LANXESS's financing structure as of December 31, 2013 in detail, including its principal liquidity reserves.

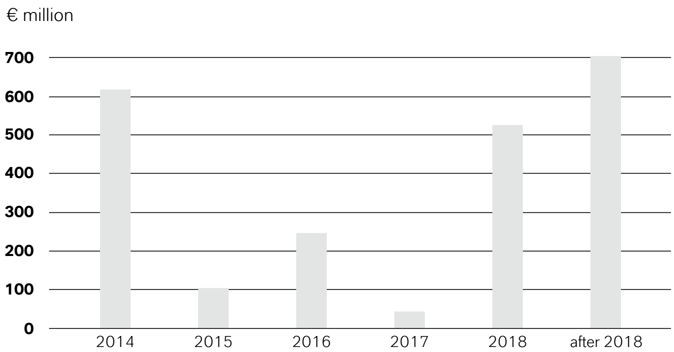
Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant[1)]
Eurobond 2009/2014 (€500 million)	500	April 2014	7.750	no
Eurobond 2009/2016 (€200 million)	199	September 2016	5.500	no
Eurobond 2011/2018 (€500 million)	497	May 2018	4.125	no
Eurobond 2012/2022 (€500 million)	493	November 2022	2.625	no
Private placement 2012/2022 (€100 million)	100	April 2022	3.500	no
Private placement 2012/2027 (€100 million)	99	April 2027	3.950	no
CNH bond 2012/2015 (CNH 500 million)	60	February 2015	3.950	no
Investment loan	55	December 2017		no
Development bank loan	109	September 2018		no
Other loans	103	n/a		no
Finance lease	49	n/a		no
Total financial liabilities	**2,264**			
Cash and cash equivalents	427	≤ 3 months		
Near-cash assets	106	≤ 3 months		
Total liquidity	**533**			
Net financial liabilities	**1,731**			

1) Ratio of net financial liabilities to EBITDA pre exceptionals

Due to extensive financing measures taken in past fiscal years, we have continually improved the maturity structure of our financial liabilities. At the time this combined management report was finalized, LANXESS was not exposed to any refinancing risks as it had taken early action to refinance those financial liabilities that are due to mature. The other loans related mainly to the use of credit facilities by subsidiaries in Brazil, China, India and Argentina, some of which mature in 2014 and are extended on a regular, e.g. annual, basis.

Maturity Profile of LANXESS Financial Liabilities as of Dec. 31, 2013



Liquidity analysis In addition to cash of €427 million and investments in highly liquid AAA money market funds of €106 million, LANXESS has additional sizeable liquidity reserves in the form of undrawn credit facilities. The investments in money market funds are undertaken only at European Group companies that are not subject to restrictions on foreign exchange and capital transfers. We can therefore freely dispose of the funds. Around 90% of our cash is held in Group companies in countries with no restrictions on foreign exchange and capital transfers. Only about 10% of our cash is held in companies in regulated capital markets where cash transfers are restricted.

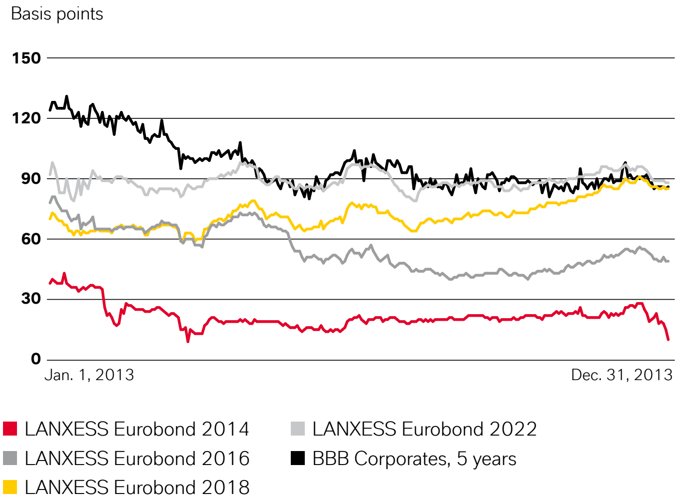
Thanks to our good liquidity position, our solvency was assured at all times in fiscal 2013. This is an aspect that was assessed positively by the rating agencies in their credit ratings in 2013.

By far the most important of LANXESS's credit lines is the syndicated credit facility of €1.25 billion, which has not been significantly drawn upon to date. In February 2014, we extended this facility by one year until February 2019, with the option to extend for a further year. This credit facility is designed as an operating line of credit and to provide funds for capital investment. It corresponds to market requirements in the European syndicated loan market for investment-grade companies with a BBB rating. Another important credit line is the €200 million facility we have with the European Investment Bank. None of our major loan agreements contains a financial covenant. LANXESS had unused credit lines totaling around €1.5 billion as of December 31, 2013, unchanged against the end of the previous year.

The total of liquid assets and undrawn credit lines gives us a liquidity scope of around €2.0 billion, compared to €2.3 billion in the prior year. In view of our growth targets and the prevailing economic environment, this liquidity reserve is an expression of our forward-looking and conservative financial policy. Our solvency is safeguarded for the short and long term.

Bond performance – evolution of credit spread in 2013 An important indicator for corporate bonds, apart from the absolute change in price, is the relative valuation of the risk specific to the issuer in comparison to a reference interest rate. This credit risk premium is expressed in what is known as the credit spread. Due to the higher default risk associated with longer bond maturity, long-term bonds generally feature a wider credit spread. This, and factors such as liquidity and trading volume, also apply to the various LANXESS bonds. The chart below shows the evolution of the credit spreads of our bonds and the average credit spread of corporate bonds with a BBB rating and a five-year maturity in comparison to the interest rate swap curve.

LANXESS Eurobond Spreads vs. BBB Corporates Index



The credit risk premiums on corporate bonds were less volatile in 2013 and declined year on year, reflecting the overall positive situation on Europe's capital markets.

The credit risk premiums on LANXESS bonds moved laterally throughout much of the fiscal year, putting them below or on the same level as those for the BBB-rated reference group. The development of our credit spreads underscores the fact that we have good access to the capital market at costs lower than or similar to those of other BBB-rated companies.

Management's summary of business development and the fiscal year

Business development in 2013 was unfavorable and largely characterized by declining raw material prices, especially for our key raw material butadiene, and the resulting adjustment of selling prices. In all regions, sales were below the prior-year level, although to a differing degree.

Overall, sales were down 8.7% compared to the previous year. Adjusted for currency and portfolio effects, operational sales decreased by 6.9%, which impacted the Performance Polymers segment especially in nearly all regions. The Advanced Intermediates segment benefited from predominantly solid demand in the agrochemicals area, while coatings trended downward. In the Performance Chemicals segment in particular, business performance was hampered by exchange rate movements.

EBITDA pre exceptionals in 2013 came in at €735 million, almost 40% below the prior-year level. The EBITDA margin declined to 8.9% from 13.4% in 2012. Exceptional charges relating to the Advance program and impairment charges in the Performance Polymers and Performance Chemicals segments had a negative impact on net income and drove earnings per share substantially below the prior-year value.

We upheld our conservative accounting and financing policy. In accordance with the consistency principle, we essentially applied the same measurement methods and exercised the same discretion as in the previous year. Our equity ratio stood at 27.9%. Total assets decreased mainly due to the decline in near-cash assets, the reduction of working capital and write-downs. For further information about the write-downs, please see the explanations under "Estimation uncertainties and exercise of discretion" in the notes to the consolidated financial statements as of December 31, 2013.

Our statement of financial position shows that our liquidity position remains solid. Additional substantial liquidity reserves in the form of undrawn credit lines are also available. Of the total financial liabilities, some 98% bear a fixed interest rate over the term of the financing, which is comparable to the previous year. Interest rate changes do not have a material effect on the LANXESS Group's financial condition considering the current financing structure. Our financial liabilities are free of financial covenants.

Net financial liabilities are above the prior-year level at €1,731 million and, combined with the weaker earnings performance, result in a net debt ratio of 2.4, which is outside the target range of 1.0 to 1.5 for a normal business cycle. In fiscal 2013, the rating agencies reconfirmed the LANXESS Group's creditworthiness with ratings of BBB and Baa2. However, in light of the company's currently weaker financial data, the outlook has been changed to negative.

We made appropriate corrections to our assets affected by the risks associated with the changed competitive situation resulting from growing capacities, lower selling prices and less favorable prices for raw materials and energy, especially compared to competitors with access to less expensive shale gas. Despite the outflow of liquid and near-cash assets in fiscal 2013, we believe that our company's business situation remains positive on account of its balanced financing position in the long term and the intactness of the megatrends in the medium term.

Key Business Data – Multi-Period Overview

€ million	2009	2010	2011	2012	2013
Earnings performance					
Sales	5,057	7,120	8,775	9,094	8,300
EBITDA pre exceptionals	465	918	1,146	1,223	735
EBITDA margin pre exceptionals	9.2%	12.9%	13.1%	13.4%	8.9%
EBITDA	422	890	1,101	1,186	624
Operating result (EBIT) pre exceptionals	204	635	826	847	288
Operating result (EBIT)	149	607	776	808	(93)
EBIT margin	2.9%	8.5%	8.8%	8.9%	(1.1)%
Net income (loss)	40	379	506	508	(159)
Earnings per share (€)	0.48	4.56	6.08	6.11	(1.91)
Liquidity					
Cash flow from operating activities	565	430	672	838	641
Depreciation and amortization	273	283	325	378	717
Cash outflows for capital expenditures	275	501	679	696	624
Net financial liabilities	794	913	1,515	1,483	1,731
Assets and liabilities					
Total assets	5,068	5,666	6,878	7,519	6,811
Non-current assets	2,382	2,738	3,489	3,747	3,592
Current assets	2,686	2,928	3,389	3,772	3,219
Net working capital	1,096	1,372	1,766	1,849	1,679
Equity (including non-controlling interests)	1,445	1,761	2,074	2,330	1,900
Pension provisions	569	605	679	893	943
Indicators					
ROCE	5.9%	17.0%	17.2%	15.6%	5.8%
Equity ratio	28.5%	31.1%	30.2%	31.0%	27.9%
Non-current asset ratio	47.0	48.3	50.7	49.8	52.7
Asset coverage I	60.7	64.3	59.4	62.2	52.9
Net working capital/sales	21.7%	19.3%	20.1%	20.3%	20.2%
Employees (as of December 31)	14,338	14,648	16,390	17,177	17,343

2012 figures restated

Earnings, asset and financial position of LANXESS AG

LANXESS AG serves primarily as the management holding company for the LANXESS Group. The principal management functions for the entire Group are performed by the Board of Management. The Board of Management shapes Group strategy and manages resource allocation, infrastructure and organization. As the Group management company, LANXESS AG is responsible for financing and communication with the company's key stakeholders. The economic performance of LANXESS AG depends principally on that of the operating companies in the LANXESS Group and on the development of the chemical industry.

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

Sales and earnings of LANXESS AG

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

€ million	2012	2013	Change %
Sales	**5**	**4**	**(20.0)**
Cost of sales	(5)	(4)	(20.0)
Gross profit	**0**	**0**	**0.0**
General administration expenses	(44)	(39)	(11.4)
Other operating income	1	2	100.0
Other operating expenses	(3)	(2)	(33.3)
Operating result	**(46)**	**(39)**	**(15.2)**
Income from investments in affiliated companies	283	169	(40.3)
Net interest expense	(71)	(85)	19.7
Other financial income and expenses – net	(8)	(14)	75.0
Financial result	**204**	**70**	**(65.7)**
Income before income taxes	**158**	**31**	**(80.4)**
Income taxes	(54)	4	< (100)
Net income	**104**	**35**	**(66.3)**
Carryforward to new account	44	13	(70.5)
Allocation to retained earnings	(52)	0	(100.0)
Distributable profit	**96**	**48**	**(50.0)**

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

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

General administration expenses decreased against the previous year, down €5 million, or 11.4%, to €39 million. They principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The operating result improved by €7 million to minus €39 million.

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, and other financial income and expense, decreased by €134 million, or 65.7%, to €70 million. This change was primarily due to the profit transfer of €169 million from LANXESS Deutschland GmbH, which was €114 million lower than in the previous year. The €14 million increase in net interest expense to €85 million had an adverse effect and was mainly attributable to additional borrowings by subsidiaries.

Income before income taxes came to €31 million, following €158 million in the previous year. A net gain from income taxes of €4 million comprised €3 million in tax expenses for 2013 and a tax gain of €7 million for the previous years. Net income decreased by €69 million to €35 million.

Taking into account the profit carryforward of €13 million, the distributable profit decreased to €48 million as of December 31, 2013.

Asset and capital structure of LANXESS AG

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

	Dec. 31, 2012		Dec. 31, 2013		Change
	€ million	%	€ million	%	%
ASSETS					
Financial assets	757	22.3	757	23.5	0.0
Non-current assets	**757**	**22.3**	**757**	**23.5**	**0.0**
Receivables from affiliated companies	1,850	54.6	1,967	61.1	6.3
Other assets	39	1.2	25	0.7	(35.9)
Liquid assets and securities	734	21.7	467	14.5	(36.4)
Current assets	**2,623**	**77.5**	**2,459**	**76.3**	**(6.3)**
Prepaid expenses	**6**	**0.2**	**5**	**0.2**	**(16.7)**
Total assets	**3,386**	**100.0**	**3,221**	**100.0**	**(4.9)**
EQUITY AND LIABILITIES					
Equity	**1,219**	**36.0**	**1,171**	**36.4**	**(3.9)**
Provisions	**117**	**3.4**	**101**	**3.1**	**(13.7)**
Liabilities to banks	68	2.0	59	1.8	(13.2)
Payables to affiliated companies	1,973	58.3	1,886	58.6	(4.4)
Other liabilities	9	0.3	4	0.1	(55.6)
Liabilities	**2,050**	**60.6**	**1,949**	**60.5**	**(4.9)**
Total assets	**3,386**	**100.0**	**3,221**	**100.0**	**(4.9)**

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 €3,221 million as of December 31, 2013, which was €165 million, or 4.9%, below 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 increased from 22.3% to 23.5%. Current assets declined by €164 million to €2,459 million and accounted for 76.3% of total assets, compared with 77.5% in 2012. Receivables from subsidiaries accounted for 61.1% of total assets and related principally to financial transactions and short-term loans. The share of bank balances and securities in total assets decreased from 21.7% to 14.5%.

Equity decreased by €48 million to €1,171 million due to the dividend payout for 2012, which was higher than net income for the reporting period. The equity ratio was 36.4%, after 36.0% at the end of 2012.

Liabilities decreased by €101 million to €1,949 million, largely on account of payables to subsidiaries, which were €87 million lower than the previous year at €1,886 million. The provisions fell by €16 million to €101 million and related mainly to commitments to employees and statutory obligations.

Employees

As of December 31, 2013, the LANXESS Group had a total of 17,343 employees, against 17,177 at the closing date of the prior year. This represented a slight year-on-year increase of 166 worldwide, resulting from longer-term growth and investment projects. Headcount was slightly higher during 2013 but toward the end of the year was impacted by Advance, our extensive efficiency and restructuring program that is expected to lead to headcount reductions of 1,000 employees worldwide by 2015. 14,139, or 81.5%, of our employees were men and 3,204, or 18.5%, were women. The number of employees who were non-German nationals was 9,639. In addition, we had 819 employees worldwide working on temporary employment contracts. LANXESS AG had 144 employees as of the reporting date, versus 141 the year before.

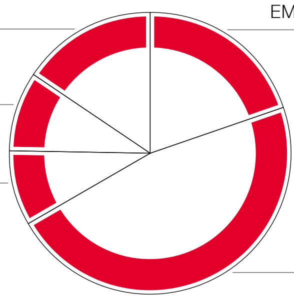
Part-time employees accounted for 7.6% of the workforce at our German core companies as of the reporting date. Individuals with severe disabilities made up 5.4% of the workforce at our German companies. In addition, we routinely award contracts to work centers for the disabled.

In the EMEA region (excluding Germany), the number of employees as of December 31, 2013 was 3,444, up from 3,442 in the previous year. In Germany, the headcount grew from 8,072 to 8,117. The number of employees in the North America region fell to 1,526, from 1,553 as of December 31, 2012, while Latin America saw its workforce shrink from 1,626 at the end of last year, to 1,560. At the reporting date, we employed 2,696 people in the Asia-Pacific region, which is 212 more than a year ago.

Personnel expenses totaled €1,339 million in fiscal 2013 (2012: €1,392 million). Wages and salaries, at €1,006 million (2012: €1,097 million), accounted for the greater part of this figure. Social security contributions were €194 million (2012: €193 million), while pension plan expenses totaled €128 million (2012: €92 million), and social assistance benefits came to €11 million (2012: €10 million).

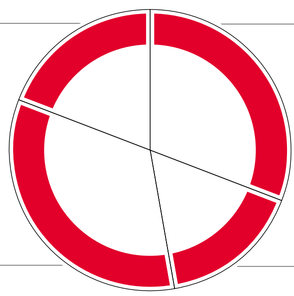
Employees by Region

%

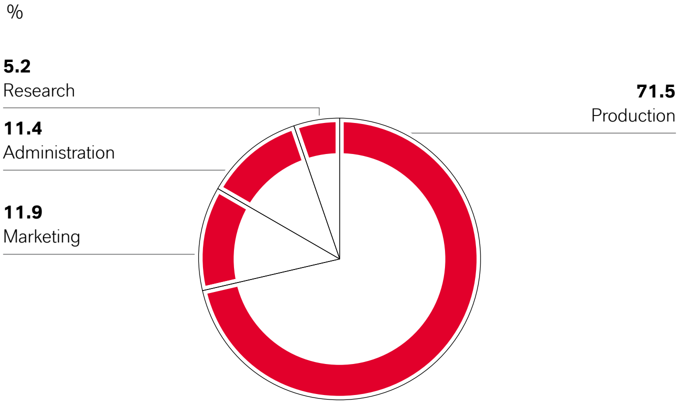


Employees by Segment

%



Employees by Functional Area (Annual Average)



Working conditions and HR policy

Our entrepreneurial success is fundamentally based on the performance, implementation skills and commitment of our employees. Only through their ongoing training and development – especially with regard to change and innovation – can we safeguard our ability to pursue our corporate goals and further enhance LANXESS's competitiveness in the long term, even in a challenging business environment. 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 openness to change, we give our employees access to career development opportunities, also outside their home countries.

In fiscal 2013, several national and international awards underscored the success of our HR policy. For the first time, we took top place in the annual sentiment survey conducted by the VAA (Association of Academic and Managerial Employees in the German Chemical Industry). In China, the CRF Institute named us China's Top Employer for the third time, after honoring us in 2009 and 2011.

A major focus of our HR activities in the year under review was on identifying internal and external drivers of change for which we could define strategically coherent responses for global application throughout the organization. The areas of activity include quality management, leadership and dialogue, diversity and inclusion, organizational consulting and change management.

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. As part of this initiative, we have 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 around 15.1%. 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 "Germany Scholarship" program, a German government initiative. In the year under review, we again funded scholarships for a total of 50 students at eight universities.

Our management training programs focus on a holistic leadership approach. 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. Worldwide, 68% of our employees are covered by the terms of collective agreements; in Germany, this figure is nearly 90%.

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

Employee compensation and benefits

We strive for a merit-based compensation system that reflects both our company's success and employees' individual performance. Compensation systems that include variable compensation components in addition to fixed compensation have been implemented for 88% of our employees. Our managers are able to reward outstanding employee performance quickly and unbureaucratically. In fiscal 2013, this resulted in payments of €9.1 million worldwide for outstanding individual performance.

We again offered an employee stock plan in 2013. 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 €44.59 on the Frankfurt Stock Exchange. The participation rate was 76%. At the reporting date, our employees and Board of Management members held around 1% of LANXESS shares through stock plans.

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

Vocational training

LANXESS has always given priority to training young people as a means of safeguarding the company's future and as an element of our social responsibility. In 2013, 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 Apprentice), we address young people with an interest in our company and give them valuable guidance for their later career choices. We again took part in Girls' Day in 2013. In addition, our one-year orientation program XOnce provides young people with useful guidance on their way to subsequent vocational training 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. To ensure the long-term availability of skilled workers, we added a combined vocational training and study program in engineering sciences during the reporting period.

Across Germany, 456 young people were being trained in 19 different career paths as of the December 31, 2013 reporting date. In the previous year, we trained 386 young people in 16 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 2013, 159 young people (125 men and 34 women) began their vocational training with LANXESS. A further 18 young people have chosen our five combined vocational training and study programs. In 2013, we gave permanent and temporary positions to almost 80% of those who completed their training with us in Germany.

Each year, under the motto "Prepare for the Future," our LANXESS international corporate trainee program attracts highly skilled university graduates. Our aim is to prepare the participants for an international career within the LANXESS Group and establish a global pool of young managers with international experience. In fiscal 2013, the focus was on controlling, finance and engineering. Since the initiative started, we have offered a wide range of entry-level trainee positions to 67 university graduates with an interest in embarking on an international career. We also offer local trainee programs in various countries such as Brazil, China, India and the United States.

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 performance and potential.

The LANXESS Academy continued offering special modular and multi-dimensional programs to prepare trainee managers for their future tasks. In the period under review, 188 employees – 43 of them women – took part in these corporate programs. As part of our Advance efficiency program, we have consolidated the leadership seminars for our managers at various levels and introduced a novel form of training which focuses on practical leadership skills and motivation for teams undergoing change processes.

In 2013, we continued offering functional training in optimized form for our global sales employees through the LANXESS Academy. The International LANXESS Sales Academy (ILSA) is a one-year modular program designed to develop both the specialist knowledge and soft skills of our sales employees. It perfectly complements the programs already in place in the business units and countries by facilitating communication and the sharing of best practices across business units and national borders. We consider the targeted qualification of our global sales employees to be a significant success factor in the further improvement of our customer relationships. It also gives us a competitive edge in today's global markets. To date, some 250 first-level sales employees from all over the world have participated in the program.

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 2013, the LTIFR was 3.2, compared with 3.4 in 2012. Our analyses have shown that the number of lost days per accident has decreased significantly, which indicates a decline in the severity of accidents. This can be attributed to our employees' raised awareness for occupational safety, which was enhanced by our stronger focus on this issue throughout 2013.

Idea management

When LANXESS employees have good ideas for improving work procedures, plants and processes, these ideas pay off. Our idea management system fosters the development, processing and implementation of suggestions for improvements to ensure that we continually receive proposals for enhancing cost-effectiveness, occupational safety and environmental protection. In 2013, employees at LANXESS's German companies submitted a total of 3,085 new suggestions, a rate of 417 per thousand employees. In the same period, 1,306 ideas were implemented, yielding total savings of €2.4 million. As well as cutting costs, 824 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, the economic situation, and the success and sustainable growth of the LANXESS Group. Consideration is also given to compensation at comparable companies and the company's overall compensation structure, including as well the ratio between the compensation of the Board of Management and that of LANXESS's senior executives and the rest of the workforce, both overall and in terms of time. 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.

The compensation system that was introduced for members of the Board of Management in 2010 was approved by the Annual Stockholders' Meeting of LANXESS AG on May 28, 2010. 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. The compensation mix of 31% annual base salary and 69% variable compensation components, assuming 100% target attainment, is strongly aligned with the company's performance and long-term value creation. The present service contracts for members of the Board of Management set out the annual base salary and limits on the amounts for the variable compensation components. They do not provide for a separate limit on total compensation, even taking into account a possible discretionary bonus.

Compensation Mix for Members of the Board of Management

%	
Annual base salary	31
Annual Performance Payment	35
Long-Term Incentive Plan/Long-Term Stock Performance Plan	20
Long-Term Performance Bonus	14
	100

Annual base salary The fixed compensation comprises the annual base salary and compensation 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 €3,124 thousand in fiscal 2013 (2012: €2,678 thousand).

Variable compensation The annual performance-based component of the variable compensation, known as the Annual Performance Payment (APP), is based on corporate business targets and other conditions, such as the attainment of certain Group EBITDA targets, which are defined by the Supervisory Board before the beginning of the respective fiscal year. The APP is equivalent to 115% of the annual base salary in the case of 100% target attainment, with the maximum payment limited to 200% of this variable compensation component. Compensation from the performance-based APP in 2013 totaled €1,653 thousand. Actual payments in 2014 may differ from this amount, which was calculated in advance.

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

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

The LTSP is divided into four four-year tranches and is also based on the performance of LANXESS stock against the Dow Jones STOXX 600 Chemicals[SM] reference index. Compared to the previous LTIP, the possible payment per tranche under the new plan has been reduced from 50% to 30% of the individual target income, assuming 100% target attainment. The condition for participation in the LTSP is a prior personal investment each year in LANXESS shares to a value of 5% of the annual base salary. The shares are subject to an average five-year lock-up period.

For more information, particularly regarding the valuation parameters applied, please see Note [14] to the consolidated financial statements.

The fair values of the LTSP entitlements that already existed at the start of 2013 declined significantly, which resulted in a net gain from share-based compensation in fiscal 2013 (2012: expense). Of this amount, €385 thousand (2012: €1,726 thousand) relate to the entitlements granted to Dr. Heitmann, €56 thousand (2012: €118 thousand) to Dr. Düttmann's entitlements and €223 thousand (2012: €991 thousand) each to the entitlements for Dr. Breuers and Dr. van Roessel.

The LTPB, which is the third variable compensation component, is likewise aligned to long-term corporate performance. It rewards target attainment only after two successive fiscal years. The basis for calculating the LTPB is the individual APP target attainment for the fiscal years in question. The exact amount of the LTPB results from the average individual APP target attainment for the two fiscal years. Assuming an average APP target attainment of 100%, the LTPB amounts to 45% of the annual base salary. Rights worth €977 thousand (2012: €1,843 thousand) were earned under the performance-based LTPB in fiscal 2012 and 2013 (2012: 2011 and 2012). Actual payments in 2014 and 2015 may differ from this amount, which was calculated in advance.

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

Compensation of the Board of Management

€ '000		Fixed compensation		Variable compensation				Payments from LTSP rights		
	Year	Annual base salery	Compensation in kind	Performance bonus[1]	Payment for previous years[2]	LTPB (multi-year)[3]	Total cash compensation	Number of rights	Fair values	Total compensation
Dr. Axel C. Heitmann	**2013**	**1,000**	**130**	**615**[4]	**34**	**323**	**2,102**	**596,625**	**328**	**2,430**
	2012	900	119	1,798	320	703	3,840	564,375	282	4,122
Dr. Werner Breuers	**2013**	**613**	**51**	**346**[5]	**0**	**218**	**1,228**	**322,500**	**177**	**1,405**
	2012	500	54	972	200	380	2,106	322,500	161	2,267
Dr. Bernhard Düttmann	**2013**	**613**	**57**	**346**[5]	**0**	**218**	**1,234**	**322,500**	**177**	**1,411**
	2012	500	61	972	110	380	2,023	322,500	161	2,184
Dr. Rainier van Roessel	**2013**	**613**	**47**	**346**[5]	**0**	**218**	**1,224**	**322,500**	**177**	**1,401**
	2012	500	44	972	200	380	2,096	322,500	161	2,257
Total	**2013**	**2,839**	**285**	**1,653**	**34**	**977**	**5,788**	**1,564,125**	**859**	**6,647**
	2012	2,400	278	4,714	830	1,843	10,065	1,531,875	765	10,830

1) Payment in 2013 and 2014, respectively
2) Payment in 2012 and 2013, respectively
3) Payment of 50% each in 2014 and 2015
4) The performance bonus was voluntarily reduced by 6% of the annual base salary.
5) The performance bonus was voluntarily reduced by 10% of the annual base salary.

The pension plan for the members of the Board of Management is a defined contribution plan stipulating a basic contribution to be made by the company equal to 25% of the annual base salary and APP. From fiscal 2013, the maximum amount that will be taken into account for calculating the APP contribution will be that due on 100% target attainment, irrespective of the actual target attainment. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP. The members of the Board of Management may increase their personal contribution to up to 25% of the APP. From the date of entitlement, up to 30% of the accumulated capital – including the interest thereon – may be converted to a pension benefit. There are claims arising from provisions in place before 2006 that are granted as vested rights to individual members of the Board of Management. If the service contract ends before the beneficiary reaches the age of 60, the company pays certain additional benefits up to a defined ceiling.

LANXESS has established provisions for the future claims of Board of Management members. The total service cost recognized under IFRS accounting rules in the 2013 consolidated financial statements for this purpose was €1,264 thousand (2012: €815 thousand). The present value of the obligations for the members of the Board of Management serving as of December 31, 2013 was €21,740 thousand (2012: €18,248 thousand). Under IFRS accounting principles, the service cost for pension entitlements earned in 2013 and the present value of the obligations, including acquired rights, as of December 31, 2013 amounted, respectively, to €376 thousand and €12,743 thousand (2012: €257 thousand and €10,924 thousand) for Dr. Heitmann, €376 thousand and €2,323 thousand (2012: €271 thousand and €2,173 thousand) for Dr. Breuers, €394 thousand and €1,584 thousand (2012: €204 thousand and €944 thousand) for Dr. Düttmann, and €118 thousand and €5,090 thousand (2012: €83 thousand and €4,207 thousand) for Dr. van Roessel.

The total service cost recognized under HGB accounting rules in the 2013 annual financial statements for this purpose was €3,470 thousand (2012: €2,199 thousand). The present value of the obligations for the members of the Board of Management serving as of December 31, 2013 was €18,565 thousand (2012: €15,095 thousand). Under HGB accounting principles, the present value of the obligations, including vested rights, for the members of the Board of Management serving as of December 31, 2013 amounted, respectively, to €10,712 thousand (2012: €8,882 thousand) for Dr. Heitmann, €2,028 thousand (2012: €1,850 thousand) for Dr. Breuers, €1,348 thousand (2012: €769 thousand) for Dr. Düttmann, and €4,477 thousand (2012: €3,594 thousand) for Dr. van Roessel.

As of December 31, 2013, obligations to former members of the Board of Management totaled €11,578 thousand (2012: €11,411 thousand) under IFRS accounting rules and €9,734 thousand (2012: €9,313 thousand) under HGB accounting rules.

Payments of €308 thousand (2012: €479 thousand) were made to former members of the Board of Management.

In fiscal 2013, the members of the Board of Management had indemnification rights should their service contracts be terminated for defined reasons at the instigation of the company or in the event of a material change of control over the company. The terms depended on the respective circumstances and, regardless of the remaining term of the service contract, included severance payments amounting to up to two times the annual base salary or, in the event of a change of control, three times the annual base salary, plus the APP and LTPB assuming 100% target achievement.

No additional benefits have been pledged to any member of the Board of Management in the event of termination of their service. In 2013, 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 2013.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by Section 12 of the company's articles of association. The members of the Supervisory Board of LANXESS AG receive fixed compensation of €80 thousand per year. The Chairman of the Supervisory Board receives three times, and the Vice Chairman one and a half times, this amount. Serving as the chair or a member of Supervisory Board committees is compensated separately in accordance with the German Corporate Governance Code. Supervisory Board members who belong to a committee receive one half of the fixed compensation amount in addition. The chair of the Audit Committee receives a further half. Supervisory Board members who chair a committee other than the Audit Committee receive a further quarter. However, no member may receive in total more than three times the fixed compensation amount.

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

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

Payment of the variable compensation depends on how LANXESS's stock performs relative to the Dow Jones STOXX 600 Chemicals℠ index during a member's five-year term. The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected are each compared with the respective average for the 90 trading days prior to the Annual Stockholders' Meeting at the conclusion of which the members' terms end. The variable compensation is only payable if the stock has outperformed the benchmark index. The exact amount of the variable compensation depends on the extent to which the stock price outperformed the benchmark index in the preceding five years. If LANXESS stock has outperformed the Dow Jones STOXX 600 Chemicals℠ 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 2013.

The expected compensation payable for the term of office that began with the conclusion of the Annual Stockholders' Meeting on May 28, 2010 and runs until the conclusion of the Annual Stockholders' Meeting that resolves to ratify the Supervisory Board members' actions for fiscal 2014 was valued at a total of €1,800 thousand (2012: €1,800 thousand) at December 31, 2013 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 2013.

Compensation of the Supervisory Board[1)]

€	Year	Fixed compensation LANXESS AG	Compensation as committee member LANXESS AG	Attendance allowance	Fixed compensation LANXESS Deutschland GmbH	Total
Dr. Rolf Stomberg, Chairman	**2013**	**240,000**	**0**	**16,500**	**5,000**	**261,500**
	2012	240,000	0	16,500	5,000	261,500
Ulrich Freese, Vice Chairman	**2013**	**120,000**	**40,000**	**16,500**	**5,000**	**181,500**
	2012	120,000	40,000	13,500	5,000	178,500
Axel Berndt	**2013**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2012	80,000	40,000	15,000	5,000	140,000
Dr. Rudolf Fauss	**2013**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2012	80,000	40,000	15,000	5,000	140,000
Dr. Friedrich Janssen	**2013**	**80,000**	**96,548**	**18,000**	**5,000**	**199,548**
	2012	80,000	80,000	15,000	5,000	180,000
Robert J. Koehler	**2013**	**80,000**	**40,000**	**13,500**	**5,000**	**138,500**
	2012	80,000	40,000	15,000	5,000	140,000
Rainer Laufs	**2013**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2012	80,000	40,000	15,000	5,000	140,000
Thomas Meiers	**2013**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2012	80,000	40,000	15,000	5,000	140,000
Dr. Ulrich Middelmann (deceased July 2, 2013)	**2013**	**40,110**	**20,055**	**7,500**	**2,507**	**70,172**
	2012	80,000	40,000	16,500	5,000	141,500
Claudia Nemat (effective July 25, 2013)	**2013**	**35,068**	**0**	**3,000**	**2,192**	**40,260**
	2012	0	0	0	0	0
Hans-Jürgen Schicker	**2013**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2012	80,000	40,000	16,500	5,000	141,500
Gisela Seidel	**2013**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2012	80,000	40,000	16,500	5,000	141,500
Theo H. Walthie	**2013**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2012	80,000	40,000	15,000	5,000	140,000
Total	**2013**	**1,155,178**	**476,603**	**183,000**	**59,699**	**1,874,480**
	2012	1,160,000	480,000	184,500	60,000	1,884,500

1) Figures exclude value-added tax.

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

Pursuant to Section 289, Paragraph 4, Nos. 1 to 9 and Section 315, Paragraph 4, Nos. 1 to 9 of the German Commercial Code, we hereby make the following declarations:

1. The capital stock of LANXESS AG amounted to €83,202,670 as of December 31, 2013 and is composed of 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.

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

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

4. No shares carry special rights granting control authority.

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

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

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

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

   Own shares The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011 authorized the Board of Management until May 17, 2016 to acquire shares in the company representing up to 10% of the capital stock and to utilize them for any purpose permitted by law. This authorization may also be utilized by subsidiaries of the company or by third parties on behalf of the company or its subsidiaries. At the discretion of the Board of Management, such shares may be acquired either in the market or via a public tender offer. The Board of Management is authorized to use them for any purpose permitted by law. In particular, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interests in companies or in order to conclude mergers. It is also authorized to use them to satisfy conversion rights from convertible or warrant bonds and/or profit-participation rights or income bonds (or a combination of these instruments) issued by the company and to grant holders of convertible or warrant bonds and/or profit-participation rights or income bonds (or a combination of these instruments) issued by the company or its direct and indirect affiliates that grant a conversion or option right or stipulate a conversion or warrant obligation the number of shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights or fulfillment of the conversion or warrant obligation. The stockholders shall not have subscription rights in such cases, except where the shares are retired.

   Conditional capital The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011 authorized the Board of Management until May 17, 2016, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as "bonds") – as either registered or 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 €16,640,534 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 23, 2013 authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Further details are given in Section 4, Paragraph 2 of the articles of association.

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

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the compensation report in this combined management report. Such agreements, albeit with different terms, also exist between the company and members of the first and second levels of upper management. In addition, the terms for placing bonds under the company's existing debt issuance program may contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. This applies to the €500 million Eurobond and the €200 million Eurobond issued by LANXESS Finance B.V. in the 2009 fiscal year, the €500 million Eurobond issued by LANXESS Finance B.V. in the 2011 fiscal year, the CNH 500 million bond issued by LANXESS Finance B.V. in February 2012 and the €500 million Eurobond issued by LANXESS Finance B.V. in November 2012, which are all guaranteed by LANXESS AG. The terms for two private placements with a volume of €100 million each made by LANXESS Finance B.V. under the debt issuance program in the 2012 fiscal year likewise contain corresponding change-of-control clauses. These placements are also guaranteed by LANXESS AG. The company has signed an agreement with one major bank for a loan of €92.5 million. This agreement may be terminated without notice or repayment of the outstanding loan may be required if another company or person gains control of more than 50% of LANXESS AG. The same applies to two additional loan agreements for €200 million and €120 million that LANXESS Finance B.V. signed with investment banks in fiscal 2011. The company also entered into an agreement with a syndicate of banks concerning a credit facility that is currently at €1,250 million. This agreement can also be terminated without notice if another company or person takes control of more than 50% of LANXESS AG. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.

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

Report pursuant to Section 289a of the German Commercial Code

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

Events after the end of the reporting period

No events of particular significance took place after December 31, 2013 that could be expected to have a material effect on the financial position and results of operations of the LANXESS Group or LANXESS AG.

At an extraordinary meeting, the Supervisory Board of LANXESS AG resolved to terminate Dr. Axel C. Heitmann's appointment as a member and Chairman of the Board of Management of LANXESS AG. The Supervisory Board has appointed Matthias Zachert as his successor effective April 1, 2014. Until Mr. Zachert joins the Board of Management, LANXESS's Chief Financial Officer Dr. Bernhard Düttmann will perform the duties of the Chairman of the Board of Management.

Report on risks, opportunities and future perspectives

Expected changes in business conditions

General business conditions LANXESS expects a faster pace of global growth in 2014 than in the previous year and that the gross domestic product (GDP) will increase by 3.0%. In the industrialized nations, the outlook for growth should improve compared to 2013. We are also projecting a recovery in the eurozone, despite the continued existence of risk factors such as the sovereign debt resulting from the financial and economic crisis. Therefore, we anticipate slight growth of 1.0% for Western Europe. We believe that growth in Central and Eastern Europe in 2014 will be slightly higher at 2.5%. We also expect an improvement on the previous year for the NAFTA region and assume GDP growth there of 2.5%. Given the more positive construction sector environment and expanding industrial output, we believe that the United States in particular could contribute to this growth.

Compared to 2013, we also anticipate better growth perspectives for the emerging economies. In 2014, the Chinese economic region should benefit from the slow recovery of its export markets. However, growth is likely to still be comparatively restrained at 7.5%. We are also forecasting an improvement to India's economic situation, although momentum is expected to remain muted in the midterm. On this basis, growth in India could be as high as 5.5% in 2014. In our view, Brazil should also post more dynamic growth than in the previous year, with expansion of 3.0 %.

Over and above the aforementioned risks pertaining to Europe, risks in the emerging and developing economies could impact global growth in 2014. Among these are the political instability in Thailand and the possibility of a further escalation in the territorial dispute between China and Japan. Additional risk factors could result from an escalation of the geopolitical crises in Syria and the Korean peninsula.

Expected Growth in GDP

Change vs. prior year in real terms (%)[1]	Gross domestic product		
	2014	2015	2016–2018
Americas	2.5	3.5	3.5
NAFTA	2.5	3.0	3.0
Latin America	3.5	4.0	4.0
EMEA	2.0	2.5	2.5
Germany	2.0	2.0	1.5
Western Europe	1.0	1.5	1.5
Central and Eastern Europe	2.5	3.5	4.0
Asia-Pacific	4.5	5.0	4.5
World	**3.0**	**3.5**	**3.5**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight in January 2014

Future performance of the chemical industry Against the backdrop of possible global economic recovery, we are assuming that chemical industry production will also trend better than in the previous year. We are expecting growth of 4.0% in 2014. In our view, the emerging economies in particular will contribute to this growth. We believe that growth of the Chinese economic region will come in slightly below the prior-year level at 7.5%. In our estimation, India should see growth above the previous year at 7.0%. We expect growth in the NAFTA region to be roughly level with the prior year at 3.0%. Production in Western Europe is likely to increase only slightly, by 1.0%. By contrast, growth in Central and Eastern Europe should be somewhat stronger at 3.0%.

Expected Growth in Chemical Production

Change vs. prior year in real terms (%)[1]	Chemical production		
	2014	2015	2016–2018
Americas	3.0	3.0	3.5
NAFTA	3.0	2.5	4.0
Latin America	4.0	3.5	3.5
EMEA	1.5	2.5	2.5
Germany	1.5	1.5	1.0
Western Europe	1.0	1.5	1.5
Central and Eastern Europe	3.0	4.0	3.5
Asia-Pacific	6.0	7.0	6.0
World	**4.0**	**4.5**	**4.5**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight in January 2014

Future evolution of selling markets According to our forecasts, the global tire industry will increase production slightly on the previous year for growth of 4.0%. We expect Asia to be the strongest region with growth of 5.5%. The Chinese economic region will contribute to this growth with expansion of 8.0%. Production in the ASEAN region should also substantially increase. We expect Brazil to trend similarly to the Asian markets and post growth of 5.5%. Compared to the prior year, we anticipate recovery and a 3.0% increase in production in the NAFTA region. In our estimation, Western Europe will see a marked negative trend resulting in a further deterioration over the previous year. We believe production there will decline by 5.5%.

The automotive industry is expected to post more dynamic growth in 2014 than was the case in 2013. Overall, we forecast growth of 5.0% in global automobile production, although this is likely to differ very widely from region to region. In this industry, too, we expect Asia to deliver the strongest momentum with growth of 7.0%. We see the engines for this growth in the Chinese economic region with expansion of 11.5% and the ASEAN region with 11.0%. Automotive production in Brazil could increase by 4.0% in 2014. For the NAFTA region, we are forecasting slightly weaker expansion of 3.0% compared to the previous year. We are again expecting a drop in production in Western Europe. However, the decline should be slightly lower than in the previous year at 2.0%, indicating that the industry may have reached the bottom of its cycle. By contrast, we are projecting growth of 7.5% for Central and Eastern Europe.

The market for agrochemicals should remain robust and post growth of 3.0%, although performance is likely to be slightly below the prior-year level. With an increase of 4.0% in 2014, Latin America is expected to post the strongest growth. We are anticipating average growth of 3.0% for both Asia and the NAFTA region, which would be below the prior-year level – especially in the NAFTA region. For Europe we are

Expected Evolution of Major User Industries

Change vs. prior year in real terms (%)[1]	Tires			Automotive			Agrochemicals			Construction		
	2014	2015	2016–2018	2014	2015	2016–2018	2014	2015	2016–2018	2014	2015	2016–2018
Americas	3.0	4.0	0.5	3.5	4.5	3.0	3.5	3.0	5.0	6.5	6.5	3.0
NAFTA	3.0	3.0	(1.0)	3.0	4.0	2.5	3.0	2.5	6.0	7.0	7.0	3.5
Latin America	3.0	7.0	5.0	4.5	6.0	4.5	4.0	3.0	4.0	4.0	5.5	3.0
EMEA	(0.5)	(0.5)	1.5	3.0	4.0	5.0	2.5	3.0	3.0	1.0	2.0	2.0
Germany	0.0	0.5	0.0	(2.0)	1.5	2.5	1.0	0.5	0.5	2.0	2.0	1.0
Western Europe	(5.5)	(7.5)	(2.5)	(2.0)	2.0	4.5	1.0	1.5	1.5	0.0	1.0	1.5
Central and Eastern Europe	4.5	4.5	4.5	7.5	6.5	5.0	1.5	2.5	2.5	2.5	4.0	3.0
Asia-Pacific	5.5	7.0	6.5	7.0	7.5	6.0	3.0	3.5	3.5	6.0	6.5	5.5
World	**4.0**	**4.5**	**4.5**	**5.0**	**6.0**	**5.0**	**3.0**	**3.0**	**3.5**	**4.0**	**5.0**	**4.0**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight, LMC and other sources in January 2014

again projecting slight growth of 1.0%, which would be roughly on a par with the previous year. In our view, the demand for food and animal feed will continue to be the main driver of growth in agrochemicals.

Global growth in the construction industry in 2014 is expected to be more dynamic at 4.0%. We believe that demand will come from Asia in particular, with an increase of 6.0%. Above all, the Chinese economic region and India should contribute to this development. We believe that recovery will continue in the NAFTA region, where growth could reach a mid-single-digit percentage. By contrast, Europe is expected to post only slight growth. We believe that the pace of growth will increase again in Central and Eastern Europe in particular.

Risk report

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

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

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

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

The system is based on an integration concept, i.e. the early identification of opportunities and risks is an integral part of the management system and not the object of a separate organizational structure. The management of opportunities and risks is therefore a primary duty of the heads of all business units, as well as of those people in Group companies who hold process and project responsibility. This is why our opportunity and risk management is based on clearly defined business processes, the precise assignment of responsibilities throughout the Group, and reporting systems that ensure the timely provision of the information required for decision-making to the Board of Management or other management levels.

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

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

- identification and assessment of risks and opportunities;
- implementation of control measures (measures taken to avoid, minimize or diversify risk);
- monitoring the development of risks and opportunities (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);
- communication of the key risks and opportunities to the management committees of the business units and group functions.

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

- twice per year during the intrayear forecasting process;
- once per year as part of the budget and planning process for the subsequent year and the medium-term forecast horizon.

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

The reporting threshold for opportunities and risks is an effect of €1 million on Group net income or EBITDA pre exceptionals. 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 Corporate Development Group Function systematically analyzes and measures significant and strategic opportunities and risks with the goal of ensuring that the Group is pursuing the correct long-term strategy.

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

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

In addition, a Risk Committee chaired by the Chief Financial Officer analyzes the material risks and their development for their potential impact on the company as a whole. The Risk Committee brings together representatives from selected group functions to analyze existing measures to counter risks, initiate additional measures, define Group-wide risk management standards and guidelines and, if necessary, initiate further analyses of individual risks and opportunities that have been identified.

Risk assessment Risk management is integrated into the planning and forecasting process and identifies risks and opportunities as potential deviations from planned or forecast EBITDA pre exceptionals or Group net income.

Depending on the type of risk, different calculation methods are applied in risk assessment. These may include sensitivity analyses or scenario analyses for distribution risks. The latter are described by fluctuations in planning parameters such as exchange rates, raw material prices and economic development assumptions. They may result either in positive or negative deviations from planned or forecast figures.

Event risks that would only impact earnings if they actually occur are evaluated on the basis of the expected probability of their occurrence and the predicted effect on EBITDA pre exceptionals or Group net income.

Significance of the Group-wide planning process Corporate planning is a core element of our opportunity and risk management. Opportunities and risks with a high probability of occurrence flow directly into the planning process. Key budget values are calculated and those risks and opportunities considered relatively probable 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, and if necessary adjust, the annual budget in any given fiscal year by regularly updating our expectations for business development.

There is also provision for immediate internal reporting on specific risk issues such as unexpected operational events with a significant impact on earnings. In 2013, there was no cause for immediate reporting of this kind.

Compliance as an integral component Risk management also includes preventing illegal conduct by our employees. To this end, we obtain extensive legal advice concerning business transactions and obligate employees by means of our compliance code to observe the law and to act responsibly. The compliance code is part of a comprehensive compliance management system that has been structured in accordance with the principles of an internationally recognized framework for enterprise risk management (COSO). A Compliance Committee promotes and monitors adherence to our compliance guidelines. Its work is supported by compliance officers who have been appointed for each country in which we have a subsidiary. The Compliance Committee is chaired by a Group Compliance Officer, who reports directly and regularly to the Board of Management. In addition, there is provision for immediate notification of the Board of Management and Supervisory Board in the event of serious compliance violations. In 2013, there was no cause for immediate reporting of this kind.

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

The Accounting Group Function, which reports to the Chief Financial Officer, is responsible for the (Group) accounting process and therefore for preparing the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. It is also responsible for ensuring the uniform preparation of the single-entity financial statements of the subsidiaries that are included in the consolidated financial statements. The Board of Management prepares the annual financial statements and the consolidated financial statements, which are then forwarded to the Supervisory Board's Audit Committee without delay. Upon recommendation by the Audit Committee, the annual financial statements and the consolidated financial statements are adopted and approved by the Supervisory Board at its financial statements meeting. The Supervisory Board, and especially its Audit Committee, deal with major questions relating to LANXESS's accounting and risk management, the audit mandate and the areas of focus for the auditor's audit of the annual financial statements.

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

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

The foundation for uniform and IFRS-compliant consolidated financial reporting at LANXESS is the Group Financial Statements Guideline. This governs the way the provisions of the International Financial Reporting Standards (IFRS) applicable to the Group are applied by the subsidiaries as reporting entities. Moreover, the guideline also defines the chart of accounts that is binding throughout the Group. On the IT side, the guideline is supplemented by a uniform, Group-wide delivery and consolidation system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access.

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

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

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

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

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

Risks of future development The identified risks of future development of the LANXESS Group can be categorized according to the sources of risk shown in the table below:

Main Sources of Risk

Macroeconomic (long-term)	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 in the countries and regions in which the LANXESS Group operates. Regional differences in economic performance and the associated demand trends can affect the Group's pricing and sales potential in its various geographical markets, with corresponding effects on its earnings. We address these issues with our broad regional presence and by expanding our profile in selected growth regions. This approach is discussed in further detail in the "Strategy" section of this combined management report.

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

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

Thus far, we have not experienced a major shortage of labor in our global markets, not least because the Advance program of extensive efficiency and restructuring measures reduced our specific need for skilled employees in the reporting period. However, a forward-looking and sustainable HR policy will remain important. For this reason, we are consistently expanding our cooperations with research institutes, universities, colleges and high schools in Germany and other target markets – activities we also pursued in the year under review. At many events around the world, we positioned our company as an attractive employer and sought contact with highly talented young people. We have established a LANXESS program to provide both financial and expert support for undergraduate and postgraduate students. In the reporting period, we also initiated a loyalty program for particularly outstanding interns. Both these programs focus on the natural and engineering sciences and are being extended outside Germany to the BRICS countries especially, taking into account local requirements.

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

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

When gathering information about potential M&A candidates, it is possible that certain facts required to assess a candidate's future performance or to determine the purchase price are not available or are not correctly interpreted. We reduce this risk by conducting well-structured due diligence analyses and, where possible, by concluding appropriate agreements with the sellers. Insufficient integration of acquired companies or businesses can result in expected developments not materializing. For this reason, we have processes in place with which full integration of acquired businesses is assured. If assumptions concerning future developments – such as the realization of synergies – do not materialize, this might result in a write-down on assets. We monitor this risk by carrying out impairment testing at least once a year.

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.

If there is any indication of a decline in the value of non-current assets, impairment testing is performed and, if necessary, write-downs are recognized. As described under "Corporate strategy risks," any change to the parameters relevant to impairment testing may yield the risk of write-downs on assets. Such risks could be changes to the expected cash flows or assumed interest rates.

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

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

HR risks 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. The employee representatives in various countries have been consulted with regard to our Advance program of efficiency and restructuring measures. Continuous use is made of existing dialogue platforms such as the European Forum, which brings together the works councils in Europe. We also actively seek dialogue with employee and trade union representatives in the other regions in which we operate.

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. We continue to invest in the next generation of employees by increasing the number of training opportunities in Germany. We have also launched and expanded regional internship, trainee and loyalty programs in, for example, Brazil, India and China as well as Germany. These early loyalty programs coexist with our established central Corporate Trainee Program offering international assignments and with our regional trainee programs. In some regions and countries, including China, we go into schools in search of interesting talents we can develop. One indicator of our success so far in limiting the loss of know-how is the low employee turnover in all regions and constant applicant numbers, for example from highly talented university graduates.

Risks in sales markets The volatility and cyclicality that are typical of the global chemical and polymer markets and their dependence on developments in customer industries harbor risks to LANXESS's business. As well as the general risk of lower GDP growth, the particular dependence of the rubber business on the tire and automotive industries can result in sales volatility. In addition to being subject to these demand-side market risks, LANXESS's risk profile is influenced, and its earning power can be weakened, by structural changes in markets, such as the entry of new suppliers and the availability of additional capacities, regional shifts, 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 continuously adjusting our product portfolio, sharpening its focus and aligning our offering to innovative customer segments which will enable us to operate successfully in the long term.

In our Performance Polymers segment, the synthetic rubber business faces increasing competition, partly from new manufacturers entering the market. In some business units, this may result in overcapacities and stronger competition on prices. LANXESS is pursuing a product-specific strategy in these areas based on factors such as product and process differentiation and global positioning. In addition, LANXESS has launched Advance, a Group-wide program aimed at increasing efficiency and reducing costs.

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

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

LANXESS was and is responsible for numerous sites at which chemicals have been produced for periods that in some cases exceed 140 years. This responsibility also extends to waste disposal facilities. The possibility cannot be ruled out that pollution occurred during this time that has not been discovered to date. We are committed to the Responsible Care® initiative and pursue active environmental management and proactive environmental protection management. This includes constant monitoring and testing of the soil, groundwater and air and of various emissions. We have set up sufficient provisions 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.

In line with LANXESS's forward-looking approach, product monitoring enables us to identify and evaluate potential hazards associated with our product portfolio and initiate suitable measures if relevance is established.

Risks in procurement markets On the procurement side, the principal risks lie in the high volatility of raw material and energy prices and in the availability of raw materials. 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. In addition, changes in raw material prices impact our selling prices. We mitigate these risks by following a sensible inventory and procurement policy. Most of the company's raw material needs are met by long-term supply contracts and contracts containing price escalation clauses. Many agreements with customers also contain price escalation clauses. We also have the option of hedging this risk via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks (see also "Financial risks").

LANXESS operates in energy-intensive industries that face international competition and are dependent on competitive market conditions. We believe that Germany's change in energy policy entails the risk of a unilateral increase in the country's energy costs, thus substantially weakening the competitive position of German companies in international markets. With a view to mitigating this risk, we are discussing the economic consequences of increasing energy prices with the authorities and government – either directly or in cooperation with other energy-intensive companies via industry organizations.

To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, we pursue an appropriate inventory strategy and line up alternative sources of supply. We also face increases in our personnel expenses because of future wage increases. Such an increase in the cost of human resources can be just as detrimental to earnings as increases in raw material prices, as described above, but in the case of personnel we cannot hedge the risk in futures markets or pass it on to our customers. In order to cushion the impact of such negative developments on our cost base, we pursue a market-oriented pricing policy. 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
Currencies	Availability of cash	Customers	Investments in pension assets
Raw materials	Access to multi- and bilateral capital markets	Banks	
Energy			
Interest			

• Price risks

Price risks arise from buying and selling goods and services in foreign currencies, the procurement of raw materials and energies, and the company's financing.

Currencies Since the LANXESS Group undertakes transactions in various currencies, it is exposed to the risk of fluctuations in the relative value of these currencies, particularly the U.S. dollar, against the euro.

Currency risks from potential declines in the value of financial instruments due to exchange rate fluctuations (transaction risks) arise mainly when receivables and payables are denominated in a currency other than the company's local currency.

Currency risks relating to operating activities are systematically monitored and analyzed. While the risks relating to changes in the value of receivables and payables denominated in foreign currencies are fully hedged, the scope of hedging for currency risks relating to forecast transactions is subject to regular review. A significant proportion of the currency risks arising from contracts are hedged using derivative financial instruments.

Currency risks arising on financial transactions, including the interest component, are generally fully hedged through forward exchange contracts.

The business units calculate gross currency risks, i.e. before hedging measures, that are then included in risk reporting. Since the LANXESS Group concludes derivative contracts for the greater part of its currency risks, it believes that, in the short term, a rise or fall in the euro against other major currencies would have no material impact on future cash flows.

Raw materials/energies The LANXESS Group is exposed to changes in the market prices for the energies and raw materials used in its business operations. Increases in energy and raw material procurement costs are generally passed on to customers. Where such risks cannot be passed on in their entirety, the related risks may be hedged on a case-by-case basis by forward commodity contracts in order to reduce the volatility of cash flows.

As in the previous year, LANXESS had no forward commodity contracts as at the reporting date.

Interest rate risks Market interest rate movements can cause fluctuations in the fair value of a financial instrument. Interest rate risks affect both financial assets and financial liabilities.

Since the majority of financial liabilities were entered into at fixed interest rates, changes in interest rates in the coming years will have only a limited impact on the LANXESS Group.

• Liquidity and refinancing
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. Our conservative financing policy takes into account the risk of a change to our rating and the associated effects on financial risk management, even though LANXESS has no direct influence on the assessments by independent rating agencies.

Our main liquidity reserve is a €1.25 billion syndicated credit facility, which remained largely undrawn on the reporting date. In February 2014, its original term was extended by one year to February 2019; it can be renewed once more for a further year. A further material credit line of €200 million with the European Investment Bank was undrawn at year-end 2013. In addition to credit facilities, the Group has short-term liquidity reserves of €533 million in the form of cash and cash equivalents and highly liquid investments in AAA-rated money market funds. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

• Counterparty risks
Counterparty risks (credit risks) arise from trade relationships with customers and dealings with banks and other financial partners, especially with regard to the investment business and financial instrument transactions.

Customer risks are systematically identified, analyzed and managed using both internal and external information sources. Customer portfolios may be insured against credit risks, especially where the risk profile is elevated.

The objective of receivables management at LANXESS is to collect all outstanding payments punctually and in full, and thus to minimize the risk of default. Continuous monitoring is computer-assisted based on the payment terms agreed with the customers. These are generally based on the customary payment terms for the business or country. Reminders are sent out at regular intervals if payments are overdue.

Credit insurance has been concluded with a well-known European credit insurer to cover material credit risks relating to receivables from customers. After a deductible, these cover default risks, especially in Europe, that could arise up to the end of the fiscal year in the mid-double-digit millions of euros. The maximum credit risk is further reduced by letters of credit in favor of LANXESS. In certain cases, prepayment is agreed with the contracting partner.

In addition, LANXESS has a contractually agreed title to goods until the contracting partner has paid the full purchase price. The vast majority of receivables relate to customers with very high credit standing.

The creditworthiness of the counterparty is a key criterion in the financial policy and credit risk management of the LANXESS Group, especially in the selection of banks and financial partners for capital investments and transactions involving financial instruments. LANXESS therefore endeavors to undertake transactions with banks and other financial counterparties that have at least an investment-grade rating. The derivatives and financial assets outstanding as of the closing date were almost all concluded with banks with an investment-grade rating.

Credit risk management also includes global management of the counterparty risk relating to all existing banks and financial partners. The LANXESS Group pays particular attention to risk diversification to prevent any cluster risks that could jeopardize its continued existence. Through master agreements, the market values of open trading positions can be netted if a partner becomes insolvent, thereby further reducing risks.

• Investment risks
Risks associated with the investment of pension assets are monitored by the Pension Committee, which is made up of the Chief Financial Officer and representatives from the Treasury, Accounting and Human Resources group functions.

Additional information on our financial risks can be found under Note [35], “Financial instruments,” to the consolidated financial statements.

Legal risks Companies in the LANXESS Group are parties to various litigations. The outcome of individual proceedings cannot be predicted with assurance due to the uncertainties always associated with legal disputes. To the extent necessary in light of the known circumstances in each case, we have set up risk provisions for the event that the outcome of such proceedings is unfavorable to LANXESS. 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 position.

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). As well as 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.

Changes in the legislative framework may entail additional costs which disadvantage our business units. Owing to the uncertain outcome of the government aid procedure initiated by the European Commission in association with the German Renewable Energy Act (EEG), there is a risk that waived surcharges will have to be backpaid and new charges will be introduced in the future, resulting in increasing energy prices. Additional information on the risk of increasing energy prices is contained in the section headed “Risks in procurement markets” in this risk report.

Any violations of foreign trade regulations may result in prohibitions and restrictions on LANXESS’s export activities and the loss of its privileges in respect of export procedures. In individual cases, this may also result in fines, trade sanctions and loss of reputation. The LANXESS Group ensures compliance in foreign trade and export control through the global implementation and optimization of appropriate and stable control instruments and automated screening processes. By proactively monitoring trade policy developments, timely information is provided to both the operating units and the management organs concerning changes to foreign trade and the associated opportunities and risks, and appropriate recommendations for action are made.

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.

Significance of risks and result of risk assessment The significance of risks lies in their potential impact on EBITDA pre exceptionals. Risks which may produce a deviation of more than 5% from our projected EBITDA pre exceptionals in the planning year are considered to be of medium to high significance.

Within the context of risk management, procurement market risks (primarily influenced by the raw material price risk), the sales market risk (especially general economic development risks) and financial risks (almost exclusively the currency risk) were identified as the top three risks in the planning year. Based on the assumed probability of occurrence, each of these risks could produce a negative deviation of up to 15% from our projected EBITDA pre exceptionals, which is our key controlling parameter. On the other hand, favorable trends in our sales markets, raw material prices and exchange rates could also each result in a positive deviation of up to 12%. Further information about opportunities can be found in the opportunity report.

In light of its extensive global activities and its dependence on raw materials characterized by volatile price trends, our Performance Polymers segment especially may be vulnerable to these risks, which we seek to mitigate by means of suitable countermeasures.

Summary of LANXESS’s overall risk exposure Despite mixed economic developments across regions and sectors, our risk exposure during the reporting year was not fundamentally or materially different from our risk exposure during the previous year due to our broadly diversified product and customer portfolios. Nonetheless, we would like to point to the increasing competitive pressure facing our synthetic rubber business. All planning is subject to a certain degree of forecasting risk, which could necessitate flexible adjustments to rapidly changing business conditions over the course of the year. This is particularly true in view of the fact that planning and forecasts in general have become somewhat less reliable due to the drastic changes observed recently in our global procurement and customer markets.

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

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

Opportunity report

Strategic opportunities The LANXESS product portfolio is systematically aligned to key global trends that promise continuous growth in the coming years. With our products, we offer innovative solutions for these trends and generate measurable added value for our customers. We are successfully positioned in those markets in which our product portfolio will enable us to particularly benefit from these trends in the medium and long term. The BRICS countries – especially Brazil, China and India – will retain a central role in this regard.

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

Mobility: The increasing demand for vehicles, especially in the emerging economies, and the need to improve the environmental compatibility of mobility throughout the world are providing key impulses for growth in tire production and automotive engineering, both of which are important customer industries for LANXESS. At both European and international level, existing laws and ongoing legislative initiatives seek to improve quality standards by requiring the classification of vehicle tires on the basis of their rolling resistance, wet grip and noise emissions or durability. A good rating can only be achieved using high-performance rubber. In automotive engineering, it is above all the efforts to achieve substantial weight reductions using high-performance plastics that are providing us with opportunities for growth.

Agriculture: The demand for agricultural products driven by the growing world population and the urgent need to improve efficiency in agriculture associated with the limited availability of arable land are crucial issues for our customers in the agrochemical industry in particular. Our products help protect crops and increase agricultural yields.

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

Water: Given escalating environmental pollution and the steady rise in water consumption because of ongoing population growth and industrial requirements, the demand for clean water will continue to rise. With our innovative solutions for purifying and treating drinking water, wastewater and industrial process water, we are therefore serving a high-growth market. The BRICS countries (which include India, China and Brazil) are major growth markets in terms of water.

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

Strengthening the Group through acquisitions At the present time, we are not planning to make any fundamental changes to our corporate structure. However, strengthening our segments through targeted acquisitions will remain an important element of our strategy, alongside organic growth.

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

Operational opportunities Unlocking and exploiting operational opportunities is an important aspect of LANXESS's entrepreneurial activities. We are committed to using existing products and new solutions to advance our growth and sustainably strengthen our position in global markets. Investing in new plants as well as expanding the capacities and increasing the productivity of existing ones are key elements in these efforts. Sales and earnings effects expected from our investments and acquisitions are already considered in our forecasts. These targeted investments may also generate further operational opportunities because they give us access to new potential and advance our positioning in key markets. Against this background, we made the key investments described below.

In addition, we constantly review our existing portfolio and production network. In the challenging reporting year, we initiated and in some cases already implemented targeted efficiency-enhancing measures within the context of our Advance program in order to improve the competitiveness of individual businesses. The identification of further measures may unlock additional opportunities.

As we already reported, the Performance Polymers segment faced mounting competition in fiscal 2013. However, in light of tire labeling initiatives, demand for high-quality tires may increase further. Thanks to our global production network, our market position and our long-standing customer relationships, our rubber activities remain well positioned.

We will continue to drive forward key investment projects in the Performance Polymers segment to ensure that we can benefit from our assumed operational opportunities in the medium and long term and achieve sustainable and competitive positions in major growth markets. In 2012, we started construction of a new production facility in Singapore for high-performance neodymium-based performance butadiene rubber (Nd-PBR) for our Performance Butadiene Rubbers business unit. Investment in the new plant on Jurong Island will total around €200 million. With an annual capacity of up to 140,000 tons, the plant is scheduled to come on stream in the first half of 2015. Our high-performance Nd-PBR contributes to optimizing the rolling resistance and wet grip of tires, which are key criteria for a good tire classification, as increasingly required of tire manufacturers worldwide following the example of the European Union.

In the year under review, we commissioned our new butyl rubber plant in Singapore, enabling us to supply our customers in Asia's growth markets from within the region. We plan to increase the output of our new plant to 70,000 tons in 2014. Overall, the plant is designed for an annual capacity of 100,000 tons. With the construction of our world-scale butyl rubber plant, we have established an early position in Asia to meet the medium- and long-term growth in demand for butyl rubber for tires.

In China, we are also investing around €235 million in our production plant for EPDM synthetic rubber. Assigned to the Keltan Elastomers business unit, the plant will have a maximum annual capacity of 160,000 tons and is due on stream in 2015. Despite the changes in the market and competitive environment for EPDM rubber, our presence in China is crucial to our ability to benefit from the long-term growth opportunities in the market and region with the highest growth potential.

In support of our business with high-tech plastics, which provide innovative solutions for lightweight construction to serve the mobility trend, we will be bringing a new polymerization plant on stream in Antwerp, Belgium, during the third quarter of 2014. The plant represents an investment volume of about €75 million and will have an annual capacity of around 90,000 tons. It will strengthen the production network for high-tech plastics in our High Performance Materials business unit. In the future, we will be able to supply our global compounding network from Antwerp, which is also home to the facility for caprolactam – the key precursor for plastics manufacturing – and glass fiber production.

With the commissioning of the new compounding plant in Porto Feliz, Brazil, in the first half of 2014, we will also be expanding our global compounding network and will be able to directly supply high-tech plastics to our customers in the growth market of Latin America. This site expansion will also enable us to develop individual solutions for our customers in Latin America within the region.

In the High Performance Materials business unit, the successful integration of Bond-Laminates GmbH – which we acquired in 2012 – and the ongoing trend toward weight reduction in vehicles offer us further options in the business with lightweight plastics. Having added Tepex® lightweight plastics to our portfolio, we are now investing in this growth area by significantly expanding capacities at the Bond-Laminates site in Brilon, Germany, by summer 2014. Depending on their field of application, the innovative composite materials are reinforced with different fibers such as carbon or glass fibers. They are being increasingly used to replace heavier metal components in many assemblies, especially in vehicles.

We are also driving forward the development of innovative products and see the optimization of our production processes as the key element in sustainably improving our competitiveness and exploiting additional opportunities to strengthen our market position. Against this background, one of our major innovations in the Performance Polymers segment is the development of two new grades of neodymium-based performance butadiene rubber. These have the high molecular weights that are essential for the production of tires with particularly low rolling resistance. Thanks to the new polymer chain modification technology we use, these rubber grades have properties that greatly facilitate processing by our customers.

With our Advanced Industrial Intermediates and Saltigo business units in the Advanced Intermediates segment, we are well positioned in the market to meet the growing demand for agrochemicals that is rooted in the agriculture megatrend. At the end of the year under review, we completed the expansion of cresol capacities in the Advanced Industrial Intermediates business unit so we can now offer the market further capacities from our aromatic network for this high-quality intermediate that is used in, for example, agrochemicals. By supporting our customers' growth through the expansion of capacities for high-quality intermediates like cresol, we are also taking advantage of the opportunity to strengthen the position of the Advanced Intermediates segment in the medium and long term.

We already took measures in 2012 to align our Saltigo business unit more strongly to the agrochemicals business, thereby enabling us to increasingly participate in this key growth market in the future. Saltigo is seeking to extend its offering of tailor-made end-to-end solutions for customers in the agrochemical industry and will additionally focus on attractive projects in the pharmaceuticals sector. By aligning Saltigo to key growth markets, we see a possibility for exploiting operational opportunities in the future – as we did already in the year under review.

In our Performance Chemicals segment, we are implementing a range of measures as part of the Advance program in order to place the Rubber Chemicals business unit on a more competitive footing in the market. In 2013, we began consolidating the production of rubber chemicals for the tire industry at our sites in Belgium and the United States, a process that will be completed in 2014. Also in 2013, we withdrew from the market a number of products that had reached the end of their life cycle. In this connection, we closed the Rubber Chemicals site in South Africa. By focusing on key products in our business unit and on streamlining our plant network, we will be able to improve our productivity and increase our competitiveness.

In other business units in the segment, we made important investments as the cornerstone for future developments.

In the important growth market of China, our Inorganic Pigments business unit is continuing the expansion of its production network to increase its future participation in the urbanization megatrend. In Ningbo, we are constructing a new facility for iron oxide red pigments with an initial annual capacity of 25,000 tons. The plant will fulfill the highest environmental standards and raise the bar for the industry in terms of water treatment, waste gas cleaning and energy consumption. This investment will enable our Inorganic Pigments business unit – a leading producer of high-quality and sustainably manufactured pigments – to strengthen its global production network and further enhance its position in Asia.

In the year under review, our Leather business unit commissioned its new production plant for leather chemicals in China, which is the world's largest market for leather chemicals. Representing an investment of about €30 million, the new plant has an annual capacity of up to 50,000 tons and satisfies the highest environmental standards. It enables us to offer our entire range of leather chemicals in China and should help us to further improve our position in the key Chinese market. In addition, we are strengthening our reputation as a company that utilizes environmentally compatible production processes, which is becoming increasingly important in China. Also in the Leather business unit, we commissioned a new CO_2 concentration unit in Newcastle, South Africa, in the fourth quarter of 2013, thereby strengthening our value chain in this business area. This plant makes us independent of external CO_2 supplies, enabling us to individually steer our production of sodium dichromate for chrome tanning salts, which is also located in Newcastle.

In 2013, the Liquid Purification Technologies business unit was able to successfully position our company as an end-to-end supplier of water treatment solutions with our products for ion exchange and membrane filtration. We are now seeking to drive forward this development. Against the backdrop of an anticipated increase in demand for innovative water purification and treatment solutions, we are expanding production capacities for ion exchange resins in Leverkusen, Germany, at a cost of around €10 million. In 2014, we expect to be able to supply the market with additional quantities of weakly acidic cation exchange resins which are used especially in the growing cartridge business for household water filtration systems.

We have also extended our product portfolio with, for example, new Lewabrane® grades for treating water with fouling potential, also by membrane technology. Further growth prospects are offered by the certification received in 2013 from the U.S. National Sanitation Foundation (NSF International) attesting to the safety of all currently available LANXESS membrane elements in drinking water treatment applications. This quality certificate, which is essential in the drinking water industry, confirms the high quality of our membranes and enhances customers' confidence in our products. In most countries, compliance with NSF Standard 61 is a basic prerequisite for usage in drinking water applications and therefore a key quality indicator. We have also received approval for drinking water applications from the Russian and Czech authorities.

As well as investing in innovations to benefit from future operational opportunities for growth, we strengthened the business units in our Performance Chemicals segment with targeted acquisitions. Through the acquisition of Singapore-based PCTS Specialty Chemicals Pte. Ltd., we expanded the biocides portfolio of our Material Protection Products business unit and became one of the leading suppliers of biocides for coatings in Asia. We are now able to provide our customers there with products and expertise from within the region. PCTS specializes in the production of biocides for environmentally friendly water-based coatings that meet stringent health, safety and environmental standards.

We also expanded the phosphorus chemicals portfolio of our Functional Chemicals business unit by acquiring the activities of the French subsidiary of the insolvent Thermphos International B.V. of Vlissingen, Netherlands. This move enables us to supply additional intermediates for flame retardants and pharmaceuticals, thus strengthening our market position in this product segment.

The development of innovative products and the ongoing development of our production processes remain a central element in cementing our current market position and increasing our competitiveness. Other examples of our research and development activities are described in the "Research and development" section of this combined management report.

Summary of overall opportunities In recent years, LANXESS has consistently aligned its product portfolio to the key growth trends and is successfully positioned in major growth markets. Through targeted investments, we are continuing to strengthen our segments worldwide and are pursuing our research and development activities to deliver process and product innovations in all segments that will continue to set us apart from our competitors. We countered the weak demand at the start of 2013 and the growing competitive pressure on our synthetic rubber businesses with our extensive Advance program and have already successfully implemented the first efficiency-enhancing and restructuring measures. Our global position and our flexible corporate structures enable us to rapidly respond to the challenges we face and successfully utilize the strategic and operational opportunities that arise in the future over and above the fundamental opportunities that already exist. Further information can be found under "Significance of risks and results of risk assessment" in this combined management report.

Future perspectives

Expected results of operations of the LANXESS Group Following the very challenging fiscal year 2013, we are currently anticipating a slight increase in our key performance indicator, EBITDA pre exceptionals, in 2014. Alone the absence of one-time effects, such as start-up costs or inventory write-downs due to raw material prices, should contribute to this improvement – even if selling prices remain at a low level.

At the present time, we do not expect any tangible effects on our earnings from the forecast growth in the global economy. Existing uncertainties such as the development of market capacities for synthetic rubber, sovereign debt in European countries and global political crises could impact economic momentum and thereby also our company's performance.

Against the background of the earnings forecast made for the LANXESS Group, we assume the following development for the 14 business units in our three segments. The expected differences in development in the segments are based on the underlying global megatrends and the changes in the market environment.

For the Performance Polymers segment, we expect a slight improvement in demand from the main customer industries – automotive and tires – in 2014 compared to the low level of demand in the previous year.

We believe the most dynamic growth will be in the Asian growth markets of China and India. In our opinion, demand stimulus in Europe will be only low. In the tire industry, Europe's legislation for the classification and labeling of tires that was passed at the end of 2011 and similar global labeling initiatives could help support demand for our synthetic rubber products. However, in this segment we expect continued strong competition – especially for our synthetic rubber products – from new producers entering the market and from new capacities.

In the Advanced Intermediates segment, we expect a continuation of good customer demand for our agrochemical products from the Advanced Industrial Intermediates and Saltigo business units. We are assuming further solid development of this business. However, we are planning more scheduled plant shutdowns in the Advanced Industrial Intermediates business unit in 2014, which was taken into account in the earnings forecast for the segment.

In the Performance Chemicals segment, we are expecting a slight improvement in demand overall in 2014. Among other things, we believe that the construction industry will post more dynamic growth, especially in Asia and North America. Following the successful start-up of its CO_2 concentration unit, our Leather business unit should benefit from an improved competitive situation. The forecast improvement in demand from the automotive industry should also provide impetus for our Rhein Chemie and Rubber Chemicals business units. In this connection, the cost position of the Rubber Chemicals business unit should be enhanced by the restructuring measures that have been implemented. For our Liquid Purification Technologies business unit, which serves the key water megatrend, we expect further growth opportunities given the continued good demand for our water treatment products following successful product diversification through the introduction of our membrane technology in the current year.

Expected cost development of the LANXESS Group On account of the challenging economic environment in the year under review, LANXESS initiated the Advance program with extensive measures aimed at countering the effects of weak demand. In connection with this program, exceptional charges of around €150 million have been budgeted until 2015. In 2013, we brought forward some €30 million in exceptional charges for the program, which diminished earnings overall by around €110 million.

In addition to the Advance program, we have continued to flexibilize our cost base through flexible asset management and high cost discipline. We seek to respond quickly and as necessary in adapting our cost development to the economic environment.

In 2014, we are assuming a continuing volatile trend for raw material costs, which were at a comparatively moderate level at the end of the year under review. We are generally assuming that price trends for the individual strategic raw materials will vary and that the trend toward higher procurement costs, particularly for petrochemical raw materials, will also continue, with corresponding volatility. We believe energy costs are likely to increase slightly in 2014.

Exchange rate fluctuations may impact our earnings. We have already entered into hedging transactions to ward off the effects of such developments in 2014 as well as 2015.

The U.S. dollar will remain the key currency for LANXESS's businesses. We expect this currency to remain volatile against the euro in 2014, moving within the range of US$1.25 and US$1.45.

For 2014, we are assuming lower depreciation and amortization compared to the year under review, following the impairment charges recognized in the Performance Polymers and Performance Chemicals segments in 2013. The start-up of new plants will result in additional depreciation expense in 2014. We project depreciation and amortization of between €400 million and €420 million in fiscal 2014. Higher costs are to be expected as a result of the increase in wages and salaries associated with the collective bargaining agreement.

The effective tax rate for the LANXESS Group is significantly influenced by the regional distribution of its earnings. For the medium term, LANXESS is targeting a tax rate of between 22% and 25%. On account of the currently challenging business environment, it will likely be higher in 2014. However, an exact forecast is difficult.

Expected financial position of the LANXESS Group

Liquidity situation LANXESS will continue to pursue a forward-looking and conservative financial policy. With more than €2.0 billion in cash and undrawn credit lines, as described under "Financial condition," we have a very good liquidity and financing position which will enable us to fund our selective growth strategy.

Capital expenditures We will continue to pursue our investment and growth strategy in fiscal 2014. The cash outflows for capital expenditures will again relate to the expansion of existing plants, the construction of new production facilities and the maintenance of existing production facilities. For 2014, we are projecting cash outflows for capital expenditures in line with the previous year. We expect a significant investment volume of around €110 million for the construction of our world-scale facility for high-performance Nd-PBR in Singapore and about €130 million for the EPDM rubber facility in China.

Financing measures LANXESS is in a good position due to the long-term nature of its financing and ensures the financing for planned capital expenditures by future cash flows, available liquidity and existing lines of credit. The same also applies to the expected dividend payment and the pending redemption of the bond which matures in April 2014. Thanks to the extensive measures taken in previous years to improve the company's financial position, there will be no significant need for refinancing in connection with the redemption of this bond. In addition, LANXESS will continue its efforts to secure long-term funding as part of a conservative financing policy by further diversifying its financing sources and implementing forward-looking financing measures.

Expected results of operations of LANXESS AG We expect the administration expenses that LANXESS AG incurs in performing its tasks as a management holding company to increase slightly in 2014 and 2015. Apart from this, the earnings position of LANXESS AG will be dominated by the financial result, especially the net interest position and the balance of income and losses from investments in affiliated companies. In 2014, we expect the net interest position to be negative on account of the financing structure. The balance of income and losses from investments in affiliated companies and the corresponding ability of LANXESS AG to pay a dividend will depend in large measure on the profit transfers and dividends paid by the other companies of the LANXESS Group. We will maintain our consistent dividend policy. In 2014, we expect net income of LANXESS AG to come in slightly higher than in 2013.

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

Summary of Group's projected performance The LANXESS Group remains well positioned with its product portfolio in the relevant customer industries and will continue its efforts to expand its presence in the world's growth regions this year. We assume that the efficiency-enhancing and restructuring measures we are taking as part of the Advance program will help to increase LANXESS's competitiveness in what remains a challenging environment.

However, we currently anticipate very low demand stimulus in light of the forecast development of the global economy. We also expect the situation for our business units with synthetic rubber products to remain challenging in 2014 owing to new competitive and capacity situations.

In our view, the development of raw material costs – especially for butadiene – is a further key factor that could impact business performance in 2014. We assume that prices will remain volatile at a comparatively moderate level. We expect a slight increase in energy costs in 2014.

Against the backdrop of the factors we have described, we are currently anticipating a slight increase overall in our key performance indicator, EBITDA pre exceptionals, in 2014. Alone the absence of one-time effects should contribute to this improvement – even if selling prices remain at a low level.

At the start of 2014, we are seeing a continuation of the challenges for our synthetic rubber businesses in the Performance Polymers segment and so far no sign of any demand stimulus.

However, we are confident of being able to continue growing organically and through targeted acquisitions in the medium term and assume that our efficiency-enhancing and consistent restructuring measures will make a major contribution here. We have set and continue to pursue a mid-term target of €1.8 billion EBITDA pre exceptionals in 2018, although that target has become considerably more ambitious in light of the current business trend.

Corporate Governance Report

The Board of Management and Supervisory Board herein report on corporate governance at LANXESS pursuant to Section 3.10 of the German Corporate Governance Code. The Board of Management also issues its corporate governance statement pursuant to Section 289a of the German Commercial Code.

The Board of Management and Supervisory Board of LANXESS are committed to the principles of transparent and responsible corporate governance and control. They place high value on the standards of good corporate governance with a view to strengthening the trust of investors, customers, employees and the public in LANXESS.

Implementation of the German Corporate Governance Code

As LANXESS is a stock corporation listed on the German stock exchange, corporate governance at the company is aligned with Germany's securities and capital market legislation and the German Corporate Governance Code. The latter makes recommendations and suggestions concerning corporate governance. There is no obligation to comply with this code. However, pursuant to Section 161 of the German Stock Corporation Act, the Board of Management and Supervisory Board of LANXESS are required to issue an annual declaration of compliance in line with the recommendations of the German Corporate Governance Code, providing information about and stating the reasons for any deviations from these recommendations. Shareholders can view the declaration of compliance on the company's website at any time. There they will also find the now invalid declarations made in the previous five years.

On December 11, 2013, the Board of Management and Supervisory Board issued the following joint declaration pursuant to Section 161 of the German Stock Corporation Act:

"I. Recommendations

Since the issuance of the last declaration of compliance on 13 December 2012, LANXESS AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code ("Government Commission") as amended on 15 May 2012, which was published on 15 June 2012 by the Federal Ministry of Justice in the official portion of the electronic version of the Federal Gazette with the exceptions described in the declaration of 13 December 2012 in Section 4.2.3, Paragraph 4, Sentence 1 and Section 5.4.5, Sentence 2. LANXESS AG has and will henceforth comply with the recommendations of the Government Commission as amended on 13 May 2013, which was published on 10 June 2013, with the following exceptions:

1. Section 4.2.3, Paragraph 2, Sentence 6

   The amount of compensation shall be capped, both overall and for variable compensation components.

   The current employment contracts for Board of Management members are besides the fixed compensation capped regarding the variable compensation components and the fringe benefits. They do not provide in addition a separate overall cap of the compensation also including a possible discretionary bonus. However, the Supervisory Board will rightfully exercise its discretion regarding a discretionary bonus as shown in the past.

2. Section 4.2.3, Paragraph 4, Sentence 1

   In concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his contract, including fringe benefits, do not exceed the value of two years' compensation (severance pay cap) and compensate no more than the remaining term of the contract.

   The employment contracts for Board of Management members limit payments to a Board of Management member on premature termination of his contract, including fringe benefits, to two years' compensation, except in the event of a change of control. However, they do not contain the additional limitation that no more than the remaining term of the contract shall be compensated. The Supervisory Board does not consider it appropriate to base the absolute amount of any severance payment on the date of termination.

3. Section 5.1.2, Paragraph 2 Sentence 3

   An age limit for the members of the Board of Management shall be specified.

   The Supervisory Board does not anymore consider an age limit to the members of the Board of Management as appropriate. The ability to successfully manage a company does not necessarily cease when a specific age is reached. It rather may be in the interest of the company to appoint a member of the Board of Management beyond a defined age limit. The Supervisory Board has therefore set aside the initially defined age limit of 65 years for the members of the Board of Management.

4. Section 5.4.1, Paragraph 2 Sentence 1
   The Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the company, take into account the international activities of the company, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of section 5.4.2, an age limit to be specified for the members of the Supervisory Board and diversity.

   The Supervisory Board does also not adhere to the rigid age limit for the Supervisory Board members. The age of Supervisory Board members is not a criteria for their qualification and competence. The company does not want to waive longtime experiences. Moreover, the company would restrict itself regarding the appointment of adequate members to the Supervisory Board.

5. Section 5.4.5, Sentence 2
   Members of the Management Board of a listed company shall not accept more than a total of three Supervisory Board mandates in non-group listed companies or in the supervisory bodies of non-group companies with comparable requirements.

   Supervisory Board member Robert J. Koehler, currently Chairman of the Board of Management of SGL Carbon SE, is a member of the supervisory boards of three listed companies outside the SGL Carbon SE Group and holds two supervisory board mandates in a non-listed company outside the SGL Carbon SE Group with comparable requirements. However, we do not believe that this detracts from Mr. Koehler's ability to diligently perform his duties as a member of the LANXESS AG Supervisory Board. Mr. Koehler will resign from the Board of Management of SGL Carbon SE as of 1 January 2014. The recommendation of Section 5.4.5, Sentence 2 will then be observed by LANXESS AG.

II. Suggestions

In addition to its recommendations, the Corporate Governance Code also contains a number of suggestions for efficient, responsible corporate governance compliance which is not required to be disclosed under the statutory provisions. LANXESS currently complies with these suggestions as well, with only a few exceptions.

In accordance with Section 3.10 Sentence 2 of the German Corporate Governance Code, the Board of Management and the Supervisory Board therefore voluntarily issue the following declaration:

Since the issuance of the last declaration of compliance on 13 December 2012, LANXESS AG has complied with the suggestions of the Government Commission as amended on 15 May 2012, which was published on 15 June 2012 by the Federal Ministry of Justice in the official portion of the electronic version of the Federal Gazette, with the following exceptions and will continue to comply the suggestions of the Government Commission as amended on 13 May 2013, which was published on 10 June 2013, with the following exceptions:

1. Section 2.3.2, Sentence 2, 2nd Half-Sentence
   The Management Board shall arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions; this representative should also be reachable during the General Meeting.

   The representatives appointed by LANXESS AG to exercise stockholders' voting rights in accordance with instructions can be reached at the Stockholders' Meeting until the voting is held. Stockholders not attending the meeting can reach the representatives up to the previous evening.

2. Section 2.3.3
   The company should make it possible for stockholders to follow the General Meeting using modern communication media (e.g. Internet).

   The speech by the Chairman of the Board of Management to the Stockholders' Meeting is broadcast on the Internet. Continued broadcasting of the proceedings thereafter, particularly of contributions made by stockholders, could be seen as a violation of the stockholders' rights to privacy. For this reason, LANXESS does not plan to broadcast the further proceedings."

Other key principles of the management practices applied by LANXESS

Prominent among the other relevant management practices applied throughout the company are the principles of business conduct. LANXESS views compliance with laws and ethical principles as the basis of sustainable corporate governance. Our employees' integrity and awareness of their responsibilities are key factors in the success of our company. Compliance with laws, social responsibility, sustainable environmental protection, and occupational, plant and product safety are an essential part of our corporate culture. The Code for Legal Compliance and Corporate Responsibility at LANXESS, which is applicable throughout the Group, specifies minimum standards and gives employees advice and guidance on complying with these standards. This code can be viewed on our website at http://www.lanxess.com under the menu item Corporate Responsibility/Responsibility/Sustainable Management.

An effective compliance management system has been established to implement the compliance code. This system was globally audited in 2012 by Deloitte & Touche GmbH, which applied the AuS 980 standard promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). The system was rated favorably, and there were no objections. Components of this system include a compliance organization that is integrated into the overall LANXESS Group organization, risk identification and assessment, a compliance program (comprising directives, hotlines, training, knowledge sharing, compliance reporting and guidance on responding to observed breaches of compliance), and measures for monitoring the overall compliance situation within the LANXESS Group. The objective is to prevent breaches of compliance and to create and foster a culture of compliance. LANXESS does not tolerate breaches of compliance and enforces observance of the provisions of its compliance code.

As an international specialty chemicals enterprise, LANXESS bears a large degree of responsibility toward people and the environment. Our entrepreneurial activities reflect this sense of responsibility. Safety, environmental protection, social responsibility, quality and economic efficiency are all key corporate goals at LANXESS. The company's objective is sustainable, forward-looking development which meets the demands of economics, ecology and society in equal measure. The greatest benefits of our corporate responsibility activities are achieved if they are balanced with entrepreneurial and, especially, economic objectives. They must therefore be linked to our core business or to our available expertise. An overview of the implementation of corporate responsibility at LANXESS can be downloaded from the Corporate Responsibility pages of our website at http://www.lanxess.com/. Additionally, LANXESS joined the United Nations Global Compact initiative in July 2011 and has supported and consistently applied the Responsible Care® Global Charter adopted by the International Council of Chemical Associations (ICCA) since 2006.

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

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

Composition and work of the Board of Management and of the Supervisory Board and its committees

LANXESS AG is a company established under the laws of Germany. One of the fundamental principles of German stock corporation law is the two-tier management system with the governing bodies of management board and supervisory board. This system is characterized by a clear separation between the management board as the body that manages a company and the supervisory board as the body that advises and oversees management. Concurrent membership on both boards is strictly prohibited. The management board and the supervisory board work closely together in a relationship of mutual trust for the benefit of the company.

Board of Management

Following the mutually agreed termination of Dr. Axel C. Heitmann's appointment as a member and Chairman of the Board of Management of LANXESS AG, this currently comprises three members: Dr. Bernhard Düttmann, Dr. Werner Breuers and Dr. Rainier van Roessel. Information about the members of the Board of Management is available on our website at http://www.lanxess.com/ under the menu item Investor Relations/Corporate Governance/Board of Management. The Supervisory Board appointed Matthias Zachert as a member and Chairman of the Board of Management, originally effective May 15, 2014. In agreement with Mr. Zachert, the Supervisory Board has now decided that he will already assume his functions on April 1, 2014. Until Mr. Zachert joins the Board of Management, Dr. Düttmann will perform the duties of the Chairman of the Board of Management.

The Board of Management is appointed to manage and represent the company. It is responsible for conducting business in the company's interests with the goal of creating sustainable value. The principal tasks of the Board of Management include defining the company's goals and strategic alignment, managing and overseeing the operating units, setting human resources policy, arranging the company's financing, and establishing an effective risk management system. It is also responsible for preparing the quarterly and half-year financial statements, the financial statements of LANXESS AG, the consolidated financial statements of the LANXESS Group and the management report for LANXESS AG and the LANXESS Group.

The Chairman coordinates the work of the Board of Management. As a rule, Board of Management decisions are adopted with a simple majority. In the event of a tie, the Chairman has the casting vote. Resolutions of the Board of Management are generally passed at regularly held meetings. The rules of procedure for the Board of Management that are enacted by the Supervisory Board contain further regulations concerning the form of cooperation within the Board of Management, the allocation of duties and the matters requiring resolution by the full Board of Management. In deciding the composition of the Board of Management, the Supervisory Board gives consideration to professional suitability, leadership qualities and diversity.

Supervisory Board

The Supervisory Board of LANXESS AG is composed of twelve members, with equal numbers of stockholder representatives and employee representatives in accordance with the provisions of the German Codetermination Act of 1976. The stockholder representatives are elected by the Annual Stockholders' Meeting, whereas the employee representatives are elected in accordance with the provisions of the Codetermination Act and its electoral regulations. Supervisory Board members normally serve for a five-year term.

Gisela Seidel, Axel Berndt, Dr. Rudolf Fauss, Ulrich Freese, Thomas Meiers and Hans-Jürgen Schicker serve as the employee representatives on the Supervisory Board. Claudia Nemat, Dr. Friedrich Janssen, Robert J. Koehler, Rainer Laufs, Dr. Rolf Stomberg and Theo H. Walthie serve as the stockholder representatives. The Local Court of Cologne appointed Ms. Nemat as a member of the Supervisory Board of LANXESS AG on July 25, 2013. She will stand for election by the stockholders at the 2014 Annual Stockholders' Meeting. The Chairman of the Supervisory Board is Dr. Rolf Stomberg. The Vice Chairman is Ulrich Freese. Information about the members of the Supervisory Board is available on our website at http://www.lanxess.com/ under the menu item Investor Relations/Corporate Governance/Supervisory Board.

The Supervisory Board's role is to advise the Board of Management in its management of the company and to monitor its conduct of the business. The Supervisory Board discusses business performance, planning and strategy at regular intervals. Its responsibilities also include appointing the members of the Board of Management as well as reviewing the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. The Supervisory Board reaches its decisions with a majority of the votes cast unless a different majority is stipulated by law. In the event of a tie, the Chairman of the Supervisory Board has two votes in a second ballot on the resolution, even if this also results in a tie. The German Codetermination Act contains special requirements concerning resolutions. The Chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and represents the concerns of the body externally. Supervisory Board resolutions are usually adopted at regularly held meetings.

The Supervisory Board has issued its own rules of procedure, which, in addition to defining the tasks and responsibilities of the Supervisory Board and the personal qualifications of its members, establishes the processes for convening, preparing and chairing meetings as well as the procedures for voting.

The Board of Management reports to the Supervisory Board on a timely and comprehensive basis about the progress of business and the situation of the Group, including potential risks and relevant issues relating to corporate planning. The Supervisory Board has laid down the Board of Management's notification and reporting requirements in detail in its rules of procedure. The Chairman of the Board of Management regularly exchanges information with the Chairman of the Supervisory Board in order to discuss matters of strategy, planning, business performance, risks, risk management and compliance. Certain transactions and measures of major or long-term importance require the Supervisory Board's approval. Measures requiring approval include, but are not limited to: adoption of the corporate planning; the acquisition, sale or encumbrance of real property, shareholdings or other assets; borrowings and certain other types of financial transactions. Thresholds have been set for some of these transactions.

Goals for the composition of the Supervisory Board

Section 5.4.1, Sentence 5 of the German Corporate Governance Code states that the concrete objectives of the Supervisory Board regarding its composition and the status of the implementation of these objectives are to be published in the Corporate Governance Report.

The members of the Supervisory Board of LANXESS AG are expected to possess the necessary expertise, skills and professional experience to perform their duties. The members of the Supervisory Board autonomously undertake the necessary training required for their tasks and are supported in their efforts by the company. In making nominations, the Supervisory Board applies only legally permissible and fair selection criteria, acts in the company's best interests, and gives consideration to the nominated candidates' integrity, commitment and independence.

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

The Supervisory Board no longer applies a rigid age limit for its members and has revoked the corresponding provision in its rules of procedure. The Supervisory Board does not consider the age alone of its members to be a measure of their qualification and competence. The company should not have to forgo extensive experience.

In general, the Supervisory Board should be guided by the principles of diversity in its composition. On the basis of their various personal and professional backgrounds, the members of the Supervisory Board contribute a broad spectrum of experience and skills. The global reach of LANXESS AG has been reflected in the composition of the Supervisory Board thus far and will remain a factor in selecting candidates to be proposed to the Annual Stockholders' Meeting for election to the Supervisory Board. In many cases, the experience and skills of the members of the Supervisory Board have been acquired while working abroad for a long period or in an international field. One member of the Supervisory Board is not a German citizen. The members of the Supervisory Board have professional knowledge of the chemical industry and other sectors that are important for the company's business.

With the election of stockholder and employee representatives in fiscal 2010, the composition of the Supervisory Board – with the exception of the appointment of Ms. Nemat – was fixed for the current term ending in 2015. Two of the twelve members currently serving on the LANXESS AG Supervisory Board are women. With a view to ensuring appropriate representation of women, the number of women members of the Supervisory Board is to be increased. The Supervisory Board aims to have at least three women members from the start of its next term. Stockholder and employee representatives to the Supervisory Board view it as their joint responsibility to ensure the appropriate representation of women. They aim to work together in fulfilling this responsibility. Future nominations to the relevant bodies of candidates for membership of the Supervisory Board should support the attainment of this goal. In setting this goal, the Supervisory Board is assuming that it will be able to identify women candidates with the requisite professional and personal qualifications for election.

Composition and work of the Supervisory Board committees

The Supervisory Board has a Presidial Committee, an Audit Committee, a Committee pursuant to Section 27, Paragraph 3 of the German Codetermination Act and a Nominations Committee formed from among its members.

The Presidial Committee discusses key issues and prepares the meetings and resolutions of the Supervisory Board. It makes decisions on transactions requiring approval that are already included in the company's annual planning. The Presidial Committee may also resolve on the exercise of participation rights pursuant to Section 32 of the German Codetermination Act and on transactions requiring approval that cannot be deferred. It consults regularly about long-term succession planning for the Board of Management. Furthermore, the Committee also prepares the personnel decisions to be made by the Supervisory Board and resolutions of the full Supervisory Board regarding the compensation of the members of the Board of Management. In place of the full Supervisory Board, the Presidial Committee resolves on the conclusion and amendment of employment contracts with the members of the Board of Management and all other contractual matters not pertaining to compensation. The members of the Presidial Committee are Dr. Stomberg (Chairman), Mr. Freese, Ms. Seidel, Mr. Schicker, Mr. Koehler and Dr. Janssen.

The Audit Committee supports the Supervisory Board in overseeing the conduct of the business and deals with matters relating to the supervision of accounting, the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as auditing, including the independence of the auditor and the work additionally performed by the auditor, and compliance. It prepares the Supervisory Board's resolutions concerning the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group and recommends an auditor whom the Supervisory Board then proposes to the Annual Stockholders' Meeting for appointment. The Chairman of the Audit Committee is an independent financial expert and has specialist knowledge and experience in the field of accounting acquired through his professional activities. The members of the Audit Committee are Dr. Janssen (Chairman), Mr. Berndt, Dr. Fauss, Mr. Meiers, Mr. Laufs and Mr. Walthie.

The Committee pursuant to Section 27, Paragraph 3 of the German Codetermination Act performs the tasks described in Section 31, Paragraph 3 of the German Codetermination Act. The members of this committee are Dr. Stomberg (Chairman), Mr. Freese, Ms. Nemat and Mr. Schicker.

The Nominations Committee solely comprises stockholder representatives and proposes candidates for the Supervisory Board to nominate for election as new members of the Supervisory Board by the Annual Stockholders' Meeting. The members of this committee are Dr. Stomberg (Chairman), Dr. Janssen and Mr. Walthie.

The respective committee chairmen report regularly to the Supervisory Board on the work of the committees.

Stockholders and stockholders' meetings

The stockholders of LANXESS AG exercise their rights at the Annual Stockholders' Meeting, where they can vote on the resolutions submitted. The Annual Stockholders' Meeting resolves on all matters reserved for its decision by law, with binding effect on the stockholders and the company. Each share confers one vote.

The items resolved on by the Annual Stockholders' Meeting include appropriation of the balance sheet profit, ratification of the actions taken by the members of the Board of Management and the Supervisory Board, appointment of the auditors and election of the stockholder representatives to the Supervisory Board. The Annual Stockholders' Meeting also resolves on amendments to the articles of association, measures affecting the company's capital and the approval of intercompany agreements. Each year there is an Annual Stockholders' Meeting at which the Board of Management and Supervisory Board give an account of the last fiscal year. The German Stock Corporation Act requires the convening of an Extraordinary Stockholders' Meeting in certain situations.

All stockholders who register in time and prove their eligibility to attend the Annual Stockholders' Meeting and exercise their voting rights shall be allowed to participate in the Annual Stockholders' Meeting. Stockholders may exercise their voting rights at the Annual Stockholders' Meeting in person, through a proxy of their own choosing or through a company-nominated proxy who acts according to their instructions.

Compensation report

The compensation report, which describes the compensation system and the amount of compensation paid to the members of the Board of Management and Supervisory Board for their service in fiscal 2013, is part of the combined management report for LANXESS AG and the LANXESS Group.

Risk management

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

Liability insurance

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

Reportable securities transactions

Pursuant to Section 15a, Paragraph 1 of the German Securities Trading Act (WpHG), the trading of securities by certain parties, including members of a management board or supervisory board, must be reported if the total sum of the transactions undertaken in any given calendar year equals or exceeds €5,000. Individuals who are closely related to these parties (e.g. spouses, registered partners and first-degree relatives) are also subject to this reporting requirement. Reportable securities transactions are published on the LANXESS website.

The total number of shares of LANXESS AG held by members of the Board of Management and Supervisory Board as of December 31, 2013 was less than 1% of all shares issued by the company.

Accounting and auditing

LANXESS AG prepares its consolidated financial statements and interim financial statements in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. The separate financial statements of LANXESS AG for any given fiscal year ("financial statements") are prepared in accordance with the German Commercial Code (HGB). The financial statements, consolidated financial statements and combined management report are published, once adopted and approved by the Supervisory Board, within 90 days of the end of the fiscal year. The company's accounting for the 2013 fiscal year was audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("PwC"), the auditors chosen at the Annual Stockholders' Meeting held in 2013. PwC also reviewed the 2013 half-year financial report. The audits are conducted in accordance with German auditing regulations and the generally accepted standards for auditing promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). It was agreed with the auditors that they would report to the Supervisory Board without delay concerning any possible grounds for their disqualification or bias as well as any significant findings or incidents that came to light during the audit.

Corporate governance statement

On March 6, 2014, the Board of Management of LANXESS AG issued its declaration pursuant to Section 289a of the German Commercial Code, which is published together with the Corporate Governance Report on our website at http://www.lanxess.com/ under the menu item Investor Relations/Corporate Governance.

Offices held by Board of Management members

(as of December 31, 2013)

Member of the Board of Management	External offices	Offices within the LANXESS Group
Dr. Axel C. Heitmann Chairman of the Board of Management (no longer on the Board of Management)	• Member of the Presidium of the German Chemical Industry Association (VCI) • Member of the Asia-Pacific Committee of German Business (APA) • Member of the Board of Management and Presidium of OAV-German-Asia-Pacific Business Association • Chairman of the Foreign Trade Committee of the Federation of German Industries (BDI) • Member of the Advisory Board of NRW.Bank • Member of the Presidium of stiftung neue verantwortung • Member of the Executive Committee of the Stifterverband für die Deutsche Wissenschaft • Member of the Advisory Board of Goethe-Institut e.V. • Member of the Association of Friends of Philharmonie KölnMusik e.V. • Member of the Board of Trustees of Konvent für Deutschland e.V.	• Chairman of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd.
Dr. Werner Breuers Member of the Board of Management	• Member of the Supervisory Board of Currenta Geschäftsführungs-GmbH, Leverkusen • Member of the Supervisory Board of Messer Group GmbH, Bad Soden • Member of the Board of Trustees of the VCI's Chemical Industry Fund • Member of the Board of Trustees of the DWI of RWTH Aachen University • Member of the German Committee on Eastern European Economic Relations • Member of the Advisory Board of the Association for Chemistry & Economics (VCW) • Member of the Senate of the Deutsche Akademie der Technikwissenschaften • Member of the Board of Directors of the German American Chamber of Commerce	• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Supervisory Board of Saltigo GmbH • Chairman of the Supervisory Board of Aliseca GmbH • Chairman of the Board of Directors of LANXESS K.K. • Chairman of the Board of Directors of LANXESS International S.A. • Chairman of the Board of Directors of LANXESS Butyl Pte. Ltd. • Chairman of the Board of Directors of LANXESS Pte. Ltd.
Dr. Bernhard Düttmann Chief Financial Officer	• Member of the Supervisory Board of GfK SE, Nuremberg • Member of the Board of Directors of Deutsches Aktieninstitut (DAI) • Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU)	• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Corp.
Dr. Rainier van Roessel Member of the Board of Management and Industrial Relations Director	• Member of the Board of the VCI Regional Association in North Rhine-Westphalia • Member of the VCI Trade Policy Committee • Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP) • Member of the Board of the German Chemical Industry Federation (BAVC)	• 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 Governing Board of LANXESS Srl. • Member of the Board of Directors of LANXESS Chemical (China) Co. Ltd. • Chairman of the Board of Directors of LANXESS India Private Ltd.

LANXESS AG Supervisory Board

Dr. Rolf Stomberg (Chairman)

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

Further offices:
- LANXESS Deutschland GmbH, Cologne* (Chairman)
- Biesterfeld AG, Hamburg*
- HOYER GmbH, Hamburg
- KEMNA Bau Andreae GmbH & Co. KG, Pinneberg
- OAO Severstal, Cherepovets, Russia
- Ruspetro plc, London, U.K.

Ulrich Freese (Vice Chairman)

- Member of the Bundestag
- Former Vice Chairman of the German Mining, Chemical and Energy Industrial Union, Hannover

Further offices:
- LANXESS Deutschland GmbH, Cologne* (Vice Chairman)
- Vattenfall Europe Mining AG, Cottbus* (Vice Chairman)
- Vattenfall Europe Generation AG, Cottbus* (Vice Chairman)
- Vattenfall GmbH, Berlin* (Vice Chairman)
- DMT GmbH, Essen* (Vice Chairman)
- Vivawest Wohnen GmbH, Essen* (Vice Chairman)
- Vivawest GmbH, Essen (Vice Chairman)
- GSB – Gesellschaft zur Sicherung von Bergmannswohnungen mbH, Essen (Vice Chairman, until December 31, 2013)
- GSG Wohnungsbau Braunkohle GmbH, Cologne (Vice Chairman, until December 31, 2013)

Axel Berndt

- Specialist for Portfolio & Change Management in the IT department, LANXESS Deutschland GmbH
- Former member of the Works Council at the Leverkusen site

Further offices:
- LANXESS Deutschland GmbH, Cologne*
- Aliseca GmbH, Leverkusen* (until June 13, 2013)

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, Cologne*

Dr. Friedrich Janssen

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

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

Robert J. Koehler

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

Further offices:
- LANXESS Deutschland GmbH, Cologne*
- Heidelberger Druckmaschinen AG, Heidelberg* (Chairman)
- Klöckner & Co. SE, Duisburg*
- Freudenberg SE, Weinheim* (since January 1, 2013)
- Benteler International AG, Salzburg, Austria (Chairman)
- SGL Carbon S.p.A., Lainate, Milan, Italy (until December 31, 2013)
- SGL Carbon SDN BHD, Banting, Malaysia (until December 31, 2013)
- SGL Carbon S.A., La Coruña, Spain (until December 31, 2013)

Rainer Laufs

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

Further offices:
- LANXESS Deutschland GmbH, Cologne*
- WCM Beteiligungs- und Grundbesitz AG, Frankfurt am Main* (Chairman)
- Petrotec AG, Düsseldorf* (Chairman)
- Bilfinger Industrial Services GmbH, Munich
- Bilfinger Industrial Technologies GmbH, Frankfurt am Main
- Asklepios Kliniken GmbH, Hamburg* (since February 15, 2013)
- Asklepios Kliniken Verwaltungsgesellschaft mbH, Königstein im Taunus* (since February 15, 2013)

Thomas Meiers

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

Further offices:
- LANXESS Deutschland GmbH, Cologne*
- INEOS Deutschland Holding GmbH, Cologne*
- INEOS Köln GmbH, Cologne*

Prof. h.c. (CHN) Dr.-Ing. E.h. Dr. Ulrich Middelmann (deceased July 2, 2013)

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

Further offices:
- LANXESS Deutschland GmbH, Cologne*
- Deutsche Telekom AG, Bonn*
- Commerzbank AG, Frankfurt am Main*
- Hoberg & Driesch GmbH, Düsseldorf (Chairman)

Claudia Nemat (Member of the Supervisory Board since July 25, 2013)

Member of the Board of Management of Deutsche Telekom AG, Bonn

Further offices:
- LANXESS Deutschland GmbH, Cologne*
- Buyln SA, Brussels, Belgium (Chairwoman)
- Everything Everywhere Limited, London, U.K.
- Hellenic Telecommunications Organization S.A. (OTE S.A.), Maroussi, Athens, Greece

Hans-Jürgen Schicker

Chairman of the Works Council at the Uerdingen site

Further offices:
- LANXESS Deutschland GmbH, Cologne*

Gisela Seidel

Chairwoman of the Works Council at the Dormagen site

Further offices:
- LANXESS Deutschland GmbH, Cologne*

Theo H. Walthie

Self-employed consultant

Further offices:
- LANXESS Deutschland GmbH, Cologne*
- NBE Therapeutics AG, Basle, Switzerland (President of the Board of Administration, since December 1, 2013)

The information about offices held refers to memberships of other supervisory boards and comparable supervisory bodies of companies in Germany and abroad (as of December 31, 2013).

* Statutory supervisory boards

Consolidated Financial Statements

Statement of Financial Position
LANXESS Group

€ million	Note	Jan. 1, 2012	Dec. 31, 2012	Dec. 31, 2013
ASSETS				
Intangible assets	(1)	373	390	323
Property, plant and equipment	(2)	2,679	2,994	2,903
Investments accounted for using the equity method	(3)	12	8	12
Investments in other affiliated companies	(4)	19	18	13
Non-current derivative assets	(5)	8	16	20
Other non-current financial assets	(6)	82	8	11
Non-current income tax receivables		0	0	1
Deferred taxes	(28)	196	211	254
Other non-current assets	(7)	120	102	55
Non-current assets		**3,489**	**3,747**	**3,592**
Inventories	(8)	1,386	1,527	1,299
Trade receivables	(9)	1,146	1,117	1,070
Cash and cash equivalents		178	386	427
Near-cash assets	(10)	350	411	106
Current derivative assets	(5)	8	28	58
Other current financial assets	(6)	27	6	6
Current income tax receivables		64	41	55
Other current assets	(11)	230	256	198
Current assets		**3,389**	**3,772**	**3,219**
Total assets		**6,878**	**7,519**	**6,811**
EQUITY AND LIABILITIES				
Capital stock and capital reserves		889	889	889
Other reserves		1,449	1,238	1,690
Net income (loss)		0	508	(159)
Other equity components		(280)	(321)	(525)
Equity attributable to non-controlling interests		16	16	5
Equity	(12)	**2,074**	**2,330**	**1,900**
Provisions for pensions and other post-employment benefits	(13)	679	893	943
Other non-current provisions	(14)	331	304	258
Non-current derivative liabilities	(5)	13	4	12
Other non-current financial liabilities	(15)	1,465	2,167	1,649
Non-current income tax liabilities	(16)	63	35	49
Other non-current liabilities	(17)	89	74	89
Deferred taxes	(28)	75	82	29
Non-current liabilities		**2,715**	**3,559**	**3,029**
Other current provisions	(14)	446	440	355
Trade payables	(18)	766	795	690
Current derivative liabilities	(5)	40	10	22
Other current financial liabilities	(15)	633	167	668
Current income tax liabilities	(16)	49	45	21
Other current liabilities	(17)	155	173	126
Current liabilities		**2,089**	**1,630**	**1,882**
Total equity and liabilities		**6,878**	**7,519**	**6,811**

2012 figures restated

Income Statement
LANXESS Group

€ million	Note	2012	2013
Sales	(20)	**9,094**	**8,300**
Cost of sales	(21)	(6,988)	(6,752)
Gross profit		**2,106**	**1,548**
Selling expenses	(22)	(763)	(755)
Research and development expenses	(23)	(192)	(186)
General administration expenses	(24)	(339)	(301)
Other operating income	(25)	186	128
Other operating expenses	(26)	(190)	(527)
Operating result (EBIT)		**808**	**(93)**
Income from investments accounted for using the equity method		1	0
Interest income		5	2
Interest expense		(101)	(108)
Other financial income and expense		(53)	(40)
Financial result	(27)	**(148)**	**(146)**
Income (loss) before income taxes		**660**	**(239)**
Income taxes	(28)	(151)	71
Income (loss) after income taxes		**509**	**(168)**
of which attributable to non-controlling interests		1	(9)
of which attributable to LANXESS AG stockholders [net income (loss)]		508	(159)
Earnings per share (undiluted/diluted) (€)	(29)	**6.11**	**(1.91)**

2012 figures restated

Statement of Comprehensive Income
LANXESS Group

€ million	2012	2013
Income (loss) after income taxes	**509**	**(168)**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of the net defined benefit liability for post-employment benefit plans	(210)	(4)
Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method	0	26
Income taxes	69	5
	(141)	**27**
Items that may be reclassified subsequently to profit or loss if specific conditions are met		
Exchange differences on translation of operations outside the eurozone	(81)	(199)
Financial instruments	58	(7)
Income taxes	(18)	3
	(41)	**(203)**
Other comprehensive income, net of income tax	**(182)**	**(176)**
Total comprehensive income	**327**	**(344)**
of which attributable to non-controlling interests	1	(8)
of which attributable to LANXESS AG stockholders	326	(336)

2012 figures restated

Statement of Changes in Equity
LANXESS Group

€ million	Capital stock	Capital reserves	Other reserves	Net income (loss)	Other equity components		Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
					Currency translation adjustment	Financial instruments			
Dec. 31, 2011	**83**	**806**	**954**	**495**	**(248)**	**(32)**	**2,058**	**16**	**2,074**
Allocations to retained earnings			495	(495)			0		0
Dividend payments			(71)				(71)	(1)	(72)
Stock-based compensation			1				1		1
Total comprehensive income			(141)	508	(81)	40	326	1	327
Income after income taxes				*508*			*508*	*1*	*509*
Other comprehensive income, net of income tax			*(141)*		*(81)*	*40*	*(182)*	*0*	*(182)*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*(210)*				*(210)*		*(210)*
Exchange differences on translation of operations outside the eurozone					*(81)*		*(81)*	*0*	*(81)*
Financial instruments						*58*	*58*		*58*
Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method							*0*		*0*
Income taxes on other comprehensive income			*69*			*(18)*	*51*		*51*
Dec. 31, 2012	**83**	**806**	**1,238**	**508**	**(329)**	**8**	**2,314**	**16**	**2,330**
Allocations to retained earnings			508	(508)			0		0
Dividend payments			(83)				(83)		(83)
Total comprehensive income			27	(159)	(200)	(4)	(336)	(8)	(344)
Income (loss) after income taxes				*(159)*			*(159)*	*(9)*	*(168)*
Other comprehensive income, net of income tax			*27*		*(200)*	*(4)*	*(177)*	*1*	*(176)*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*(4)*				*(4)*		*(4)*
Exchange differences on translation of operations outside the eurozone					*(200)*		*(200)*	*1*	*(199)*
Financial instruments						*(7)*	*(7)*		*(7)*
Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method			*26*				*26*		*26*
Income taxes on other comprehensive income			*5*			*3*	*8*		*8*
Other changes [1]							0	(3)	(3)
Dec. 31, 2013	**83**	**806**	**1,690**	**(159)**	**(529)**	**4**	**1,895**	**5**	**1,900**

2012 figures restated
1) Effects of the transition to full consolidation and the change to proportionate consolidation

Statement of Cash Flows
LANXESS Group

€ million	Note	2012	2013
Income (loss) before income taxes		**660**	**(239)**
Amortization, depreciation and write-downs of intangible assets and property, plant and equipment		378	717
Gains on disposals of intangible assets and property, plant and equipment		0	(2)
Income from investments accounted for using the equity method		(1)	0
Financial losses		113	111
Income taxes paid		(109)	(41)
Changes in inventories		(164)	186
Changes in trade receivables		8	5
Changes in trade payables		38	(81)
Changes in other assets and liabilities		(85)	(15)
Net cash provided by operating activities		**838**	**641**
Cash outflows for purchases of intangible assets and property, plant and equipment		(696)	(624)
Cash inflows from financial assets		41	290
Cash outflows for the acquisition of subsidiaries and other businesses, less acquired cash and cash equivalents and net of subsequent purchase price adjustments		(44)	(15)
Cash inflows from sales of intangible assets and property, plant and equipment		5	5
Interest and dividends received		20	2
Net cash used in investing activities	(36)	**(674)**	**(342)**
Proceeds from borrowings		893	105
Repayments of borrowings		(652)	(163)
Interest paid and other financial disbursements		(123)	(119)
Dividend payments		(72)	(83)
Net cash provided by (used in) financing activities	(36)	**46**	**(260)**
Change in cash and cash equivalents from business activities		**210**	**39**
Cash and cash equivalents as of January 1		178	386
Exchange differences and other changes in cash and cash equivalents		(2)	2
Cash and cash equivalents as of December 31	(36)	**386**	**427**

2012 figures restated

Notes to the Consolidated Financial Statements

General information

LANXESS AG is entered as a stock corporation in the Commercial Register of the Cologne District Court under HRB 53652. Its registered office is at Kennedyplatz 1, 50569 Cologne, 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 2013 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 6, 2014. 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 cash flow statement and the notes, which include the segment information.

The consolidated financial statements 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, 2013 were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (E.U.) and the corresponding interpretations, together with the additional requirements of Section 315a, Paragraph 1 of the German Commercial Code (HGB).

Fair value measurement

In May 2011 the International Accounting Standards Board (IASB) published IFRS 13, a new standard that addresses questions relating to measurement at fair value. IFRS 13 also prescribes additional disclosures in the notes to the financial statements relating to fair value measurement. Its application had no material impact on the financial position or results of operations.

Presentation of items of other comprehensive income

In accordance with the amendments to IAS 1 issued in June 2011, items of other comprehensive income are now segregated according to whether or not they may subsequently become reclassifiable to profit or loss if certain conditions are met.

Accounting for pensions and other post-employment benefits

Starting on January 1, 2013, the LANXESS Group applied the revised version of IAS 19 issued in June 2011. The revisions address the recognition and measurement of expenses for defined benefit pension plans and termination benefits. In compliance with the respective financial reporting standards, the accounting changes were applied retrospectively. There are also changes with respect to the disclosures required in the notes to the consolidated financial statements.

Since the option used by the LANXESS Group in accounting for actuarial gains and losses already corresponded to the mandatory method, application of the revised version of IAS 19 had no material impact on the financial position or results of operations.

The accounting changes did not affect the amount of provisions for pensions and other post-employment benefits as of January 1, 2012. The changes had the effect of increasing the provisions for pensions and other post-employment benefits and the other reserves as of December 31, 2012, by €1 million and €5 million, respectively. Net income for 2012 was reduced accordingly, taking into account deferred tax income of €3 million. Accordingly, earnings per share for 2012 decreased from €6.18 to €6.11. The other reserves as of December 31, 2013 were increased by €5 million and net income for 2013 was reduced accordingly, taking into account deferred tax income of €4 million. In both years, €2 million of the reduction in net income pertained to the operating result and €7 million to the financial result. The related tax effects are mainly reflected in other comprehensive income as deferred tax expense. The application of the revised version of IAS 19 diminished earnings per share in 2013 from minus €1.85 to minus €1.91.

Offsetting of financial assets and financial liabilities

In December 2011 the IASB published amendments to IFRS 7 requiring additional disclosures about the offsetting of financial assets and financial liabilities. Details of any netting arrangements for amounts that do not meet the criteria for offsetting under IFRS must also be disclosed. Since the changes solely relate to disclosure requirements, their first-time application had no impact on the financial position or results of operations of the LANXESS Group.

Further changes

The mandatory first-time application of the following financial reporting standards and interpretations in 2013 currently has no impact, or no material impact, on the LANXESS Group:

- Amendments to IAS 12: Deferred Tax – Recovery of Underlying Assets
- Amendments to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine
- Amendments to IFRS 1: Government Loans
- Various IAS and IFRS 1: Annual Improvements to IFRSs, 2009 – 2011 Cycle

Financial reporting standards and interpretations issued but not yet mandatory

In 2013 the LANXESS Group did not yet apply certain further financial reporting standards and interpretations that had already been issued by the 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 endorsement 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. In November 2013, the IASB published amendments to IFRS 9 containing new rules on hedge accounting. These amendments allow early adoption of the requirement that fair value changes attributable to changes in the credit risk of a liability designated as at fair value through profit or loss be presented in other comprehensive income under certain conditions even if the other rules of IFRS 9 are not simultaneously applied.

On February 20, 2014, the IASB tentatively decided to select January 1, 2018, as the effective date for mandatory application of IFRS 9. However, application of this standard by LANXESS is dependent on its endorsement by the E.U. 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. In June 2012 the IASB issued amendments to the transition guidance for the three new standards. The application of all of these standards is mandatory in the E.U. for annual periods beginning on or after January 1, 2014. The LANXESS Group does not expect their application to have a material impact on its financial position or results of operations.

In May 2013, the IASB published amendments to IAS 36. The new rules make it clear that the recoverable amount of an asset or cash-generating unit now only has to be disclosed for periods in which a write-down has been recognized or reversed. Additional disclosures are required when a write-down is recognized or reversed and the recoverable amount is based on fair value less costs of disposal. Application of the revised standard is mandatory in the E.U. for annual periods beginning on or after January 1, 2014. Since the changes solely relate to disclosure requirements, the first-time application of the revised version of IAS 36 will have no impact on the financial position or results of operations of the LANXESS Group.

The following financial reporting 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	Endorsed by the E.U.
IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	Dec. 16, 2011	2014	yes
IFRS 10, IFRS 12 and IAS 27	Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27	Oct. 31, 2012	2014	yes
IFRIC 21	Levies	May 20, 2013	2014	no
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39	June 27, 2013	2014	yes
IAS 19	Defined Benefit Plans: Employee Contributions – Amendments to IAS 19	Nov. 21, 2013	2015	no
Various IAS and IFRS	Annual Improvements to the International Financial Reporting Standards, 2010–2012 Cycle	Dec. 12, 2013	2015	no
Various IAS and IFRS	Annual Improvements to the International Financial Reporting Standards, 2011–2013 Cycle	Dec. 12, 2013	2015	no
IFRS 14	Regulatory Deferral Accounts	Jan. 30, 2014	–	no

Presentation changes and restatement of prior-year figures

Non-current income tax assets are no longer included in other non-current assets but are disclosed in a separate line item in the statement of financial position.

Prior-year figures have been restated to reflect the application of the revised version of IAS 19. Further details can be found in the section headed “Financial reporting standards and interpretations applied” under “Accounting for pensions and other post-employment benefits.” A presentation change in the statement of comprehensive income is explained in the same section under “Presentation of items of other comprehensive income.”

Consolidation

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 in which 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 are in aggregate immaterial to the Group’s financial position and results of operations are not consolidated, but are 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 decline in value exceeds the carrying amount of the entity, write-downs are recognized on the associated non-current assets. If the carrying amount of the entity and the associated assets are reduced to zero, liabilities would be recognized 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

The joint venture DuBay Polymer GmbH, Hamm, Germany, was included in the consolidated financial statements by proportionate consolidation.

Currency translation

In the financial statements of the individual consolidated companies that form the basis for the consolidated financial statements of the LANXESS Group, all foreign-currency assets and liabilities are translated at closing rates, irrespective of whether they are hedged. Forward contracts serving as economic hedges against fluctuations in exchange rates are reflected at fair value.

The financial statements of each foreign entity are valued on the basis of the currency of the primary economic environment in which the entity operates (functional currency concept). By far the majority of foreign companies are financially, economically and organizationally autonomous and their functional currencies are therefore the respective local currencies. The assets and liabilities of these companies are translated at closing rates, while income and expense items are translated at average rates for the year.

Goodwill arising on the acquisition of a foreign entity is recorded in the currency of the acquired entity and translated at the closing rate, irrespective of the date on which it arose.

Equity (other than income and expenses recognized in other comprehensive income) is translated at historical rates, while income and expenses are translated at average rates. The differences between the resulting amounts and those obtained by translating at closing rates are reported separately in other comprehensive income as exchange differences on translation of operations outside the eurozone.

If a company is deconsolidated, the relevant exchange differences are reversed and recognized in profit or loss.

The principal exchange rates used for currency translation in the LANXESS Group were:

Exchange Rates

€ 1		Closing rate, Dec. 31		Average rate	
		2012	2013	2012	2013
Argentina	ARS	6.49	8.99	5.85	7.28
Brazil	BRL	2.70	3.23	2.51	2.87
China	CNY	8.22	8.35	8.11	8.16
United Kingdom	GBP	0.82	0.83	0.81	0.85
India	INR	72.56	85.23	68.62	77.82
Japan	JPY	113.61	144.72	102.61	129.62
Canada	CAD	1.31	1.47	1.28	1.37
Singapore	SGD	1.61	1.74	1.61	1.66
South Africa	ZAR	11.17	14.57	10.55	12.83
United States	USD	1.32	1.38	1.29	1.33

Accounting policies and valuation principles

The accounting policies and valuation principles are the same as those used in the previous fiscal year and have been consistently applied. However, certain changes have resulted from the mandatory first-time application in 2013 of new or amended financial reporting standards and interpretations. These changes are explained in the section headed "Financial reporting standards and interpretations applied." In the LANXESS Group, joint ventures are no longer accounted for using the equity method, but by proportionate consolidation. Further details are given in the section headed "Companies consolidated."

Intangible assets

Intangible assets comprise goodwill and other intangible assets such as software, concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets. Acquired intangible assets with a definite useful life are recognized at cost and amortized over their respective useful lives using the straight-line method. The amortization period for intangible assets other than goodwill is between 3 and 20 years. Amortization for 2013 has been allocated to the respective functional areas. Any further decline in value is recognized by means of a write-down. Write-downs are reversed in the following year if the reasons for them no longer exist, provided that this does not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been carried if the write-downs had not been recognized or their current recoverable amount. The lower of these two amounts is recognized. Intangible assets with indefinite useful lives and goodwill are not amortized. They are tested for impairment annually, or more often if events or a change in circumstances indicate a possible impairment. Any impairment charges are recognized in other operating expenses. Impairment charges on goodwill are not reversed.

The costs incurred for in-house software development at the application development stage are capitalized and amortized over the expected useful life of the software from the date it is placed in service.

Emissions allowances are recognized at cost. Allowances allocated free of charge by the German Emissions Trading Authority (DEHSt) or comparable authorities in other European countries are capitalized at a value of zero.

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or construction less depreciation for wear and tear. LANXESS does not use the revaluation model. Write-downs are recognized for any reduction in value that goes beyond normal depreciation. In compliance with IAS 36, impairment charges are measured by comparing the carrying amounts to the discounted cash flows expected to be generated by the assets in the future. Where it is not possible to allocate future cash flows to specific assets, the impairment charge is assessed on the basis of the discounted cash flows for the cash-generating unit to which the asset belongs. Write-downs are reversed if the reasons for them no longer apply, provided that this does not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been recognized if they had not been written down or their current recoverable amount.

The cost of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, and appropriate allocations of material and manufacturing overheads and an appropriate share of the depreciation and write-downs of assets used in construction. It also includes the shares of expenses for company pension plans and discretionary employee benefits that are attributable to construction.

Where an obligation exists to decommission or dismantle assets at the end of their useful life or to restore a site to its original condition, the present value of the obligation is capitalized along with the cost of acquisition or construction and a provision in the same amount is recognized.

If the construction phase of property, plant or equipment extends over a long period, the directly attributable borrowing costs incurred up to the date of completion are capitalized as part of the cost of acquisition or construction.

Expenses for current maintenance and repairs are recognized directly in profit or loss. Subsequent acquisition or construction costs are capitalized if they will result in future economic benefits and can be reliably determined.

Expenses for general overhauls of major large-scale plants are recognized separately at the cost of the overhaul as part of the related assets and depreciated over the period between one general overhaul and the next using the straight-line method.

Where assets comprise material components with different purposes, different properties, or different useful lives, the components are capitalized individually and depreciated over their useful lives.

When property, plant or equipment is sold, the difference between the net proceeds and the carrying amount is recognized as a gain or loss in other operating income or expenses.

Assets are depreciated by the straight-line method based on the following useful lives, which are applied uniformly throughout the Group:

Useful Lives

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	6 to 12 years
Laboratory and research facilities	3 to 5 years
Storage tanks and pipelines	10 to 20 years
Vehicles	5 to 8 years
Computer equipment	3 to 5 years
Furniture and fixtures	4 to 10 years

Leasing

In accordance with IAS 17, leased assets where substantially all risks and rewards incidental to ownership are transferred (finance leases) are capitalized at the lower of their fair value and the present value of the minimum lease payments at the date of addition. They are depreciated over their useful lives. If subsequent transfer of title to the leased asset is uncertain, it is depreciated over the shorter of its estimated useful life and the lease term.

The future lease payments are recorded as financial liabilities. Liabilities under finance leases are recognized at the fair value of the leased asset at the inception of the lease or the present value of the minimum lease payments, whichever is lower. Thereafter the minimum lease payments are divided into financing costs and the portion representing repayment of the principal. In the case of leasing contracts that do not include the transfer of substantially all risks and rewards incidental to ownership (operating leases), the lessee recognizes the lease payments as current expenses.

Property, plant and equipment also includes assets that LANXESS leases or rents out to third parties under agreements other than finance leases. However, if the lessee is to be regarded as the economic owner of the assets, a receivable is recognized in the amount of the discounted future lease or rental payments.

Leasing arrangements may be embedded in other contracts. Where IFRS stipulates separation of the embedded leasing arrangement, the components of the contract are recognized and measured separately.

Financial instruments

Financial instruments are contracts that give rise simultaneously to a financial asset for one party and a financial liability or equity instrument for another. These include primary financial instruments, such as trade receivables or payables and other financial assets or liabilities, as well as derivative financial instruments, which are used to hedge risks arising from changes in currency exchange rates, raw material prices or interest rates.

Financial instruments are recognized as soon as the LANXESS Group becomes the contracting party to them. Financial assets are derecognized when the contractual rights to receive payments from them expire or the financial assets are transferred together with all substantial opportunities and risks. Financial liabilities are derecognized when the contractual obligations are met or canceled, or when they expire.

In the case of regular-way purchases and sales, the settlement date is the relevant date for first-time recognition or derecognition of financial assets in the financial statements.

Trade receivables and other financial receivables are initially recognized at fair value and subsequently accounted for at amortized cost using the effective interest method. Write-downs are recognized for any decline in value using separate accounts.

Investments in affiliated companies and the equity instruments included in non-current assets are classified as “available-for-sale” financial assets and recognized at fair value, except where their fair value cannot be reliably determined, in which case they are recognized at cost. Where objective evidence exists that such assets may be impaired, an impairment charge is recognized on the basis of an impairment test.

Investments in companies accounted for using the equity method are recognized at the amounts corresponding to LANXESS’s shares in their equity in accordance with IAS 28.

Financial assets held for trading are recognized at fair value. Any gain or loss arising from subsequent measurement is reflected in the income statement.

All other primary financial assets are classified as “available-for-sale” and recognized at fair value except if they are allocable to loans and receivables. Any gain or loss resulting from subsequent measurement, with the exception of write-downs and of gains and losses from currency translation, is recognized in other comprehensive income until the asset is derecognized.

Primary financial liabilities are initially recognized at fair value less any transaction costs. In subsequent periods, they are measured at amortized cost using the effective-interest method.

LANXESS does not utilize the option of designating non-derivative financial assets or liabilities at fair value through profit or loss upon initial recognition.

Derivative financial instruments and hedging transactions

The LANXESS Group recognizes derivative financial instruments as assets or liabilities at their fair value on the closing date. Gains and losses resulting from changes in fair value are recognized in profit or loss. Where foreign currency derivatives or forward commodity contracts used to hedge future cash flows from pending business or forecasted transactions qualify for hedge accounting under the relevant financial reporting standard, changes in the value of such instruments are recognized separately in other comprehensive income until the underlying transactions are realized. The amounts recognized here are subsequently reclassified to other operating income or production costs, as appropriate, when the hedged transaction is recognized in profit or loss. Any portion of the change in value of such derivatives deemed to be ineffective with regard to the hedged risk is recognized directly in profit or loss. Changes in the fair value of interest rate derivatives used to hedge long-term liabilities with variable interest rates – provided such derivatives qualify for hedge accounting – are recognized in other comprehensive income and subsequently reclassified to profit or loss as interest income/expense at the same time as the income from the hedged transaction is recognized in profit or loss.

Contracts concluded for the purpose of receiving or delivering non-financial items based on expected purchases, sales or utilization and held for this purpose are recognized not as financial derivatives but as pending transactions. If the contracts contain embedded derivatives, the derivatives are accounted for separately from the host contract, provided that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.

Determination of fair value

The principal methods and assumptions used in measuring the fair value of financial instruments are outlined below:

Trade receivables, other receivables and cash and cash equivalents are generally due within one year. Their carrying amount is therefore their fair value. Receivables due in more than one year are discounted using current interest rates to determine their fair value.

The fair value of securities is determined from their market price on the closing date, disregarding transaction costs.

The fair value of loans and liabilities to banks is calculated from discounted future interest payments and capital repayment amounts.

The bonds are traded in an active, liquid market. Their fair values are the prices determined and published by the market. If no liquid market price is available for a bond, its fair value is determined on the basis of observable inputs, using a risk-related discount rate.

The fair value of trade payables and other primary financial liabilities due within one year is normally their carrying amount. That of all other liabilities is determined by discounting them to present value where feasible.

The fair values of receivables and liabilities relating to finance leases are the present values of the net lease payments calculated using the market rate for comparable lease agreements.

Most of the derivative financial instruments used by LANXESS are traded in an active, liquid market. The fair values as of the end of the reporting period pertain exclusively to forward exchange contracts and are derived from their trading or listed prices using the "forward method." Where no market price is available, values are determined using recognized capital market pricing methods based on observable market data. In determining the fair values, adjustments for LANXESS's own credit risk and counterparty credit risk are made on the basis of the respective net positions.

Inventories

Inventories encompass assets held for sale in the ordinary course of business (finished goods and merchandise), assets in the process of being manufactured for sale (work in process) and assets consumed during the production process (raw materials and supplies). They are valued by the weighted-average method and recognized at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business less the estimated remaining production costs and selling expenses.

The cost of production comprises the direct cost of materials, direct manufacturing expenses and appropriate allocations of fixed and variable material and manufacturing overheads at normal capacity utilization, where these are attributable to production.

It also includes expenses for company pension plans, corporate welfare facilities and discretionary employee benefits that can be allocated to production. Administrative costs are included where they are attributable to production.

Borrowing costs incurred in the course of production are not included in the acquisition or production cost of inventories as the products are not manufactured using long-term production processes.

Given the production and distribution sequences characteristic of the LANXESS Group, work in process and finished goods are grouped together.

Cash and cash equivalents

Cash and cash equivalents comprise checks, cash and balances with banks. Securities with maturities of up to three months from the date of acquisition are recognized in cash and cash equivalents in view of their high liquidity.

Non-current assets and liabilities held for sale

Material assets are recognized as held for sale if they can be sold in their current condition and a sale is highly probable. Such assets may be individual non-current assets, groups of assets (disposal groups) or complete business entities. A disposal group may also include liabilities if these are to be divested together with the assets as part of the transaction.

Assets classified as held for sale are no longer depreciated. They are recognized at the lower of fair value less costs of disposal and the carrying amount.

Provisions

Provisions are recognized and measured in accordance with IAS 37 and, where appropriate, IAS 19 and IFRS 2, using the best estimates of the amounts of the obligations. Non-current portions of material provisions due in more than one year are discounted to present value if the extent and timing of the obligation can be assessed with reasonable certainty. Where the projected obligation alters as the time of performance approaches (interest effect), the related expense is recognized in other financial expense.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the effect is recognized in the income or expense item(s) in which the provision was originally recorded.

Provisions for pensions and other post-employment benefits are established for defined benefit pension plans. The provision is measured according to the actuarial present value of the obligation, calculated using the projected unit credit method. This takes into account not only the known pensions and pension entitlements as of the closing date, but also expected future salary and benefit increases. Remeasurements of the net defined benefit liability are fully recognized in other comprehensive income in the period in which they occur. They are not reclassified to profit or loss in a subsequent period.

Personnel-related provisions mainly include those for annual bonus payments, payments under multi-year compensation programs and other personnel costs.

The stock-based employee compensation programs (Long Term Incentive Plan – LTIP and Long Term Stock Performance Plan – LTSP) provide for cash settlement. Provisions are established for the obligations entered into under such programs on the basis of the proportionate fair value of the rights allocated to employees. The fair value is determined using the Monte Carlo method, in which future returns are simulated and the expected payment is calculated from the value of the rights based on a two-dimensional standard distribution of returns. The fair value of the rights is reflected in a pro-rata provision during the vesting period.

The LANXESS Group also records provisions for current or pending legal proceedings where the resulting expenses can be reasonably estimated. These provisions include all estimated fees and legal costs and the cost of potential settlements. The amounts of such provisions are based upon information and cost estimates provided by the Group's legal advisers. The provisions are regularly reviewed together with the Group's legal advisers and adjusted if necessary.

Contingent liabilities

Contingent liabilities are potential obligations to third parties or existing commitments, the extent of which cannot be reasonably estimated or which are unlikely to lead to an outflow of resources. They are not recognized in the statement of financial position unless they have been entered into in connection with a business combination.

Liabilities

Other current liabilities are recognized at repayment or redemption amounts. Other non-current liabilities are recognized at amortized cost.

Subsidies received from third parties for the acquisition or construction of property, plant and equipment are reflected in other liabilities and released to the income statement over the underlying period or expected useful life of the assets to which they relate.

Sales and other revenues

Revenues are recognized as soon as delivery has been made or the service rendered and are reported net of sales taxes and deductions. This is normally the case when the significant risks and benefits associated with ownership of the goods pass to the purchaser. It must also be sufficiently probable that the economic benefits will be obtained and the costs incurred must be reliably determinable.

Customer rebates are reflected in the period in which the revenues are realized. Revenues such as license fees, rental income, interest income or dividends that are attributable to a subsequent fiscal year are accrued.

The LANXESS Group does not have long-term production orders. Accordingly, the percentage-of-completion method is not applied to determine when revenues are realized.

Research and development expenses

According to IAS 38, research costs cannot be capitalized, whereas development costs must be capitalized if, and only if, specific narrowly defined conditions are fulfilled. Development costs must be capitalized if it is sufficiently certain that the future economic benefits to the company will cover not only the usual production, selling and administrative costs but also the development costs themselves. However, since the development and optimization of products and processes frequently involves uncertainties, the conditions for capitalization of development costs are generally not met.

Income taxes

This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Income taxes are computed on the basis of local tax rates.

Income tax liabilities and provisions for income taxes comprise the liabilities relating to 2013 and any liabilities from previous years.

In accordance with IAS 12, deferred taxes are calculated for temporary differences between the carrying amounts of assets or liabilities in the statement of financial position and the tax base and for differences arising from consolidation measures or realizable tax loss carryforwards. Deferred taxes are calculated at the rates which – on the basis of the statutory regulations in force, or already enacted in relation to future periods, as of the closing date – are expected to apply in the individual countries at the time of realization.

The carrying amount of deferred tax assets is reviewed at each closing date and only the amount likely to be realizable due to future taxable income is recognized. Deferred tax assets from loss carryforwards are recognized if it is probable that the carryforwards can be utilized.

Deferred tax assets and liabilities are netted if they relate to income taxes levied by the same tax authorities.

Statement of cash flows

The statement of cash flows shows how cash inflows and outflows during the year affected the cash and cash equivalents of the LANXESS Group. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7. The liquidity reported in the statement of cash flows comprises cash and cash equivalents.

The cash flow from operating activities is calculated using the indirect method. This involves eliminating the translation effects and the effects of changes in the scope of consolidation from the changes recognized in the items on the statement of financial position. Therefore, the cash flows calculated by the indirect method cannot be directly derived from the statement of financial position.

Disbursements for the acquisition of property, plant and equipment are included in the cash flows for investing activities after deducting any third-party subsidies. Investments involving finance leases, along with capitalized borrowing costs, are not included. Comparison therefore should not be made between these items and the capital expenditures shown in the schedule of changes in property, plant and equipment.

Payments relating to operating leases are included in cash flows from operating activities. Disbursements made under finance leases where LANXESS is the lessee are recognized as cash outflows for financing activities, while cash inflows under finance leases where LANXESS is the lessor are recognized as cash inflows from investing activities.

Cash outflows relating to the financing of pension obligations are allocated to cash flows for operating activities.

Purchase prices paid or received in connection with acquisitions or divestments of subsidiaries or other business entities are included in the investing cash flow after deducting cash and cash equivalents acquired or divested.

Interest and dividends received are also included in investing cash flow, while interest and dividends paid are reflected in financing cash flow.

Global impairment testing procedure and impact

In the LANXESS Group, the impairment testing of non-current assets starts with an analysis to determine whether impairment charges need to be recognized or previously recognized impairment charges reversed. If there are indications that this is the case, the residual carrying amount of each cash-generating unit is compared to its recoverable amount. In the LANXESS Group these impairment tests are performed at least once a year.

Cash-generating units to which goodwill is allocated are tested annually for impairment – or more frequently if events or changes in circumstances indicate a possible impairment. The residual carrying amount of each cash-generating unit, including the goodwill allocated to it, is compared to its recoverable amount.

The LANXESS Group defines its business units as the cash-generating units. However, if there is reason to suspect impairment of non-current assets below business-unit level, impairment testing is also performed at this level and impairment charges recognized in the income statement where necessary.

The recoverable amount is the higher of the asset's fair value less costs of disposal and the value in use. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment charge is recognized. The fair value less costs of disposal – which represents the best estimate of the potential sale proceeds at the time of the respective impairment test – is the amount obtainable from the sale of a cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The value in use is defined as the present value of future cash flows based on the continuing use of the asset and its retirement at the end of its useful life. The first step in an impairment test is to determine the fair value less costs of disposal. If this is less than the carrying amount of the cash-generating unit the value in use is then determined. The fair value less costs of disposal is generally calculated using a capital value method which is allocated to Level 3 of the fair value hierarchy (see under "Fair value measurement" in Note [35]).

Determination of the recoverable amount based on the fair value less costs of disposal relies on a forecast of future cash flows. This is based on estimates of expected market conditions, including assumptions regarding future raw material prices, functional cost items, exchange rates and management's past experience. These estimates also take into account capital expenditures for capacity expansions and the related future cash flows. Determination of the value in use is also based on a forecast of future cash flows. Expansion projects that have not yet commenced are not taken into account for this purpose. The forecasts normally cover a period of five years. The present value of future cash flows is calculated by discounting them using a weighted capital cost factor. The capital cost factor is derived according to IAS 36 from capital market models, taking into account the capital structure and business risks specific to the chemical industry.

When a decline in value has been determined, an impairment charge is first recognized for any goodwill assigned to the respective strategic business unit. Any remaining impairment amount is allocated among the other non-current assets of the strategic business unit in proportion to the carrying amounts on which the impairment test was based. The recoverable amount of any non-current assets below the level of the cash-generating unit is assessed and the loss is allocated, but only up to the recoverable amount of these assets. Any further impairment charge that would have been allocated to these assets is allocated proportionately to the other assets in the cash-generating unit.

Impairment charges are fully recognized in the income statement under other operating expenses and reflected in the segment reporting in the expenses of the respective segments.

The results of the global impairment tests in fiscal 2013 are outlined in the following section.

Estimation uncertainties and exercise of discretion

The preparation of consolidated financial statements in accordance with IFRS entails the selection of accounting policies and valuation principles and the use of forward-looking assumptions and estimates that may affect the measurement of assets and liabilities, income and expenses, and contingent liabilities.

All assumptions and estimates used in the consolidated financial statements are based on management's expectations. Information that could alter these estimates is reviewed continually and may result in adjustments to the carrying amounts of the respective assets and liabilities.

Assumptions and estimates that could materially impact the measurement of the LANXESS Group's assets and liabilities are explained below.

The LANXESS Group tests its cash-generating units for impairment at least once a year by determining the respective recoverable amount (for further information see the section headed "Global impairment testing procedure and impact"). The test is based on forecasts of future cash flows, derived from reasonable assumptions representing the management's best assessment of the economic circumstances at the time of the impairment test. Management's expectations of future cash flows therefore indirectly affect the measurement of goodwill and other assets.

The assumptions and estimates used for the impairment test conducted on assets in fiscal 2013 could differ from the actual values in subsequent periods, necessitating subsequent valuation adjustments. The annual impairment tests are based on a discount rate after taxes of 7.9% (2012: 7.9%), while the impairment tests as of the closing date are based on a discount rate after taxes of 7.8% (2012: 7.9%), without using growth rates to extrapolate the last year of the forecasting period.

The annual testing of cash-generating units for indicators of possible impairment showed the need to recognize an impairment charge of €174 million for the cash-generating unit Keltan Elastomers in the Performance Polymers segment. This reduced the carrying amount of this cash-generating unit to its fair value less costs of disposal.

The Keltan business was acquired from Royal DSM N.V., Netherlands, in 2011 and integrated with the existing activities of the business unit known at that time as Technical Rubber Products. As of January 1, 2013, the Technical Rubber Products business unit was split into Keltan Elastomers and High Performance Elastomers. The business activities of the Keltan Elastomers business unit comprises the production and marketing of ethylene propylene diene monomer (EPDM) synthetic rubber.

In view of the temporary overcapacities anticipated for the coming years combined with the increasing production of shale gas in the United States and the resulting cost advantages for local manufacturers, changes are forecasted in the market and competitive environment for the business of the Keltan Elastomers cash-generating unit. To determine the fair value less costs of disposal, the terminal value according to the five-year plan was therefore assessed over a five-year period and the outcome of this assessment taken into account in the valuation. The impairment charge deemed necessary as a result was recognized in the income statement under other operating expenses. Of the impairment charge recognized, €11 million pertained to goodwill, €16 million to other intangible assets and €147 million to property, plant and equipment.

In view of the challenging competitive environment and the change in the assessment of growth prospects, additional impairment tests were performed as of the end of the reporting period on the High Performance Elastomers cash-generating unit in the Performance Polymers segment and the Rubber Chemicals cash-generating unit in the Performance Chemicals segment.

The business activities of the High Performance Elastomers cash-generating unit comprise the production and distribution of synthetic rubber with special technical properties for the manufacturing industry, especially the automotive and construction sectors, and mechanical engineering. The impairment test as of year end led to the recognition of a €54 million impairment charge to reduce the carrying amount to the recoverable amount less costs of disposal. This impairment charge is recognized in the income statement under other operating expenses. Of the impairment charge recognized, €1 million pertained to intangible assets and €53 million to property, plant and equipment.

The business activities of the Rubber Chemicals cash-generating unit comprise the production and marketing of specialty rubber chemicals sold mainly to manufacturers of tires and technical rubber products. The impairment test as of year end led to the recognition of a €29 million impairment charge to reduce the carrying amount to the recoverable amount less costs of disposal. This impairment charge is recognized in the income statement under other operating expenses. Of the impairment charge recognized, €5 million pertained to intangible assets and €24 million to property, plant and equipment.

The annual impairment test for the principal goodwill items was performed on the basis of fair value less costs of disposal by testing the goodwill from previous years for impairment after adjusting for currency translation effects. This mainly comprised the goodwill of €80 million

(2012: €95 million) recognized upon the acquisition of Petroflex in 2008 and carried by the Performance Butadiene Rubbers business unit in Brazilian real. The carrying amount of this goodwill equaled approximately 7% (2012: 6%) of the Performance Butadiene Rubbers cash-generating unit's fair value less costs of disposal. The forecasts pertain to a five-year planning period.

The goodwill of €2 million recognized upon the acquisition in 2013 of PCTS Specialty Chemicals Pte. Ltd., Singapore, was allocated to the Material Protection Products business unit in the Performance Chemicals segment and tested for impairment as of the end of the reporting period.

The goodwill of €11 million pertaining to the Keltan Elastomers cash-generating unit was impaired to zero (see above).

The impairment tests performed on other goodwill items did not indicate any need for recognition of impairment charges. Neither a one-percentage-point increase in the discount rate nor a 10% reduction in expected future cash flows would have led to the recognition of an impairment charge on any other goodwill items.

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, timing, the underlying discount rate and the absolute level of risk. The LANXESS Group performed sensitivity analyses on all provisions existing as of December 31, 2013 as required by the IFRS. These involved calculating the impact of variations in the parameters used, especially the probability of occurrence, discount rate and absolute level of risk. The outcome of these sensitivity analyses shows that variations in the assumptions described above would not have a material impact on the level of other provisions reported in the consolidated financial statements of the LANXESS Group. For further information on the sensitivity analyses relating to provisions for pension and other post-employment benefits, see Note [13].

Defined benefit pension plans also necessitate actuarial computations and measurements. The section on provisions for pensions and other post-employment benefits contains information on the assumptions on which the actuarial calculations and estimates were based (see Note [13]).

Further, the LANXESS Group is affected by a number of legal disputes. As an international chemicals group, LANXESS is exposed to administrative or court proceedings in the normal course of business and may be again in the future. Administrative and court proceedings generally involve complex technical and/or legal issues and are therefore subject to a number of imponderables. The outcomes of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by recognized provisions or equivalent insurance and that could materially affect the business operations, revenues, earnings or cash flows of the LANXESS Group.

There is also a degree of uncertainty surrounding the assessment of certain tax situations by the tax authorities. Although the LANXESS Group believes it has presented all tax-relevant information correctly and in compliance with the law, it is possible that the tax authorities may occasionally reach different conclusions. Provisions have been established for this.

Other significant estimates are used to assess the useful lives of intangible assets and property, plant and equipment, the probability of collecting receivables and other assets, the valuation of inventories and the ability to realize tax claims and deferred tax assets recognized for temporary differences and tax loss carryforwards. The first-time consolidation of business operations also involves estimation uncertainties and the exercise of discretion in determining the fair values of the acquired assets and assumed liabilities.

On December 18, 2013, the European Commission launched an investigation to determine whether certain provisions of the German Renewable Energy Act of 2012 are legally admissible under European Union rules on government aid. It is not currently considered likely that the investigation will result in claims. In the event of an unfavorable ruling, however, LANXESS could face payment claims in the mid-double-digit millions of euros with respect to energy surcharges from which it had been exempted.

Up to the time these consolidated financial statements were authorized for issue, no circumstances had become known that would necessitate a major change in the estimates.

Companies consolidated

The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG and all domestic and foreign affiliates.

	EMEA (excl. Germany)	Germany	North America	Latin America	Asia-Pacific	**Total**
Fully consolidated companies (incl. parent company)						
Jan. 1, 2013	22	13	5	6	18	64
Additions	1				2	3
Subtractions		(1)				(1)
Mergers				(1)		(1)
Reclassification from non-consolidated companies	1					1
Reclassification to non-consolidated companies	(1)					(1)
Dec. 31, 2013	**23**	**12**	**5**	**5**	**20**	**65**
Consolidated associates and joint ventures						
Jan. 1, 2013		1			2	3
Additions		1				1
Subtractions					(2)	(2)
Changes in scope of consolidation						0
Dec. 31, 2013	**0**	**2**	**0**	**0**	**0**	**2**
Non-consolidated companies						
Jan. 1, 2013	2	2	1	3	1	9
Additions					1	1
Subtractions						0
Reclassification from consolidated companies	1					1
Reclassification to consolidated companies	(1)					(1)
Dec. 31, 2013	**2**	**2**	**1**	**3**	**2**	**10**
Total						
Jan. 1, 2013	24	16	6	9	21	76
Additions	1				2	3
Subtractions					(1)	(1)
Mergers				(1)		(1)
Changes in scope of consolidation	0					0
Dec. 31, 2013	**25**	**16**	**6**	**8**	**22**	**77**

Also consolidated are two special purpose entities in the EMEA (excluding Germany) region.

On April 5, 2013, LANXESS acquired all of the shares of Singapore-based PCTS Specialty Chemicals Pte. Ltd. First-time inclusion in the consolidated financial statements was effected from that date. The acquisition was funded from existing liquidity of the LANXESS Group. The company was assigned to the Material Protection Products business unit in the Performance Chemicals segment. The acquisition mainly strengthens LANXESS's portfolio of biocides for paints and coatings.

The acquisition was accounted for as a business combination pursuant to IFRS 3. Thus, in allocating the purchase price, the acquiree's identifiable assets, liabilities and contingent liabilities were included at fair value. The purchase price allocation was carried out in light of the information available at and immediately after the date of acquisition. According to IFRS, it can be adjusted within one year after the date of acquisition to reflect new information and findings.

The goodwill of €2 million resulting from the acquisition reflects, in particular, additional sales opportunities to existing and new customers, primarily in the Asian market.

The following table shows the effects of the acquisition on the Group's financial position.

Additions from the Acquisition of PCTS

€ million	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	0	6	6
Property, plant and equipment	0	5	5
Other assets	7	0	7
Total assets	**7**	**11**	**18**
Non-current liabilities	0	1	1
Current liabilities	1	0	1
Total liabilities	**1**	**1**	**2**
Net acquired assets (excluding goodwill)	**6**	**10**	**16**
Acquisition costs			**18**
Acquired goodwill (provisional)			**2**

On September 14, 2013, LANXESS acquired the phosphorus chemicals portfolio of Thermphos France S.A.R.L., Epierre, France, by way of an asset deal. The acquired activities were assigned to the Functional Chemicals business unit in the Performance Chemicals segment.

The acquisition was accounted for as a business combination pursuant to IFRS 3. Thus, in allocating the purchase price, the acquiree's identifiable assets, liabilities and contingent liabilities were included at fair value. This transaction principally comprised property, plant and equipment with a fair value of €4 million at the acquisition date. Further, non-current liabilities of €2 million were assumed. The acquisition was funded from existing liquidity of the LANXESS Group. The Dutch parent company of Thermphos France was insolvent at the date of acquisition. The purchase price agreed upon in the negotiations was below the fair value of the net assets. The resulting gain of €2 million was recognized in other operating income. The purchase price allocation is provisional and was carried out with the aid of reports from external experts and in light of the information available at and immediately after the acquisition date. According to IFRS, it can be adjusted within one year after the date of acquisition to reflect new information and findings.

The acquisitions made in 2013 did not have a material impact on Group sales or earnings, nor would they have had if the business had already been consolidated from January 2013.

Tire Curing Bladders, LLC, Little Rock, United States, which was acquired in the previous year, was consolidated for the first time as of March 14, 2012. The first-time consolidation of Bond-Laminates GmbH, Brilon, Germany, was effected from September 12, 2012. The provisional purchase price allocations made with respect to these transactions were not adjusted in light of any new information or knowledge within twelve months from the respective acquisition dates and are therefore final.

Due to the transfer of control to LANXESS AG, the investment in LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, has no longer been accounted for using the equity method since the first quarter of 2013. Instead, the company was fully consolidated for the first time as a subsidiary. LANXESS AG's ability to determine key elements of financial and business policy is derived from the shareholder agreement. The transition to full consolidation had no effect on earnings. Upon the first-time full consolidation, the 50% equity attributable to non-controlling interests was included at its pro-rata share of the fair value of the fully consolidated company's net assets.

The company OOO LANXESS Lipetsk, Lipetsk, Russia, was consolidated for the first time. This had no material impact on the LANXESS Group's financial position or results of operations.

Starting in the third quarter of 2013, the investment in DuBay Polymer GmbH, Hamm, Germany, was no longer fully consolidated due to the LANXESS Group's loss of control but accounted for as a joint venture instead. Joint control exists in this case because the strategic financial and operational decisions regarding the business activity require the unanimous consent of the parties sharing control. It was accounted for by proportionate consolidation because this best reflects the economic substance and circumstances of the arrangement. The change to the latter method had no effect on earnings.

LANXESS's interest in the earnings, assets and liabilities of DuBay Polymer GmbH in 2013 are presented in the table:

Earnings of DuBay Polymer GmbH

€ million	2013
Sales	10
Operating result (EBIT)	4
Income after income taxes	**2**

Assets and Liabilities of DuBay Polymer GmbH

€ million	Dec. 31, 2013
Non-current assets	20
Current assets	4
Total assets	**24**
Non-current liabilities	4
Current liabilities	3
Total liabilities	**7**

Other information on companies consolidated

The following table lists the affiliated companies pursuant to Section 313, Paragraph 2 of the German Commercial Code:

Company Name and Domicile

%	Interest held
Fully consolidated companies	
Germany	
LANXESS AG, Cologne	–
Aliseca GmbH, Leverkusen	100
Bond-Laminates GmbH, Brilon	100
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100
LANXESS Accounting GmbH, Cologne	100
LANXESS Buna GmbH, Marl	100
LANXESS Deutschland GmbH, Cologne	100
LANXESS Distribution GmbH, Leverkusen	100
LANXESS International Holding GmbH, Cologne	100
Perlon-Monofil GmbH, Dormagen	100
Rhein Chemie Rheinau GmbH, Mannheim	100
Saltigo GmbH, Leverkusen	100
EMEA (excluding Germany)	
Europigments, S.L., Barcelona, Spain	52
LANXESS (Pty.) Ltd., Modderfontein, South Africa	100
LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia	100
LANXESS Chemicals, S.L., Barcelona, Spain	100
LANXESS CISA (Pty.) Ltd., Newcastle, South Africa	100
LANXESS Chrome Mining (Pty.) Ltd., Modderfontein, South Africa	100
LANXESS Elastomères S.A.S., Lillebonne, France	100
LANXESS Elastomers B.V., Sittard-Geleen, Netherlands	100
LANXESS Emulsion Rubber S.A.S., La Wantzenau, France	100
LANXESS Epierre SAS, Epierre, France	100
LANXESS Finance B.V., Sittard-Geleen, Netherlands	100
LANXESS Holding Hispania, S.L., Barcelona, Spain	100
LANXESS International SA, Granges-Paccot, Switzerland	100
LANXESS Kimya Ticaret Limited Şirketi, Istanbul, Turkey	100
LANXESS Limited, Newbury, U.K.	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS Rubber N.V., Zwijndrecht, Belgium	100
LANXESS S.A.S., Courbevoie, France	100
LANXESS S.r.l., Milan, Italy	100
OOO LANXESS, Moscow, Russia	100
OOO LANXESS Lipetsk, Lipetsk, Russia	100
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100
Sybron Chemicals International Holdings Ltd., Newbury, U.K.	100

Company Name and Domicile	
%	Interest held
Fully consolidated companies	
North America	
LANXESS Corporation, Pittsburgh, U.S.A.	100
LANXESS Inc., Sarnia, Canada	100
LANXESS Sybron Chemicals Inc., Birmingham, U.S.A.	100
Rhein Chemie Corporation, Chardon, U.S.A.	100
Sybron Chemical Holdings Inc., Wilmington, U.S.A.	100
Latin America	
LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil	100
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
LANXESS S.A., Buenos Aires, Argentina	100
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100
Asia-Pacific	
LANXESS Elastomers Trading (Shanghai) Co., Ltd., Shanghai, China	100
LANXESS (Changzhou) Co., Ltd., Changzhou, China	100
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100
LANXESS (Ningbo) Pigments Co., Ltd., Ningbo City, China	100
LANXESS Butyl Pte. Ltd., Singapore	100
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100
LANXESS Hong Kong Limited, Hong Kong, China	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Korea Limited, Seoul, South Korea	100
LANXESS Pte. Ltd., Singapore	100
LANXESS PTY Ltd., Homebush Bay, Australia	100
LANXESS Shanghai Pigments Co., Ltd., Shanghai, China	100
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100
LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China	50
LANXESS (Wuxi) Chemical Co., Ltd., Wuxi, China	100
Nexachem Trading (Qingdao) Co., Ltd., Qingdao, China	100
PCTS Specialty Chemicals Pte. Ltd., Singapore	100
Rhein Chemie Japan Ltd., Tokyo, Japan	100
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90

Company Name and Domicile	
%	Interest held
Joint ventures	
Germany	
DuBay Polymer GmbH, Hamm	50
Associates accounted for using the equity method	
Germany	
Currenta GmbH & Co. OHG, Leverkusen	40
Consolidated special purpose entities	
EMEA (excluding Germany)	
Dirlem (Pty) Ltd., Modderfontein, South Africa	49
Rustenburg Chrome Employees Empowerment Trust, Modderfontein, South Africa	0
Non-consolidated immaterial subsidiaries	
Germany	
LANXESS Middle East GmbH, Cologne	100
Vierte LXS GmbH, Leverkusen	100
EMEA (excluding Germany)	
LANXESS Mining (Proprietary) Ltd., Modderfontein, South Africa	100
W. Hawley & Son Ltd., Newbury, U.K.	100
North America	
LANXESS Energy LLC, Wilmington, U.S.A.	100
Latin America	
Comercial Andinas Ltda., Santiago, Chile	100
Petroflex Trading S.A., Montevideo, Uruguay	100
Asia-Pacific	
Bond-Laminates HK Limited, Hong Kong, China	100
PCTS Specialty Chemicals Malaysia (M) Sdn. Bhd., Kuala Lumpur, Malaysia	100
Other non-consolidated immaterial companies	
Latin America	
Hidrax Ltda., Taboão da Serra, Brazil	39

Notes to the statement of financial position

1 Intangible assets

Changes in intangible assets were as follows:

Changes in Intangible Assets in 2012

€ million	Acquired goodwill	Other intangible assets	Advance payments	**Total**
Cost of acquisition or generation, Dec. 31, 2011	168	297	14	479
Changes in scope of consolidation/acquisitions	18	23	0	41
Capital expenditures	0	12	19	31
Disposals	0	(4)		(4)
Reclassifications		5	(5)	0
Exchange differences	(11)	(8)	0	(19)
Cost of acquisition or generation, Dec. 31, 2012	**175**	**325**	**28**	**528**
Accumulated amortization and write-downs, Dec. 31, 2011	(1)	(105)	0	(106)
Changes in scope of consolidation				0
Amortization and write-downs in 2012		(40)		(40)
of which write-downs				0
Disposals		3		3
Reclassifications				0
Exchange differences	0	5		5
Accumulated amortization and write-downs, Dec. 31, 2012	**(1)**	**(137)**	**0**	**(138)**
Carrying amounts, Dec. 31, 2012	**174**	**188**	**28**	**390**

Changes in Intangible Assets in 2013

€ million	Acquired goodwill	Other intangible assets	Advance payments	**Total**
Cost of acquisition or generation, Dec. 31, 2012	175	325	28	528
Changes in scope of consolidation[1]/acquisitions	2	8		10
Capital expenditures		18	6	24
Disposals		(7)	0	(7)
Reclassifications		14	(14)	0
Exchange differences	(18)	(16)	0	(34)
Cost of acquisition or generation, Dec. 31, 2013	**159**	**342**	**20**	**521**
Accumulated amortization and write-downs, Dec. 31, 2012	(1)	(137)	0	(138)
Changes in scope of consolidation[1]		0		0
Amortization and write-downs in 2013	(11)	(65)	0	(76)
of which write-downs	(11)	(23)	0	(34)
Disposals		7		7
Reclassifications		0	0	0
Exchange differences	0	9		9
Accumulated amortization and write-downs, Dec. 31, 2013	**(12)**	**(186)**	**0**	**(198)**
Carrying amounts, Dec. 31, 2013	**147**	**156**	**20**	**323**

1) Including effects of the transition to full consolidation and the change to proportionate consolidation

The write-downs of goodwill and other intangible assets in the Performance Polymers and Performance Chemicals segments in fiscal 2013 mainly comprised impairment charges recognized on the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals cash-generating units as a result of the respective impairment tests. Further information is provided in the section headed "Estimation uncertainties and exercise of discretion."

2 Property, plant and equipment

Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2012

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	**Total**
Cost of acquisition or construction, Dec. 31, 2011	1,302	5,774	252	748	8,076
Changes in scope of consolidation/acquisitions	1	6	0	0	7
Capital expenditures	43	202	18	440	703
Disposals	(29)	(43)	(8)	(1)	(81)
Reclassifications	102	307	19	(428)	0
Exchange differences	(20)	(45)	(3)	(13)	(81)
Cost of acquisition or construction, Dec. 31, 2012	**1,399**	**6,201**	**278**	**746**	**8,624**
Accumulated depreciation and write-downs, Dec. 31, 2011	(856)	(4,354)	(187)	0	(5,397)
Changes in scope of consolidation					0
Depreciation and write-downs in 2012	(41)	(270)	(27)	0	(338)
of which write-downs	(2)	(2)			(4)
Disposals	28	42	7		77
Reclassifications					0
Exchange differences	5	20	3		28
Accumulated depreciation and write-downs, Dec. 31, 2012	**(864)**	**(4,562)**	**(204)**	**0**	**(5,630)**
Carrying amounts, Dec. 31, 2012	**535**	**1,639**	**74**	**746**	**2,994**

Changes in Property, Plant and Equipment in 2013

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	**Total**
Cost of acquisition or construction, Dec. 31, 2012	1,399	6,201	278	746	8,624
Changes in scope of consolidation[1]/acquisitions	15	(8)	0	0	7
Capital expenditures	44	165	29	414	652
Disposals	(24)	(104)	(24)	(5)	(157)
Reclassifications	113	431	19	(563)	0
Exchange differences	(52)	(159)	(11)	(25)	(247)
Cost of acquisition or construction, Dec. 31, 2013	**1,495**	**6,526**	**291**	**567**	**8,879**
Accumulated depreciation and write-downs, Dec. 31, 2012	(864)	(4,562)	(204)	0	(5,630)
Changes in scope of consolidation[1]	3	19	0		22
Depreciation and write-downs in 2013	(95)	(446)	(33)	(67)	(641)
of which write-downs	(38)	(140)	0	(67)	(245)
Disposals	23	103	23	5	154
Reclassifications	0	0	0	0	0
Exchange differences	18	93	8	0	119
Accumulated depreciation and write-downs, Dec. 31, 2013	**(915)**	**(4,793)**	**(206)**	**(62)**	**(5,976)**
Carrying amounts, Dec. 31, 2013	**580**	**1,733**	**85**	**505**	**2,903**

1) Including effects of the transition to full consolidation and the change to proportionate consolidation

In addition to the impairment charges recognized in the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals cash-generating units as explained in the section headed "Estimation uncertainties and exercise of discretion," write-downs were recognized on buildings and infrastructure, technical equipment and machinery and assets under construction due to restructuring projects or other events that gave rise to a decline in value.

Capitalized property, plant and equipment includes assets with the following gross and net values held under finance leases:

Assets Held Under Finance Leases

€ million	Dec. 31, 2012		Dec. 31, 2013	
	Gross carrying amount	Net carrying amount	Gross carrying amount	Net carrying amount
Buildings	3	3	3	3
Technical equipment and machinery	151	50	62	37
Fittings and equipment	5	3	10	6
	159	**56**	**75**	**46**

Directly attributable borrowing costs of €15 million (2012: €23 million) were capitalized. The average cost of debt for the LANXESS Group was 4.5% in 2013 (2012: 5.1%).

3 Investments accounted for using the equity method

As in the previous year, Currenta GmbH & Co. OHG, Leverkusen, Germany, was accounted for using the equity method. As of the first quarter of 2013, the investment in LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, was no longer accounted for using the equity method. Instead, the company was fully consolidated as a subsidiary. The shares in Anhui Tongfeng Shengda Chemical Co., Ltd., Tongling, China, were divested.

The following tables show the main items of the income statements and statements of financial position of investments accounted for using the equity method:

Income Statement Data

€ million	2012	2013
Sales	1,399	1,386
Income (loss) after income taxes	(26)	14

Data from the Statement of Financial Position

€ million	Dec. 31, 2012	Dec. 31, 2013
Assets	1,093	999
Liabilities	1,062	941
Equity	**31**	**58**
Adjustment of LANXESS's interest and equity valuation	(23)	(46)
Investments accounted for using the equity method	**8**	**12**

The €4 million increase in the carrying amount of investments accounted for using the equity method in 2013 arose from gains of €26 million recognized in other comprehensive income. The €4 million decrease in 2012 was based on income of €1 million from investments accounted for using the equity method. The carrying amount was further reduced by disbursements of €12 million (2012: €32 million) from reserves and the €2 million effect of the pro rata income transfer (2012: €2 million effect of the pro rata transfer of 2011 income). In 2012, an obligation to offset a loss of €29 million also had an impact. The first-time full consolidation of LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, reduced the carrying amount of investments accounted for using the equity method by €8 million. The divestment of Anhui Tongfeng Shengda Co., Ltd., Tongling, China, had no impact on the carrying amount of the investments.

In fiscal 2012 a share of the losses of Currenta GmbH & Co. OHG, Leverkusen, Germany, amounting to €3 million was not recognized in the consolidated financial statements. As of December 31, 2013 there were no accumulated losses that were not recognized (2012: €3 million).

4 Investments in other affiliated companies

This item contains interests in other affiliated companies totaling €13 million (2012: €18 million). The decrease resulted mainly from a valuation adjustment for the interest held in BioAmber Inc., Minneapolis, United States, due to the development of this company's share price. Further, OOO LANXESS Lipetsk, Lipetsk, Russia, was fully consolidated as a subsidiary for the first time and is therefore no longer recognized under this item.

As of December 31, 2013, all the other investments classified as available-for-sale financial assets – apart from the shares in Gevo Inc., Englewood, United States, and BioAmber Inc. – comprised unlisted equity instruments. Since the fair values of these instruments at the closing date could not be reliably determined, they were recognized at cost. There are currently no plans to dispose of these investments.

5 Derivative financial instruments

The derivative financial instruments held by the LANXESS Group comprise forward exchange contracts and are capitalized in the consolidated financial statements for fiscal 2013 at a total fair value of €78 million (2012: €44 million). Instruments with a negative fair value totaling €34 million (2012: €14 million) are recognized as liabilities.

Derivative Financial Instruments

€ million	Dec. 31, 2012		
	Notional amount	Positive fair values	Negative fair values
Current forward exchange contracts	2,000	28	(10)
Non-current forward exchange contracts	470	16	(4)
	2,470	**44**	**(14)**

Derivative Financial Instruments

€ million	Dec. 31, 2013		
	Notional amount	Positive fair values	Negative fair values
Current forward exchange contracts	2,037	58	(22)
Non-current forward exchange contracts	401	20	(12)
	2,438	**78**	**(34)**

Cash flow hedges As of December 31, 2013, the unrealized gains recognized in other comprehensive income in 2013 or earlier periods from currency hedging contracts that qualify for hedge accounting amounted to €5 million (2012: €8 million). In 2013, €5 million was reclassified from equity to profit or loss due to the realization of the hedged transactions and recognized as a gain (2012: €23 million recognized as a loss). Currency hedging contracts concluded to hedge future sales in foreign currencies had a total notional amount of €967 million (2012: €945 million). As of December 31, 2013, these contracts had positive fair values of €35 million (2012: €21 million) and negative fair values of €30 million (2012: €8 million). Contracts with a total notional amount of €712 million (2012: €649 million) were due within one year. The hedged cash flows will be realized within the next three years.

The LANXESS Group expects that, of the unrealized gains on currency hedges recognized in other comprehensive income in 2013, €7 million will be reclassified from equity to profit or loss in 2014, while €2 million of the unrealized losses will be reclassified in 2015 (2012: €3 million of unrealized gains in 2013 and €5 million of unrealized gains in 2014).

Information on the maturity structure of derivative assets and liabilities is given in Note [35].

6 Other non-current and current financial assets

Other Financial Assets

€ million	Dec. 31, 2012		
	Non-current	Current	Total
Receivables under finance leases	2	2	4
Available-for-sale financial assets	1	1	2
Other financial receivables	5	3	8
	8	**6**	**14**

Other Financial Assets

€ million	Dec. 31, 2013		
	Non-current	Current	Total
Receivables under finance leases	0	2	2
Available-for-sale financial assets	1	0	1
Other financial receivables	10	4	14
	11	**6**	**17**

Accounts receivable of €2 million (2012: €4 million) relate to lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets (finance leases). The increase in other financial receivables resulted mainly from changes in connection with the accounting for DuBay Polymer GmbH, Hamm, Germany, by proportionate consolidation. Write-downs of other financial assets amounted to €7 million (2012: €8 million) and related entirely to other financial receivables.

The leasing receivables are due as folllows:

Maturity Structure of Lease Payments

€ million	Dec. 31, 2012		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	2	0	2
	4	**0**	**4**

Maturity Structure of Lease Payments

€ million	Dec. 31, 2013		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	–	–	–
	2	**0**	**2**

7 Other non-current assets

Other non-current assets are carried at amortized cost less any write-downs. No write-downs were made in 2012 or 2013.

Other non-current assets comprised:

Other Non-Current Assets

€ million	Dec. 31, 2012	Dec. 31, 2013
Receivables from pension obligations	64	22
Other receivables	38	33
	102	**55**

The €42 million decline in receivables from pension obligations was mainly attributable to the change in the effects of the asset ceiling. The other receivables included periodic accruals and other reimbursement claims.

8 Inventories

The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2012	Dec. 31, 2013
Raw materials and supplies	273	238
Work in process, finished goods and merchandise	1,254	1,061
	1,527	**1,299**

Inventories of €246 million (2012: €217 million) are reflected at net realizable value.

The changes in write-downs of inventories were as follows:

Write-Downs of Inventories

€ million	2012	2013
Balance at beginning of year	(101)	(86)
Additions charged as expenses	(37)	(36)
Reversals/utilization	51	28
Exchange differences	1	2
Balance at end of year	**(86)**	**(92)**

9 Trade receivables

All trade receivables – totaling €1,070 million (2012: €1,117 million) – are due within one year. Of the trade receivables, €3 million (2012: €4 million) pertained to investments accounted for using the equity method and €1,067 million (2012: €1,113 million) to other customers.

Trade receivables are stated after write-downs of €18 million (2012: €13 million) on gross receivables of €19 million (2012: €21 million).

The changes in write-downs of trade receivables were as follows:

Write-Downs of Trade Receivables

€ million	2012	2013
Balance at beginning of year	(13)	(13)
Additions charged as expenses	(4)	(9)
Reversals/utilization	4	3
Exchange differences	0	1
Balance at end of year	**(13)**	**(18)**

The maturity structure of past-due trade receivables was as follows:

Maturity Structure of Past-Due Trade Receivables

€ million	Dec. 31, 2012	Dec. 31, 2013
Carrying amount	1,117	1,070
of which neither impaired nor past due	973	939
of which unimpaired but past due by		
up to 30 days	112	106
between 31 and 60 days	10	12
between 61 and 90 days	3	7
more than 90 days	11	5

With regard to trade receivables that were neither impaired nor past due, there were no indications as of the closing date that the respective debtors would not meet their payment obligations.

10 Near-cash assets

The near-cash assets of €106 million (2012: €411 million) comprise units of money market funds that can be sold at any time and are expected to be realized within twelve months after the closing date.

11 Other current assets

Other receivables and other assets totaling €198 million (2012: €256 million) are stated at amortized cost less any write-downs. They principally comprise miscellaneous claims for tax refunds amounting to €128 million (2012: €181 million), mainly pertaining to sales taxes, and other reimbursement claims from goods and service transactions.

12 Equity

Share buyback and retirement The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011, authorized the Board of Management until May 17, 2016 to acquire shares in the company representing up to 10% of the capital stock and to utilize them for any purpose permitted by law. This authorization may also be utilized by subsidiaries of the company or by third parties on behalf of the company or its subsidiaries. At the discretion of the Board of Management, such shares may be acquired either in the market or via a public tender offer. The Board of Management is authorized to use them for any purpose permitted by law. In particular, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interests in companies or in order to conclude mergers. It is also authorized to use them to satisfy conversion rights from convertible or warrant bonds and/or profit-participation rights or income bonds (or a combination of these instruments) issued by the company and to grant holders of convertible or warrant bonds and/or profit-participation rights or income bonds (or a combination of these instruments) issued by the company or its direct and indirect affiliates that grant a conversion or option right or stipulate a conversion or warrant obligation the number of shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights or fulfillment of the conversion or warrant obligation. The stockholders shall not have subscription rights in such cases, except where the shares are retired.

Capital stock The capital stock of LANXESS AG was €83,202,670 and thus unchanged from the previous year. It is divided into 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share.

Authorized capital As of December 31, 2013 the company's authorized capital comprised the following:

Authorized Capital I and II Pursuant to Section 4, Paragraph 2 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 23, 2013 authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Further details are given in Section 4, Paragraph 2 of the articles of association.

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

Conditional capital As of December 31, 2013 the company's conditional capital comprised the following:

Conditional capital The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011, authorized the Board of Management until May 17, 2016, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as "bonds") – as either registered or 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 €16,640,534 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4, Paragraph 4 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €16,640,534 (Conditional Capital).

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

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

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

Capital reserves The capital reserves of LANXESS AG were unchanged from the previous year at €806,195,490.

Other reserves The €452 million increase in other reserves to €1,690 million was entirely attributable to the increase in retained earnings from €1,079 million to €1,531 million.

Retained earnings comprise prior years' undistributed income of companies included in the consolidated financial statements. They also contain remeasurements of the net defined benefit liability from post-employment benefit plans and the related tax effects.

Other equity components The other equity components mainly comprise exchange differences from the translation of operations outside the eurozone and remeasurements of derivatives for purposes of cash flow hedge accounting.

Non-controlling interests Non-controlling interests comprised the interests held by other stockholders in the equity of Europigments, S.L., Barcelona, Spain, and Rhein Chemie (Qingdao) Co. Ltd., Qingdao, China. Changes in non-controlling interests in 2013 are due to the fact that, starting in the third quarter of 2013, the investment in DuBay Polymer GmbH, Hamm, Germany, is no longer fully consolidated due to the LANXESS Group's loss of control but is accounted for as a joint venture instead. Since the first quarter of 2013, LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, which was previously accounted for using the equity method, has been included as a fully consolidated subsidiary with disclosure of non-controlling interests.

Capital management The main purpose of capital management in the LANXESS Group is to ensure the long-term viability of business operations and achieve an attractive return on capital compared to the chemical industry average. LANXESS's financial policy defines a second key criterion for capital management, which is to maintain an investment-grade rating. To achieve this goal, the Group has to meet indicators set by the rating agencies. Most of these are derived from the statement of financial position, the income statement or the statement of cash flows. In addition, LANXESS has defined a target debt corridor. Over a normal business cycle, the ratio of net financial liabilities to EBITDA pre exceptionals – the "net debt ratio" – should be between 1.0 and 1.5. Details can be found in the section headed "Value management and control system" in the combined management report for fiscal 2013. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure shown on the statement of financial position, the appropriateness of the company's equity, the use of the distributable profit, the amount of the dividend, the financing of capital expenditures, and thus on issuances or repayments of debt. The articles of association of LANXESS AG do not contain any specific capital requirements.

13 Provisions for pensions and other post-employment benefits

Most employees in the LANXESS Group are entitled to retirement benefits on the basis of contractual agreements or statutory regulations. These are provided through defined contribution or defined benefit plans.

Defined contribution plans In the case of defined contribution plans, the company pays contributions into separate pension funds. These contributions are included in the functional cost items as expenses for the respective year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. Payments to defined contribution plans in 2013 totaled €49 million (2012: €54 million).

Multi-employer plans The pension plan in Germany financed through the Bayer Pensionskasse is also accounted for in the consolidated financial statements as a defined contribution plan. The above amounts include contributions of €28 million (2012: €28 million) to this pension fund. Contributions of about the same amount are expected for the following fiscal year.

The Bayer Pensionskasse is a legally independent private insurance company and is therefore subject to the German Insurance Supervision Act. Since the obligations of the participating entities are not confined to payment of the contributions for the respective fiscal year, the Bayer Pensionskasse constitutes a defined benefit multi-employer plan and therefore would normally have to be accounted for pro rata as a defined benefit plan.

The Bayer Pensionskasse is financed not on the principle of coverage for individual benefit entitlements, but on the actuarial equivalence principle, based on totals for the whole plan. This means that the sum of existing plan assets and the present value of future contributions must be at least equal to the present value of the future benefits payable under the plan. The LANXESS Group is therefore exposed to the actuarial risks of the other entities participating in the Bayer Pensionskasse. Thus no consistent or reliable basis exists for allocating the benefit obligation, plan assets and costs that would enable LANXESS to account for the Bayer Pensionskasse as a defined benefit plan in accordance with IAS 19. As contributions are based on future coverage of the total obligation, all participating entities pay contributions at the same rates based on the employee income levels on which social security contributions are payable. The Bayer Pensionskasse is therefore accounted for as a defined contribution plan and not as a defined benefit plan.

There are no minimum funding requirements, nor is there any information that could be used to estimate the future contributions on the basis of current under- or overfunding. The statutes do not provide for the sharing of any surplus or shortfall in the event that the Bayer Pensionskasse is wound up or LANXESS ceases to participate.

LANXESS's share of the total contributions to the Bayer Pensionskasse was unchanged from the previous year at approximately 17%. The Bayer Pensionskasse has been closed to new members since January 1, 2005.

Defined benefit plans The global post-employment benefit obligations are calculated at regular intervals – at least every three years – by an independent actuary using the projected unit credit method. Comprehensive actuarial valuations are generally undertaken annually for all major post-employment benefit plans.

The principal contractually based defined benefit pension plans exist in Germany, Canada and Brazil.

The defined benefit pension obligations in Germany mainly relate to lifelong benefits payable in the event of death or disability or when the employee reaches retirement age. Benefits are determined on the basis of the total annual pension increments earned during the period of employment and depend on employees' individual salaries. Additional pension entitlements exist that are related to deferred compensation and are payable when employees reach retirement age. Alongside direct commitments, the pension adjustment obligation assumed by the Bayer Pensionskasse is accounted for in a separate defined benefit plan in accordance with Section 16 of the German Occupational Pensions Improvement Act (BetrAVG).

In Canada, the defined benefit obligations comprise, in particular, lifelong pension benefits, which are payable in the event of disability or death or when the employee reaches retirement age. The level of these benefits is determined from the total annual pension increments earned during the period of employment, depending on individual salary and the actual date of retirement. Some of the existing defined benefit pension plans are closed to new members.

In Brazil, the defined benefit obligations comprise lifelong benefits, principally in the event of death or disability or when the employee reaches retirement age. The benefits are calculated according to the total annual pension increments earned during the period of employment and also depend on individual salary, the number of years for which statutory social insurance contributions have been paid, and comparable statutory pension benefits. The principal defined benefit pension plans are closed to new members.

Only limited defined benefit pension obligations exist on the basis of statutory regulations. These principally comprise obligations to make a lump-sum payment if employment is terminated. The amount of this payment mainly depends on years of service and final salary.

The other post-employment benefit obligations primarily relate to the reimbursement of retirees' health care costs in North and South America. The other post-employment benefit obligations in Germany comprise other long-term benefits payable to employees and benefits payable upon termination of employment. These are mainly early-retirement benefits and collectively agreed salary components granted in the form of pension benefits. They are included in pension provisions as they are by nature pension entitlements.

The defined benefit pension obligations are financed both internally through provisions and externally through legally independent pension funds. The pension obligations in Germany are partly covered on a voluntary basis via LANXESS Pension Trust e.V., Leverkusen, Germany. The allocation of funds to the LANXESS Pension Trust e.V. is dependent on future decisions by the company. In Canada and Brazil, pension obligations have to be financed through pension funds. Allocations to pension funds in these countries are determined by the regulatory environments and the need to comply with funding regulations. Contributions are paid mainly by the employer. The investment strategy is determined principally by the LANXESS Corporate Pension Committee and is designed to protect the capital, optimally manage risks, take into account changes in pension obligations and ensure the timely availability of plan assets. At the regional level, the strategy is generally directly coordinated and monitored by representatives of LANXESS via the relevant committees of the pension funds or of LANXESS Pension Trust e.V., taking regulatory requirements into account. In Brazil, the investment of plan assets forms an integral part of the pension fund's overall investment strategy and is basically managed and supervised by the pension fund.

Minimum funding requirements may have to be met for defined benefit obligations in both Brazil and Canada. These depend on the local regulatory framework and are reflected in additional pension provisions. Funding surpluses from defined benefit plans are recognized as receivables relating to pension obligations to the extent that they can be used to reduce future contributions, taking into account the asset ceiling. These mainly relate to defined benefit plans in Brazil. The respective calculations are based on actuarial valuations.

Adjustments occasioned by applying the revised version of IAS 19 are explained in the section headed “Financial reporting standards and interpretations applied.”

In 2013, total expenses of €106 million (2012: €63 million) for defined benefit plans were recognized in profit or loss and are split between the operating result and the financial result as follows:

Expenses for Defined Benefit Plans

€ million	Pension plans		Other post-employment benefit plans	
	2012	2013	2012	2013
Operating result				
Current service cost	27	34	11	36
Past service cost	0	17	–	(9)
Gains/losses from settlements	(1)	0	–	–
Administration expenses/taxes	1	1	0	0
Actuarial gains and losses from changes in financial valuation assumptions	–	–	1	0
Financial result				
Net interest	17	22	7	5
Recognized in profit or loss	**44**	**74**	**19**	**32**

2012 figures restated

Administration expenses in the operating result contain expenses from the investment of assets that are not directly attributable to the earning of income on plan assets. Costs of managing plan assets that are directly attributable to the earning of income on plan assets are recognized in other comprehensive income.

The actuarial gains and losses relate to other non-current employee benefits or termination benefits that are included in pension provisions because they are by nature retirement benefits.

The net interest is the balance of the interest expense for pension provisions, interest expense from changes in the effects of the asset ceiling and minimum funding requirements, and interest income from plan assets.

The table shows the amounts recognized in other comprehensive income rather than profit or loss in 2013:

Amounts Recognized in Other Comprehensive Income

€ million	Pension plans		Other post-employment benefit plans	
	2012	2013	2012	2013
Return on plan assets excluding amounts recognized as interest	(13)	(45)	0	0
Actuarial gains/losses from changes in demographic assumptions	0	0	0	0
Actuarial gains/losses from changes in financial assumptions	(291)	101	0	7
Actuarial gains/losses from experience adjustments	(17)	(37)	5	4
Changes in effects of the asset ceiling	52	(61)	–	–
Changes in effects of minimum funding requirements	49	(2)	–	–
Amounts recognized in other comprehensive income	**(220)**	**(44)**	**5**	**11**

2012 figures restated

The change in the net defined benefit liability for post-employment benefit plans is shown in the following table:

Changes in Net Defined Benefit Liability

€ million	Pension plans		Other post-employment benefit plans	
	2012	2013	2012	2013
Net defined benefit liability, January 1	**472**	**708**	**122**	**121**
Recognized in profit or loss	44	74	19	32
Recognized in other comprehensive income	220	44	(5)	(11)
Employer contributions	(20)	(13)	(1)	0
Benefits paid	(18)	(21)	(11)	(10)
Business combinations and disposals	3	1	0	0
Exchange differences	7	4	(3)	(8)
Net defined benefit liability, December 31	**708**	**797**	**121**	**124**
Recognized in the statement of financial position				
Receivables from pension obligations	(64)	(22)	–	–
Provisions for pensions and other post-employment benefits	772	819	121	124
Net defined benefit liability, December 31	**708**	**797**	**121**	**124**

2012 figures restated

The components of the reconciliation of the net recognized liability are explained in the following tables, which show the development of the defined benefit obligation, the external plan assets and the effects of the asset ceiling and minimum funding requirements and explain the major changes.

The defined benefit obligation developed as follows:

Change in Defined Benefit Obligation

€ million	Pension plans		Other post-employment benefit plans	
	2012	2013	2012	2013
Defined benefit obligation				
Defined benefit obligation, January 1	1,534	1,854	126	125
Current service cost	27	34	11	36
Interest expense	92	90	7	5
Actuarial gains/losses from changes in demographic assumptions	0	0	0	0
Actuarial gains/losses from changes in financial assumptions	291	(101)	1	(7)
Actuarial gains/losses from experience adjustments	17	37	(5)	(4)
Past service cost	0	17	–	(9)
Gains/losses from settlements	(4)	0	–	–
Employee contributions	2	1	–	–
Benefits paid	(69)	(70)	(12)	(10)
Disbursements for settlements	–	–	–	–
Business combinations and disposals	4	1	–	–
Other additions	–	33	–	–
Administration expenses/taxes	0	0	0	0
Exchange differences	(40)	(109)	(3)	(8)
Defined benefit obligation, December 31	**1,854**	**1,787**	**125**	**128**

2012 figures restated

Of the defined benefit obligation for pensions, Germany accounts for 56% (2012: 50%), Canada for 22% (2012: 25%) and Brazil for 17% (2012: 21%).

The other post-employment benefit obligations comprise €63 million (2012: €89 million) for the reimbursement of health care costs and €65 million (2012: €36 million) for miscellaneous other benefit obligations.

Remeasurements of the defined benefit liability due to actuarial gains and losses resulting from changes in financial assumptions are mainly attributable to changes in the discount rates for defined benefit obligations in the main countries of relevance for LANXESS.

The changes in past service cost for pension obligations and in current service cost for the other post-employment benefit obligations result mainly from the Advance cost-saving program in Germany and relate to early-retirement agreements and improvements to existing benefit entitlements for employees taking early retirement. On the other hand, the other post-employment benefit obligations include a negative change in past service cost in the United States due to the new regulatory requirements aimed at securing health care benefits.

The gain from plan settlements in 2012 related to the closure of a defined benefit pension plan in the Netherlands.

The other additions in 2013 mainly resulted from the reclassification of existing pension plans in Belgium as defined benefit plans rather than defined contribution plans following the decrease in insurance companies' guaranteed interest rates to less than the statutory minimum return on contributions to corporate pension plans.

The exchange differences pertaining to defined benefit obligations mainly resulted from changes in the exchange rates for the Canadian dollar and the Brazilian real.

The change in external plan assets is shown in the following table:

Change in External Plan Assets

€ million	Pension plans		Other post-employment benefit plans	
	2012	2013	2012	2013
Plan assets at fair value				
Plan assets, January 1	1,156	1,146	4	4
Interest income	82	68	0	0
Return on plan assets excluding amounts recognized as interest	(13)	(45)	0	0
Gains/losses from settlements	(3)	–	–	–
Employer contributions	20	13	1	0
Employee contributions	2	1	–	–
Benefits paid	(51)	(49)	(1)	0
Disbursements for settlements	–	–	–	–
Business combinations and disposals	1	–	–	–
Other additions	–	33	–	–
Costs of managing plan assets/taxes	(1)	(1)	0	0
Exchange differences	(47)	(120)	0	0
Plan assets, December 31	**1,146**	**1,046**	**4**	**4**

2012 figures restated

Of the plan assets, Canada accounts for 37% (2012: 38%), Brazil for 36% (2012: 40%) and Germany for 20% (2012: 18%).

The loss on plan settlements in 2012 related to the closure of a defined benefit pension plan in the Netherlands. This did not involve any cash outflows to third parties.

The other additions resulted from the reclassification of pension plans in Belgium as defined benefit plans rather than defined contribution plans.

Employer contributions are used both for external funding of pension obligations where LANXESS is eligible for reimbursements of pension payments and for external funding of pension obligations where subsequent pension payments will be made directly out of external plan assets.

The latter type of obligations existed mainly outside Germany and totaled €13 million in 2013 (2012: €21 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e.V. No additional funding was provided to LANXESS Pension Trust e.V in 2013 or 2012.

The exchange differences pertaining to plan assets mainly resulted from changes in the exchange rates for the Canadian dollar and the Brazilian real.

Changes in the effects of the asset ceiling and minimum funding requirements are shown in the following table:

Changes in Effects of the Asset Ceiling and Minimum Funding Requirements for Defined Benefit Plans

€ million	Effects of the asset ceiling		Minimum funding requirements	
	2012	2013	2012	2013
January 1	**48**	**0**	**46**	**0**
Interest expense	5	0	2	0
Additions (+) / deductions (–)	(52)	61	(49)	2
Exchange differences	(1)	(7)	1	0
December 31	**0**	**54**	**0**	**2**

2012 figures restated

Changes in the effects of the asset ceiling mainly relate to the Brazilian defined benefit pension plans, while changes in minimum funding requirements relate to the Canadian plans.

The fair value of plan assets is comprised as follows:

Breakdown of Plan Assets as of December 31

€ million	2012	2013
Cash and cash equivalents	75	69
of which quoted in an active market	75	69
Equity instruments	260	231
of which quoted in an active market	132	120
Government bonds	439	245
of which quoted in an active market	439	245
Corporate bonds	258	372
of which quoted in an active market	182	304
Investment funds	47	35
of which quoted in an active market	12	16
Real estate	28	27
Insurance contracts	28	55
Other	15	16
	1,150	**1,050**

The plan assets do not include any real estate used by the company, nor do they normally include any financial instruments owned by the company. However, plan assets could conceivably include index products containing LANXESS securities.

The following material weighted valuation parameters were used to calculate the benefit obligation and determine the benefit expense:

Valuation Assumptions as of December 31

%	Pension plans		Other post-employment benefit plans	
	2012	2013	2012	2013
Discount rate	5.1	5.3	4.4	4.0
Germany	3.8	3.8	1.5	1.4
Canada	4.3	4.5	4.3	4.8
Brazil	9.7	12.3	9.7	12.3
Expected salary increases	3.6	3.4	3.7	3.2
Expected benefit increases	2.4	2.2	–	–
Expected increases in medical costs	–	–	7.9	7.3
Expected long-term increases in medical costs	–	–	5.3	5.2

2012 figures restated

The assumptions are weighted on the basis of the defined benefit obligation at year end. The discount rates used for Germany and Canada are derived from high-quality fixed-interest corporate bonds with the same maturities. In Brazil, however, there is no liquid market for such bonds so the discount rate is based on those for government bonds with the same maturities. This method of deriving the discount rates is unchanged from the previous year in the principal countries.

The long-term cost increase for medical care is expected to take place within about 13 years (2012: 11 years).

The Heubeck mortality tables 2005 G form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies.

A change in the principal valuation parameters would result in the following percentage changes in the benefit obligation:

Sensitivities of Benefit Obligations as of December 31, 2013

%	Pension plans	Other post-employment benefit plans
Discount rate		
+0.5%-pt.	(8.1)	(3.3)
−0.5%-pt.	8.7	3.7
Expected salary increases		
+0.25%-pt.	0.5	0.2
−0.25%-pt.	(0.4)	(0.2)
Expected benefit increases		
+0.25%-pt.	3.6	–
−0.25%-pt.	(3.2)	–
Mortality		
−10%	2.7	3.2
Expected increases in medical costs		
+1%-pt.	–	3.7
−1%-pt.	–	(3.4)

The sensitivity of the mortality rates was calculated for the countries with significant pension obligations. A reduction in mortality increases the individual life expectancy of beneficiaries. A 10% reduction would increase the average life expectancy of employees of retirement age in the countries of importance for LANXESS by about one year.

Sensitivity is calculated by altering one parameter while leaving all the others unchanged. The method used is the same as for the actuarial valuation of benefit obligations. However, sensitivity calculations depend on interest rate effects and the absolute change in the parameter. Moreover, it is unlikely in practice that only one parameter would change, so the change in a parameter could correlate with other assumptions. Where the expected development of the parameter used in the sensitivity calculation was based on a different variation in the parameter, the stated change in the benefit obligation was approximated using the straight-line method.

The average duration of defined benefit pension obligations was 16 years (2012: 16 years). This figure is based on the average duration of 20 years (2012: 21 years) for Germany, 11 years (2012: 10 years) for Canada and 12 years (2012: 11 years) for Brazil. The average duration of the defined benefit obligations for other post-employment benefits was 9 years (2012: 11 years).

The funded status is reported in the following table as the under- or overfunding of the defined benefit obligation after deduction of plan assets, without taking into account changes in the effects of the asset ceiling or minimum funding requirements:

Funded Status as of December 31

€ million	Pension plans		Other post-employment benefit plans	
	2012	2013	2012	2013
Funded status				
Defined benefit obligation for funded plans	1,579	1,497	8	12
External plan assets	(1,146)	(1,046)	(4)	(4)
Underfunding of funded plans	**433**	**451**	**4**	**8**
Defined benefit obligation for unfunded plans	275	290	117	116
Funded status, December 31	**708**	**741**	**121**	**124**

The expected cash outflow for pension fund contributions and benefit payments in 2014 is €38 million based on year-end 2013 exchange rates.

14 Other non-current and current provisions

On the closing date, the LANXESS Group had other current provisions of €355 million (2012: €440 million) and other non-current provisions of €258 million (2012: €304 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

€ million	Dec. 31, 2012				Dec. 31, 2013			
	Up to 1 year	1–5 years	Over 5 years	**Total**	Up to 1 year	1–5 years	Over 5 years	**Total**
Personnel	218	82	32	332	100	49	39	188
Environmental protection	13	18	77	108	16	18	71	105
Trade-related commitments	74	5	–	79	96	6	–	102
Restructuring	20	22	3	45	39	14	5	58
Miscellaneous	115	55	10	180	104	44	12	160
	440	**182**	**122**	**744**	**355**	**131**	**127**	**613**

The total of other provisions declined in 2013 from €744 million to €613 million. The changes in other provisions were as follows:

Changes in Other Provisions in 2013

€ million	**Jan. 1, 2013**	Allocations	Interest effect	Utilization	Reversals	Exchange differences	**Dec. 31, 2013**
Personnel	332	95	3	(203)	(28)	(11)	188
Environmental protection	108	11	2	(6)	(3)	(7)	105
Trade-related commitments	79	61	1	(32)	(5)	(2)	102
Restructuring	45	37	0	(10)	(11)	(3)	58
Miscellaneous	180	67	0	(64)	(10)	(13)	160
	744	**271**	**6**	**(315)**	**(57)**	**(36)**	**613**

Personnel-related provisions Personnel-related provisions are mainly established for annual performance-related compensation and multi-year compensation programs.

Multi-year compensation programs

Stock-based compensation LANXESS AG offers a stock-based compensation program to members of the Management Board and certain other managers. The program provides for cash settlement. Following the granting of rights under two consecutive three-year Long Term Incentive Plans (LTIP 2005–2007 and LTIP 2008–2010) launched in 2005 and 2008, respectively, a new Long Term Stock Performance Plan (LTSP) was introduced in 2010 under which rights were granted in the years 2010–2013 (LTSP 2010–2013). The date of issue of the rights granted and still outstanding and the rights from the outstanding tranches is February 1 each year. Participation in the programs is conditional upon each manager making a personal investment in LANXESS stock, depending on his/her base salary. Awards are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals[SM] Index.

LTIP 2008–2010 If LANXESS stock outperforms this index, a payment of at least €0.75 per right is made. For each percentage point up to 5% by which the stock outperforms the index, €0.05 is paid in addition. For each percentage point above 5%, €0.06667 is paid in addition. The maximum possible payment per right, however, is €2.00.

LTIP 2010–2013 If LANXESS stock outperforms the index, a payment of at least €0.75 per right is made. For each percentage point by which the stock outperforms the index, €0.125 is paid in addition. The maximum possible payment per right, however, is €2.00.

Obligations arising from the stock-based compensation are valued on the basis of the following principal parameters:

Principal Parameters as of December 31

%	2012	2013
Expected share price volatility	41.0	37.0
Expected dividend payment	2.0	2.0
Expected index volatility	23.0	20.0
Correlation between LANXESS stock and the index	82.0	77.0
Risk-free interest rate	0.0	0.6

The relevant risk-free interest rate in 2013 was 0.63% (2012: 0.02%).

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals℠ Index in the past four years (2012: three years).

At the start of 2013, there were no longer any rights outstanding from the tranches issued in the years 2005 through 2008. The following table provides information on the tranches outstanding as of December 31, 2013:

LANXESS shares were trading at €48.48 at year-end 2013, and the reference index stood at 755.72 points.

The fair values of the LTSP entitlements that already existed at the start of 2013 declined significantly, resulting in a €3 million net gain from the stock-based compensation in 2013 (2012: net expense of €27 million). The rights from the 2009 and 2010 tranches were exercised at maximum value. A provision of €12 million existed as of December 31, 2013 (2012: €41 million). Of this amount, the intrinsic value of rights exercisable as of the closing date accounted for €0 million (2012: €0 million).

LANXESS stock plan This is an employee stock plan under which LANXESS staff may purchase shares in the company at a 50% discount. Employees acquired a total of 225,419 LANXESS shares under this program in 2013 (2012: 165,446 shares). These shares must be retained for at least three years. Since there are no further conditions attached to this stock plan, the discount was expensed immediately. Expenses of €5 million were recognized for the stock plan in 2013 (2012: €5 million). Participation in this program does not confer any right to similar benefits in the future.

LTIP and LTSP

	LTIP 2008–2010		LTSP 2010–2013			
	Tranche 2009	Tranche 2010	Tranche 2010	Tranche 2011	Tranche 2012	Tranche 2013
Duration	6 years	6 years	7 years	7 years	7 years	7 years
Vesting period	3 years	3 years	4 years	4 years	4 years	4 years
Holding period for personal investment shares	Feb. 1, 2013	Feb. 1, 2013	Jan. 31, 2017	Jan. 31, 2017	Jan. 31, 2017	Jan. 31, 2017
Initial LANXESS share price	€12.86	€27.28	€27.28	€55.60	€44.54	€63.25
Initial Dow Jones STOXX 600 Chemicals℠ index price	317.39 points	432.44 points	432.44 points	564.17 points	533.45 points	665.98 points
Fair value per right as of December 31, 2012	€2.00	€2.00	€1.81	€0.55	€0.71	–
Fair value per right as of December 31, 2013	–	€0.90	€0.92	€0.15	€0.26	€0.25
Change in number of outstanding rights						
Outstanding rights as of January 1, 2013	126,794	11,852,462	10,232,882	11,213,452	12,276,066	–
Rights granted	–	–	–	–	–	13,361,266
Rights exercised	126,794	11,842,574	–	–	–	–
Rights compensated	–	–	624,480	457,203	440,234	351,374
Rights forfeited	–	–	82,882	262,705	303,256	234,894
Outstanding rights as of December 31, 2013	**0**	**9,888**	**9,525,520**	**10,493,544**	**11,532,576**	**12,774,998**

Environmental provisions The Group's activities are subject to extensive legal requirements in the jurisdictions in which it does business. Compliance with environmental laws may require LANXESS to remove or mitigate the effects of the release or disposal of chemical substances at various sites. Under some of these laws, a current or previous site owner or plant operator may be held liable for the costs of removing hazardous substances from the soil or groundwater on its property or neighboring areas, or rendering them harmless, without regard to whether the owner or operator knew of, or caused the presence of the contaminants, and often regardless of whether the practices that resulted in the contamination were legal at the time they occurred. As many of LANXESS's production sites have a long history of industrial use, it is not always possible to accurately predict the effects such situations may have on the LANXESS Group in the future.

Since LANXESS is a chemical company, the possibility cannot be excluded that soil or groundwater contamination may have occurred at its locations in the past. Claims in this regard could be brought by government agencies, private organizations or individuals. Such claims would then relate to the remediation of sites or areas of land owned by the LANXESS Group where products were manufactured by third parties under contract manufacturing agreements or where waste from production facilities operated by the LANXESS Group was treated, stored or disposed of.

Potential liabilities exist with respect to various sites under legislation such as the U.S. environment law commonly known as "Superfund." At locations in the United States, numerous companies, including LANXESS, have been notified that the U.S. authorities or private individuals consider such companies to be potentially responsible parties under Superfund or related laws. At some sites, LANXESS may be the sole responsible party. Remediation measures have already been initiated at most of the sites concerned.

The existing provisions for environmental remediation costs relate primarily to the rehabilitation of contaminated sites, recultivation of landfills, and redevelopment and water protection measures. The provisions for environmental remediation costs are stated at the present value of the expected commitments where environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected to arise from these measures. Costs are estimated based on significant factors such as previous experience in similar cases, environmental assessments, current cost levels and new circumstances affecting costs, our understanding of current environmental laws and regulations, the number of other potentially responsible parties at each site and the identity and financial position of such parties in light of the joint and several nature of the liability, and the remediation methods likely to be employed.

It is difficult to estimate the future costs of environmental protection and remediation because of many uncertainties concerning the legal requirements and the information available about conditions in the various countries and at specific sites. Subject to these factors, but taking into consideration experience gained to date with matters of a similar nature, we believe our provisions to be adequate based upon currently available information. However, the possibility that additional costs could be incurred beyond the amounts accrued cannot be excluded. LANXESS nevertheless estimates that such additional costs, should they occur, would not materially impact the Group's financial position or results of operations.

Trade-related commitments Provisions for trade-related commitments mainly comprise those for rebates, customer discounts, product returns, outstanding invoices, impending losses and onerous contracts.

Provisions for restructuring Provisions for restructuring totaled €58 million on December 31, 2013 (2012: €45 million). Of this amount, €38 million (2012: €27 million) comprised provisions for severance payments and other personnel expenses, and €20 million (2012: €18 million) comprised provisions for demolition and other expenses.

Sundry provisions The sundry provisions contain provisions for guarantees and product liability, and provisions for other liabilities. Provisions for waste management that are not included in environmental provisions and provisions for legal risks that are not included in a different category within other provisions are also included in sundry provisions.

15 Other non-current and current financial liabilities

The following tables show the structure and maturities of other financial liabilities:

Other Financial Liabilities as of Dec. 31, 2012

€ million	Current	Non-current					
	2013	2014	2015	2016	2017	> 2017	**Total**
Bonds		498	60	199		1,189	**1,946**
Liabilities to banks	75	41	34	34	39	22	**170**
Liabilities under finance leases	35	8	6	5	4	20	**43**
Other primary financial liabilities	57	3	2	2	0	1	**8**
	167	**550**	**102**	**240**	**43**	**1,232**	**2,167**

Other Financial Liabilities as of Dec. 31, 2013

€ million	Current	Non-current					
	2014	2015	2016	2017	2018	> 2018	**Total**
Bonds	500	60	199		497	692	**1,448**
Liabilities to banks	105	46	46	39	22		**153**
Liabilities under finance leases	9	6	6	5	4	19	**40**
Other primary financial liabilities	54	2	1	2		3	**8**
	668	**114**	**252**	**46**	**523**	**714**	**1,649**

The following bonds were outstanding on December 31, 2013:

Bonds

Issuance	Nominal amount million	Carrying amount € million	Interest rate %	Maturity
April 2009	500 EUR	500	7.750	April 2014
September 2009	200 EUR	199	5.500	September 2016
May 2011	500 EUR	497	4.125	May 2018
February 2012	500 CNH	60	3.950	February 2015
April 2012	100 EUR	100	3.500	April 2022
April 2012	100 EUR	99	3.950	April 2027
November 2012	500 EUR	493	2.625	November 2022

The weighted average interest rate for financial liabilities in the LANXESS Group at year end was 4.8% (2012: 4.8%).

Liabilities under lease agreements are recognized if the leased assets are capitalized under property, plant and equipment as the economic property of the Group (finance leases). Lease payments totaling €60 million (2012: €92 million), including €11 million (2012: €14 million) in interest, are to be made to the respective lessors in future years.

Other primary financial liabilities include accrued interest of €53 million (2012: €54 million) on financial liabilities. Of this amount, €52 million (2012: €52 million) relates to the above-mentioned bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [35].

16 Non-current and current income tax liabilities

The non-current and current income tax liabilities comprised:

Income Tax Liabilities

€ million	Dec. 31, 2012		
	Non-current	Current	Total
Provisions	35	43	78
Payables	–	2	2
	35	**45**	**80**

Income Tax Liabilities

€ million	Dec. 31, 2013		
	Non-current	Current	Total
Provisions	49	20	69
Payables	–	1	1
	49	**21**	**70**

17 Other non-current and current liabilities

The other non-current liabilities totaling €89 million (2012: €74 million) mainly include asset subsidies of €83 million (2012: €67 million) granted by third parties.

The other current liabilities are recognized at settlement cost. They comprise:

Other Current Liabilities

€ million	Dec. 31, 2012	Dec. 31, 2013
Tax liabilities	66	45
Social security liabilities	23	20
Payroll liabilities	19	15
Miscellaneous liabilities	65	46
	173	**126**

Other tax liabilities include not only Group companies' own tax liabilities, but also taxes withheld for payment to the authorities on behalf of third parties.

Social security liabilities include, in particular, social insurance contributions that had not been paid by the closing date.

The miscellaneous liabilities include commission payments to customers and accruals for outstanding invoices relating to the reporting period. As in the previous year, there were no such liabilities to other affiliated companies.

18 Trade payables

Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €690 million (2012: €795 million) is due within one year.

Trade payables of €40 million (2012: €38 million) related to investments accounted for using the equity method and €650 million (2012: €757 million) to other suppliers.

19 Further information on liabilities

Of the total liabilities, €721 million (2012: €1,238 million) had maturities of more than five years. The decrease compared with the previous year was mainly due to the change in the maturity profile of non-current financial liabilities, particularly the bond issues, in line with the contractual redemption dates.

Notes to the income statement

20 Sales

Sales, which amounted to €8,300 million (2012: €9,094 million), mainly comprised goods sold less discounts and rebates.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [37]).

21 Cost of sales

Cost of Sales

€ million	2012	2013
Expenses for raw materials and merchandise	4,664	4,234
Direct manufacturing and other production costs	2,324	2,518
	6,988	**6,752**

2012 figures restated

Direct manufacturing costs include those for personnel, depreciation, amortization, write-downs, energies, and goods and services procured. The other production costs mainly comprise inventory valuation effects and inventory discrepancies.

22 Selling expenses

Selling Expenses

€ million	2012	2013
Marketing costs	484	471
Outward freight charges and other selling expenses	279	284
	763	**755**

The selling expenses mainly comprise those for the internal and external marketing and sales organization, freight charges, warehousing, packaging and the provision of advice to customers.

23 Research and development expenses

The research and development expenses of €186 million (2012: €192 million) mainly include the costs incurred to gain new scientific and technical knowledge, expenses relating to the search for alternative products and production processes, and costs for applying the results of research.

24 General administration expenses

The general administration expenses, amounting to €301 million (2012: €339 million), comprise costs not directly related to operational business processes and the costs for the country organizations.

25 Other operating income

Other Operating Income

€ million	2012	2013
Income from non-core business	91	92
Income from hedging with derivative financial instruments	0	7
Income from the reversal of provisions	41	5
Gains from the disposal of non-current assets	2	3
Income from reversals of write-downs of receivables and other assets	2	1
Miscellaneous operating income	50	20
	186	**128**

26 Other operating expenses

Other Operating Expenses

€ million	2012	2013
Impairment charges recognized on cash-generating units	0	257
Expenses for non-core business	82	84
Write-downs of trade receivables and other current assets	4	9
Losses from the disposal of non-current assets	2	1
Expenses for hedging with derivative financial instruments	33	0
Miscellaneous operating expenses	69	176
	190	**527**

The impairment charges recognized on cash-generating units mainly related to the Performance Polymers segment and, to a lesser extent, the Performance Chemicals segment and were primarily allocable to the cost of sales. Further information on the background to and the extent of the impairment charges recognized can be found in the section headed “Estimation uncertainties and exercise of discretion.” The total of write-downs recognized on past-due receivables was higher than in the previous year.

Of the net miscellaneous operating expense, €112 million related to the Advance program and was partially reflected as an allocation to provisions for restructuring. Of the amount relating to Advance, €72 million was allocable to the cost of sales in line with its economic relevance, while €22 million was allocable to administration expenses and €9 million each to selling and research and development expenses. Miscellaneous operating expenses also included those for designing and implementing IT projects. In 2012 this item also included allocations to restructuring provisions.

27 Financial result

The financial result is comprised as follows:

Financial Result

€ million	2012	2013
Income from investments accounted for using the equity method	**1**	**0**
Interest income	5	2
Interest expense	(101)	(108)
Net interest expense	**(96)**	**(106)**
Interest portion of interest-bearing provisions	(30)	(33)
Net exchange loss	(5)	(1)
Miscellaneous financial expenses	(1)	0
Dividends and income from other affiliated companies	(17)	(6)
Other financial income and expense	**(53)**	**(40)**
Financial result	**(148)**	**(146)**

2012 figures restated

Interest expense mainly included payments of bond interest. The amount recognized was adjusted for capitalized borrowing costs of €15 million (2012: €23 million). The interest portion of the lease payments under finance leases, amounting to €3 million (2012: €4 million), is included in interest expense. The income from other affiliated companies was reduced by €6 million due to a valuation adjustment for the interest held in BioAmber Inc., Minneapolis, United States, resulting from that company's stock performance. In 2012, this item contained an €18 million write-down due to a valuation adjustment for the interest held in BioAmber Inc., Minneapolis, United States, also because of the company's stock performance.

28 Income taxes

This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Income taxes are computed on the basis of local tax rates. Adjustments occasioned by applying the revised version of IAS 19 are explained in the section headed "Financial reporting standards and interpretations applied."

The breakdown of income taxes by origin is as follows:

Income Taxes by Origin

€ million	2012	2013
Current taxes	(118)	(17)
Deferred taxes resulting from		
temporary differences	(58)	62
statutory changes in tax rates	0	0
loss carryforwards	25	26
Income taxes	**(151)**	**71**

2012 figures restated

The actual tax income of €71 million for 2013 was €5 million less than the expected tax income of €76 million. (In 2012, the actual tax expense of €151 million was €57 million less than the expected tax expense of €208 million.)

In calculating the expected tax result for the LANXESS Group, an overall tax rate of 31.8% (2012: 31.5%) was applied to the German companies. This comprises a corporation tax rate of 15.0%, plus a solidarity surcharge (5.5% of corporation tax) and trade tax.

The reconciliation of the expected tax result to the actual tax result is as follows:

Reconciliation to Reported Tax Income

€ million	2012	2013
Income (loss) before income taxes	660	(239)
Aggregated income tax rate of LANXESS AG	31.5%	31.8%
Expected tax expense	(208)	76
Tax difference due to differences between local tax rates and the hypothetical tax rate	55	(8)
Reduction in taxes due to		
tax-free income and reduction of tax bases	8	4
utilization of unrecognized loss carryforwards	0	0
Increase in taxes due to non-tax-deductible expenses	(11)	(7)
Other tax effects	5	6
Actual tax result	**(151)**	**71**
Effective tax rate	(22.9)%	29.7%

2012 figures restated

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

Deferred Taxes

€ million	Dec. 31, 2012		Dec. 31, 2013	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	14	55	11	52
Property, plant and equipment	3	160	32	119
Inventories	27	3	20	3
Receivables and other assets	2	44	8	24
Pension provisions	153	0	157	0
Other provisions	98	11	96	11
Liabilities	39	3	28	3
Loss carryforwards	69	–	85	–
	405	**276**	**437**	**212**
of which non-current	239	237	264	179
Set-off	(194)	(194)	(183)	(183)
	211	**82**	**254**	**29**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2012	2013
Deferred taxes as of January 1	**121**	**129**
Tax income/expense recognized in the income statement	(33)	88
Changes in scope of consolidation	(7)	(5)
Taxes recognized in other comprehensive income	51	9
Exchange differences	(3)	4
Deferred taxes as of December 31	**129**	**225**

2012 figures restated

Of the deferred taxes recognized in other comprehensive income, €6 million (2012: €69 million) related to remeasurements of the net defined benefit liability for post-employment benefit plans and €3 million (2012: minus €18 million) to financial instruments.

Deferred tax assets of €75 million (2012: €16 million) related to tax jurisdictions in which losses were recorded in 2013 or 2012. In this respect, the LANXESS Group has taken into consideration tax planning calculations and customary and feasible tax strategies.

Based on tax planning calculations and strategies, deferred tax assets of €85 million (2012: €69 million) were recognized on the €292 million (2012: €225 million) in tax loss carryforwards that represent income likely to be realized in the future.

Deferred taxes were not recognized for €192 million (2012: €182 million) of tax loss carryforwards. Of this amount, €147 million (2012: €154 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in 2013 for tax-deductible temporary differences of €29 million (2012: €63 million). Accordingly, deferred taxes on loss carryforwards of €52 million (2012: €49 million) and deferred tax assets on tax-deductible temporary differences of €11 million (2012: €22 million) were not recognized.

29 Earnings and dividend per share

The calculation of earnings per share for 2013 was based on the weighted average number of shares outstanding (83,202,670 shares) and only included earnings from continuing operations. Adjustments occasioned by applying the revised version of IAS 19 are explained in the section headed "Financial reporting standards and interpretations applied." Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. Further information on equity instruments that could dilute earnings per share in the future is contained in Note [12].

Earnings per Share

	2012	2013	Change %
Net income (loss) (€ million)	508	(159)	<(100)
Number of outstanding shares	83,202,670	83,202,670	0.0
Earnings per share (undiluted/diluted) (€)	**6.11**	**(1.91)**	**<(100)**

2012 figures restated

LANXESS AG reported a distributable profit of €48 million for fiscal 2013 (2012: €96 million). The dividend payment made to stockholders of LANXESS AG during fiscal 2013 amounted to €1.00 per share (2012: €0.85 per share).

30 Personnel expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2012	2013
Wages and salaries	1,097	1,006
Social security contributions	193	194
Retirement benefit expenses	92	128
Social assistance benefits	10	11
	1,392	**1,339**

Total personnel expenses declined in 2013. The fact that personnel expenses were lower than in the previous year despite the higher average headcount and Group-wide salary increases was mainly due to adjustments to performance-related compensation. The personnel expenses shown here do not contain the interest portion of personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [27]).

Other information

31 Employees

The average number of employees in the LANXESS Group in 2013 was 17,430 (2012: 16,962). The increase compared to the previous year was mainly due to new hires at various sites and to additions to the companies consolidated.

Employees by Function

	2012	2013
Production	12,222	12,456
Marketing	2,050	2,082
Administration	1,873	1,980
Research	817	912
	16,962	**17,430**

32 Contingent liabilities and other financial commitments

Contingent liabilities as of December 31, 2013 amounted to €8 million (2012: €28 million). They include contingent liabilities of €0 million (2012: €22 million) to investments accounted for using the equity method. Contingent liabilities result from guarantees and similar instruments assumed on behalf of third parties. They represent potential future commitments in cases where the occurrence of certain events would create an obligation that was uncertain at the closing date. An obligation to perform under such contingent liabilities arises in the event of delayed settlement or insolvency of the debtor.

As a personally liable partner in Currenta GmbH & Co. OHG, Leverkusen, Germany, LANXESS may be required to inject further capital into this company in the future.

Apart from provisions, liabilities and contingent liabilities, financial commitments also exist under operating leases.

As explained in the section on recognition and valuation principles, operating leases are those which – unlike finance leases – do not transfer substantially all risks and rewards incidental to the ownership of the leased assets to the lessee. In the LANXESS Group, operating leases are mainly used for operational reasons and not as a means of financing.

The minimum non-discounted future payments relating to operating leases totaled €492 million (2012: €496 million). The total future leasing and rental payments relating to operating leases was thus on the level of the prior year.

The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2012	Dec. 31, 2013
Up to 1 year	54	61
1 to 2 years	53	54
2 to 3 years	47	49
3 to 4 years	41	41
4 to 5 years	35	40
More than 5 years	266	247
	496	**492**

Payments under operating leases in 2013 amounted to €61 million (2012: €48 million). The year-on-year increase was partly attributable to the Group's new headquarters in Cologne and to higher usage-based charges in Singapore.

Financial commitments resulting from orders already placed under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment and intangible assets totaled €283 million (2012: €261 million). Of the respective payments, €233 million are due in 2014 and €50 million in 2015.

Description of the master agreement Under the master agreement that was concluded between Bayer AG and LANXESS AG together with the Spin-Off and Takeover Agreement, Bayer AG and LANXESS AG agreed, among other things, on commitments regarding mutual indemnification for liabilities in line with the respective asset allocation and on special arrangements allocating responsibility to deal with claims in the areas of product liability, environmental contamination and antitrust violations. The master agreement also contains arrangements for the allocation of tax effects relating to the spin-off and to the preceding measures to create the subgroup that was subsequently spun off.

33 Related parties

In the course of its operations, the LANXESS Group sources materials, inventories and services from a large number of business partners around the world. These include companies in which LANXESS AG has a direct or indirect interest. Transactions with these companies are carried out on an arm's-length basis.

Transactions with investments accounted for in the consolidated financial statements using the equity method and their subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €455 million (2012: €479 million). As of December 31, 2013, trade payables of €40 million (2012: €38 million), trade receivables of €3 million (2012: €4 million) and a dividend receivable of €2 million (2012: €0 million) existed as a result of such transactions. There were also payment obligations to these companies amounting to €5 million (2012: €4 million) under operating leases and obligations of €3 million (2012: €3 million) under purchase agreements. Contingent liabilities to investments accounted for using the equity method are outlined in the previous section.

In 2013, production services totaling €6 million were provided to the LANXESS Group by joint ventures. As of December 31, 2013 there was a loan receivable of €5 million from one joint venture.

Information on the compensation of the Board of Management and Supervisory Board can be found in the next section.

34 Compensation of the Board of Management and the Supervisory Board

Total compensation of €6,647 thousand (2012: €10,830 thousand) was paid to the members of the Board of Management of LANXESS AG for fiscal 2013, comprising €4,777 thousand (2012: €7,392 thousand) in short-term compensation (fixed compensation, annual bonus, benefits in kind and other), €34 thousand (2012: €830 thousand) in compensation relating to the previous year, and other long-term compensation components totaling €977 thousand (2012: €1,843 thousand) as part of the Long-Term Performance Bonus (LTPB). The total also includes compensation paid under the stock-based Long-Term Stock Performance Plan (LTSP), under which 1,564,125 compensation rights were granted in 2013 (2012: 1,531,875 rights). The fair value of these rights at the grant date was €859 thousand (2012: €765 thousand). The fair values of the LTSP rights that already existed at the start of 2013 declined significantly, which resulted in a net gain of €887 thousand from the stock-based compensation in fiscal 2013 (2012: net expense of €3,826 thousand).

Details of the compensation system for members of the Board of Management and an individual breakdown of the compensation are given in the "Compensation report" section of the combined management report for fiscal 2013.

In addition, service cost of €1,264 thousand (2012: €815 thousand) relating to defined benefit pension plans was incurred in 2013 for members of the Board of Management as part of their compensation package. The present value of the benefit obligation as of December 31, 2013 was €21,740 thousand (2012: €18,248 thousand).

The total net expense for the compensation of the members of the Board of Management in 2013 was €6,165 thousand (2012: €14,706 thousand).

The balances outstanding to members of the Board of Management totaled €4,706 thousand as of December 31, 2013 (2012: €13,157 thousand), comprising provisions of €1,653 thousand (2012: €4,714 thousand) for annual bonuses, €1,899 thousand (2012: €2,587 thousand) for the LTPB and €1,154 thousand (2012: €5,856 thousand) for the LTSP.

Payments of €308 thousand (2012: €479 thousand) were made to former members of the Board of Management. The total obligation toward former members of the Board of Management as of December 31, 2013 was €11,578 thousand (2012: €11,411 thousand).

The members of the Supervisory Board received total compensation of €1,874 thousand in 2013 (2012: €1,885 thousand), which was paid at the start of the following year. The provisions established for stock-based compensation for Supervisory Board members as of December 31, 2013 amounted to €1,800 thousand (2012: €1,800 thousand).

In addition, the employee representatives on the Supervisory Board who are on LANXESS's payroll received compensation 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 an individual breakdown of the amounts paid are contained in the combined management report for fiscal 2013 in the section headed "Compensation report."

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2013 or 2012.

35 Financial instruments

Primary financial instruments are reflected in the statement of financial position. In compliance with IAS 39, financial assets are categorized as “loans and receivables,” “held at fair value through profit or loss,” “held to maturity” or “available for sale” and, accordingly, recognized at cost or fair value. Liability instruments that are neither held for trading nor constitute derivatives are recognized at amortized cost.

Risks and risk management The global alignment of the LANXESS Group exposes its business operations, earnings and cash flows to a variety of market risks. Material financial risks to the Group as a whole, such as currency, interest rate, credit, liquidity and commodity price risks, are centrally managed.

These risks could impair the earnings and financial position of the LANXESS Group. The various risk categories and the risk management system for the LANXESS Group are outlined below.

The principles of risk management are defined by the Board of Management. At the regular strategy meetings of the Financial Risk Committee, which are chaired by the Chief Financial Officer, reports on the outcome of financial risk management and on current risks levels are presented and any further action is decided upon. Simulations are performed to assess the impact of market trends. The implementation of the Financial Risk Committee’s decisions and ongoing risk management are undertaken centrally by the Treasury Group Function. The aim of financial risk management is to identify and evaluate risks and to manage and limit their effects as appropriate.

Currency risks Since the LANXESS Group undertakes transactions in numerous currencies, it is exposed to the risk of fluctuations in the relative value of these currencies, particularly the U.S. dollar, against the euro.

Currency risks from potential declines in the value of financial instruments due to exchange rate fluctuations (transaction risks) arise mainly when receivables and payables are denominated in a currency other than the company’s local currency.

Currency risks relating to operating activities are systematically monitored and analyzed. While the risks relating to changes in the value of receivables and payables denominated in foreign currencies are fully hedged, the scope of hedging for currency risks relating to forecasted transactions is subject to regular review. A substantial proportion of currency risks arising from contracts are hedged using derivative financial instruments. Changes in the fair values of these instruments are recognized in the financial result or, in the case of cash flow hedges, in other comprehensive income. Realized income/expense from the effective portion of cash flow hedges are recognized in other operating income/expenses.

Currency risks arising on financial transactions, including the interest component, are fully hedged through forward exchange contracts.

Since the LANXESS Group concludes derivative contracts for the greater part of its currency risks, it believes that, in the short term, a rise or fall in the euro against other major currencies would have no material impact on future cash flows. In the long term, however, these exchange rate fluctuations could adversely affect future cash flows should the LANXESS Group not be in a position to absorb them, for example, through the pricing of its products in the respective local currencies.

If the exchange rate for the euro had been 5% higher against the hedged currencies on the reporting date, this would have had a €19 million (2012: €20 million) effect, mainly on other comprehensive income, which would have improved accordingly. This effect mainly relates to the U.S. dollar. A correspondingly lower rate for the euro would have had basically the opposite effect.

Many companies in the LANXESS Group are based outside the eurozone. Since the Group prepares its consolidated financial statements in euros, the annual financial statements of these subsidiaries are translated into euros for consolidation purposes. Changes in the average exchange rate for a given local currency from one period to the next can materially affect the translation of both sales and earnings reported in this currency into euros (translation risk). Unlike the effect of exchange rate fluctuations in the case of transaction risk, translation risk has no impact on Group cash flows in the local currency.

The LANXESS Group has material assets, liabilities and businesses outside the eurozone that are reported in local currencies. The related long-term currency risks are estimated and evaluated on a regular basis. In view of these risks, however, foreign currency transactions are only concluded if consideration is being given to withdrawing from a particular business and it is intended to repatriate the funds released by the withdrawal. The effects of exchange rate fluctuations on the translation of net positions into euros are reflected in other comprehensive income.

Interest rate risks Fluctuations in market interest rates can cause fluctuations in the fair value of a financial instrument. Interest rate risk affects both financial assets and financial liabilities.

Since the majority of financial liabilities were entered into at fixed interest rates, changes in interest rates in the coming years will only have a limited impact on the LANXESS Group. The available liquidity is invested in instruments with short-term fixed interest rates, so that the LANXESS Group benefits quickly from rising interest rates. A general change of one percentage point in interest rates as of December 31, 2013 would have altered Group net income by €1 million (2012: €3 million).

Credit risks Credit risks arise from trade relationships with customers and dealings with banks and other financial partners, especially with regard to the investment business and financial-instrument transactions.

Customer risks are systematically identified, analyzed and managed, using both internal and external information sources. Customer portfolios may be insured against credit risks, especially where the risk profile is elevated.

The objective of receivables management at LANXESS is to collect all outstanding payments punctually and in full, and thus to minimize the risk of default. Continuous monitoring is computer-assisted based on the payment terms agreed with the customers. These are generally based on the customary payment terms for the business or country. Reminders are sent out at regular intervals if payments are overdue.

The maximum risk of default on receivables, cash and cash equivalents, near-cash assets, derivatives and other financial assets is reflected in their carrying amounts in the statement of financial position (disregarding netting arrangements not reflected in the statement of financial position).

Credit insurance has been concluded with a well-known European credit insurer to cover material credit risks relating to receivables from customers. After a deductible, these cover default risks, especially in Europe, that could arise up to the end of the fiscal year in the mid-double-digit millions of euros. The maximum credit risk is further reduced by letters of credit in favor of LANXESS. In certain cases, prepayment is agreed with the contracting partner.

In addition, LANXESS has a contractually agreed title to goods until the contracting partner has paid the full purchase price. The vast majority of receivables relate to customers with very high credit standing.

The creditworthiness of the counterparty is a key criterion in the financial policy and credit risk management of the LANXESS Group, especially in the selection of banks and financial partners for capital investments and transactions involving financial instruments. LANXESS therefore endeavors to undertake transactions with banks and other financial counterparties that have at least an investment grade rating. The derivatives and financial assets outstanding as of the closing date were almost all concluded with banks with an investment grade rating.

Credit risk management also includes global management of the counterparty risk relating to banks and financial partners. The LANXESS Group pays particular attention to risk diversification to prevent any cluster risks that could jeopardize its existence. Through master agreements, the market values of open trading positions can be netted if a partner becomes insolvent, thereby further reducing risks.

Liquidity risks Liquidity risks arise from potential financial shortfalls and the resulting increase in refinancing costs. The aim of liquidity management in the LANXESS Group is to ensure that the Group has sufficient liquidity and committed credit facilities available at all times to enable it to meet its payment commitments, and to optimize the liquidity balance within the Group.

The main liquidity reserve is a €1.25 billion syndicated credit facility, which was not significantly drawn upon as of year end. Its original term was extended by one year in February 2014 to run until February 2019, and it can be renewed one more time for a further period of one year. A further material credit line of €200 million with the European Investment Bank remained undrawn as of year end 2013. In addition to credit facilities, the Group has short-term liquidity reserves of €533 million (2012: €797 million) in the form of cash and cash equivalents and AAA rated money market funds. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

The following table shows the contractually agreed (undiscounted) cash flows for primary financial liabilities, the interest components thereof and derivative financial instruments:

Dec. 31, 2012

€ million	2013	2014	2015	2016	2017	> 2017
Bonds	**(42)**	**(593)**	**(115)**	**(252)**	**(41)**	**(1,343)**
of which interest	(42)	(93)	(55)	(52)	(41)	(143)
Liabilities to banks	**(80)**	**(46)**	**(38)**	**(37)**	**(41)**	**(22)**
of which interest	(5)	(5)	(4)	(3)	(2)	0
Trade payables	**(795)**					
of which interest	0					
Liabilities under finance leases	**(38)**	**(10)**	**(7)**	**(7)**	**(5)**	**(25)**
of which interest	(3)	(2)	(2)	(2)	(1)	(4)
Other primary financial liabilities	**(57)**	**(3)**	**(3)**	**(2)**	**0**	**(2)**
of which interest	(54)	0	0	0	0	0
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(170)	(20)				
Receipts	162	19				
Other hedging instruments						
Disbursements	(260)	(13)	(19)	(25)	(9)	
Receipts	257	12	17	23	8	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(331)	(172)				
Receipts	343	180				
Other hedging instruments						
Disbursements	(952)	(5)	(27)			
Receipts	967	5	28			

Dec. 31, 2013

€ million	2014	2015	2016	2017	2018	> 2018
Bonds	**(542)**	**(114)**	**(252)**	**(41)**	**(541)**	**(802)**
of which interest	(42)	(54)	(52)	(41)	(41)	(102)
Liabilities to banks	**(108)**	**(62)**	**(37)**	**(41)**	**(22)**	**0**
of which interest	(3)	(4)	(3)	(2)	0	0
Trade payables	**(690)**					
of which interest	0					
Liabilities under finance leases	**(11)**	**(8)**	**(8)**	**(6)**	**(5)**	**(22)**
of which interest	(2)	(2)	(2)	(1)	(1)	(3)
Other primary financial liabilities	**(57)**	**(3)**	**(1)**	**(2)**	**0**	**0**
of which interest	(54)	0	0	0	0	0
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(136)	(48)				
Receipts	116	39				
Other hedging instruments						
Disbursements	(182)	(14)	(24)	(6)	(6)	
Receipts	180	13	23	5	5	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(415)	(131)	(3)			
Receipts	444	138	3			
Other hedging instruments						
Disbursements	(972)	(32)	(1)	(3)		
Receipts	1,002	38	5	4		

The contractually agreed payments on other primary financial liabilities due within one year following the reporting date include accrued interest of €53 million (2012: €52 million) that mainly relates to the bonds.

Raw material price risks The LANXESS Group is exposed to changes in the market prices of energies and raw materials used for its business operations. Increases in energy and raw material procurement costs are generally passed on to customers. Where such risks cannot be passed on in their entirety, the related risks may be hedged on a case-by-case basis through forward commodity contracts to reduce the volatility of cash flows. Where cash flow hedges qualify for hedge accounting, changes in their fair values are recognized in other comprehensive income until the hedged transaction is realized.

LANXESS did not have any forward commodity contracts at year end 2013 or 2012.

Carrying amounts, measurement and fair value of financial instruments The table shows the carrying amounts of the individual classes of financial assets and liabilities and their fair values. The basis of measurement is also shown:

Dec. 31, 2012

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2012
Financial assets		
Trade receivables	LaR	1,117
Receivables under finance leases	–	4
Other financial receivables	LaR	8
Cash and cash equivalents	LaR	386
Available-for-sale financial assets		
Near-cash assets	AfS	411
Other available-for-sale financial assets	AfS	20
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	21
Other hedging instruments	FAHfT	23
Financial liabilities		
Bonds	FLAC	(1,946)
Liabilities to banks	FLAC	(245)
Trade payables	FLAC	(795)
Liabilities under finance leases	–	(78)
Other primary financial liabilities	FLAC	(65)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(8)
Other hedging instruments	FLHfT	(6)

Dec. 31, 2013

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2013
Financial assets		
Trade receivables	LaR	1,070
Receivables under finance leases	–	2
Other financial receivables	LaR	14
Cash and cash equivalents	LaR	427
Available-for-sale financial assets		
Near-cash assets	AfS	106
Other available-for-sale financial assets	AfS	14
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	35
Other hedging instruments	FAHfT	43
Financial liabilities		
Bonds	FLAC	(1,948)
Liabilities to banks	FLAC	(258)
Trade payables	FLAC	(690)
Liabilities under finance leases	–	(49)
Other primary financial liabilities	FLAC	(62)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(30)
Other hedging instruments	FLHfT	(4)

LaR Loans and Receivables
AfS Available-for-Sale Financial Assets
FAHfT Financial Assets Held for Trading
FLAC Financial Liabilities Measured at Amortized Cost
FLHfT Financial Liabilities Held for Trading

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2012
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
1,117					1,117
				4	4
8					8
386					386
		411			411
	15	5			5
		21			21
			23		23
(1,946)					(2,128)
(245)					(245)
(795)					(794)
				(78)	(78)
(65)					(65)
		(8)			(8)
			(6)		(6)

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2013
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
1,070					1,070
				2	2
14					14
427					427
		106			106
	9	5			5
		35			35
			43		43
(1,948)					(2,032)
(258)					(264)
(690)					(690)
				(49)	(51)
(62)					(62)
		(30)			(30)
			(4)		(4)

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined in the section "Fair value measurement." However, one bond with a fair value of €103 million is allocated to Level 2 as there is no liquid market for it. Fair value measurement of non-current liabilities to banks is also allocated to Level 2.

Carrying Amounts by IAS 39 Category

€ million	Dec. 31, 2012	Dec. 31, 2013
Loans and receivables	1,511	1,511
Available-for-sale financial assets	431	120
Financial assets held for trading	23	43
	1,965	**1,674**
Financial liabilities measured at amortized cost	(3,051)	(2,958)
Financial liabilities held for trading	(6)	(4)
	(3,057)	**(2,962)**

Fair value measurement The measurement of fair value is based on a hierarchy reflecting the significance of the measurement inputs. The fair value measurement hierarchy for an asset or liability comprises three levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 Unobservable inputs for the asset or liability

The following table shows the volumes of assets and liabilities that were measured at fair value on a recurring basis as of the end of the reporting period and the levels of the fair value hierarchy into which the measurement inputs were categorized. Reclassification between the levels is reviewed as of each reporting date. There were no reclassifications in 2012 or 2013.

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2012		
	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	3	–	–
Non-current derivative assets	–	16	–
Other non-current financial assets	–	1	–
Current assets			
Near-cash assets	411	–	–
Current derivative assets	–	28	–
Other current financial assets	1	–	–
Non-current liabilities			
Non-current derivative liabilities	–	4	–
Current liabilities			
Current derivative liabilities	–	10	–

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2013		
	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	4	–	–
Non-current derivative assets	–	20	–
Other non-current financial assets	–	1	–
Current assets			
Near-cash assets	106	–	–
Current derivative assets	–	58	–
Other current financial assets	0	–	–
Non-current liabilities			
Non-current derivative liabilities	–	12	–
Current liabilities			
Current derivative liabilities	–	22	–

The investments in other affiliated companies measured at fair value pertain to shares in the listed companies Gevo Inc., Englewood, United States, and BioAmber Inc., Minneapolis, United States. The item "Investments in other affiliated companies" in the statement of financial position also includes €9 million in non-listed equity instruments whose fair values at the end of the reporting period could not be reliably measured and which are therefore recognized at cost. There are currently no plans to dispose of these investments.

Offsetting of financial assets and financial liabilities Offsetting was not used for the financial assets and financial liabilities recognized in the statement of financial position. The following table shows how legally enforceable master netting arrangements or similar agreements impact, or could impact, the Group's financial position:

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2012

€ million	Carrying amount of financial instruments	Related amounts not offset in the statement of financial position		Net amount
		Financial instruments	Financial collateral	
Financial assets				
Trade receivables	1,117	(32)	(1)	1,084
Derivative assets	44	(9)	0	35
Financial liabilities				
Trade payables	(795)	32	0	(763)
Derivative liabilities	(14)	9	0	(5)

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2013

€ million	Carrying amount of financial instruments	Related amounts not offset in the statement of financial position		Net amount
		Financial instruments	Financial collateral	
Financial assets				
Trade receivables	1,070	(36)	(1)	1,033
Derivative assets	78	(7)	0	71
Financial liabilities				
Trade payables	(690)	36	0	(654)
Derivative liabilities	(34)	7	0	(27)

Either contracting party may offset on a net basis the positive and negative fair values arising from past-due derivative asset or liability contracts with the same counterparty.

Net result by category The following table provides an overview of the net results based on the measurement categories defined in IAS 39:

Net Results by IAS 39 Category

€ million	2012	2013
Loans and receivables	(11)	(27)
Available-for-sale financial assets	(9)	(6)
Assets and liabilities held for trading	27	41
Financial liabilities measured at amortized cost	(108)	(121)
	(101)	**(113)**

Net gains and losses principally comprise interest income and expense and remeasurement effects.

In 2012, the net result for available-for-sale financial assets included gains of €10 million which were reflected in other comprehensive income.

In addition, fees of €9 million were incurred in 2013 (2012: €6 million) in connection with financial instruments.

Collateralization of financial liabilities Financial liabilities of €0 million (2012: €4 million) were collateralized by mortgages or other property claims.

Mezzanine financing Mezzanine instruments such as profit participation rights, convertible bonds or warrant bonds have not been issued. Information on the possible issuance of such instruments is given in Note [12].

36 Notes to the Statement of Cash Flows

Explanation of the method used to calculate and present cash flows For a general explanation, please see the comments on the statement of cash flows in the section headed "Accounting policies and valuation principles."

Net cash flow provided by operating activities The net cash inflow from operating activities in 2013 amounted to €641 million (2012: €838 million). Income before income taxes, which is the starting point for the statement of cash flows, was minus €239 million in 2013 (2012: €660 million) after depreciation, amortization and write-downs of €717 million (2012: €378 million). Income taxes paid in 2013 amounted to €41 million (2012: €109 million). The balance of other assets and liabilities showed a year-on-year decrease of €15 million (2012: €85 million).

Net cash used in investing activities Purchases of intangible assets, property, plant and equipment led to a cash outflow of €624 million in 2013 (2012: €696 million). Cash inflows from financial assets mainly comprised proceeds from the sale of units in money market funds. A loss of €17 million for 2012 was assumed for Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, after offsetting against reserves. The acquisition of subsidiaries resulted in a cash outflow of €15 million (2012: €44 million) net of acquired cash and cash equivalents totaling €3 million (2012: €1 million) and retrospective purchase price adjustments. The cash inflows comprised €2 million (2012: €5 million) in interest received and €0 million (2012: €15 million) in receipts from other affiliates. The net cash outflow for investing activities was €342 million (2012: €674 million).

Net cash provided by (used in) financing activities A net cash outflow of €260 million (2012: inflow of €46 million) was recorded for financing activities. This included a €58 million net outflow (2012: €241 million net inflow) from proceeds and repayments of borrowings, a €119 million (2012: €123 million) outflow for interest paid and other financial disbursements, and an €83 million (2012: €72 million) outflow for the dividend paid by LANXESS AG, including €83 million (2012: €71 million) to the stockholders of LANXESS AG. Details of unused credit facilities are given in Note [35].

Cash and cash equivalents Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €427 million (2012: €386 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

37 Segment reporting

Key Data by Segment

€ million	Performance Polymers		Advanced Intermediates		Performance Chemicals		Reconciliation		LANXESS	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
External sales	5,176	4,486	1,674	1,647	2,203	2,132	41	35	9,094	8,300
Inter-segment sales	0	1	53	51	9	8	(62)	(60)	0	0
Segment/Group sales	5,176	4,487	1,727	1,698	2,212	2,140	(21)	(25)	9,094	8,300
Segment result/EBITDA pre exceptionals	817	389	305	286	281	231	(180)	(171)	1,223	735
Exceptional items affecting EBITDA	(9)	(17)	6	1	(17)	(50)	(17)	(45)	(37)	(111)
Segment assets	3,779	3,294	1,030	1,026	1,452	1,392	151	161	6,412	5,873
Segment acquisitions	36				5	18			41	18
Segment capital expenditures	455	405	104	113	139	117	36	41	734	676
Depreciation and amortization	207	253	67	76	85	87	15	22	374	438
Write-downs	2	236	0	1	2	40	0	2	4	279
Segment liabilities	988	817	505	577	598	671	588	396	2,679	2,461
Employees (December 31)	5,348	5,379	2,841	2,854	6,031	5,837	2,957	3,273	17,177	17,343
Employees (average for the year)	5,237	5,419	2,862	2,857	6,019	5,928	2,844	3,226	16,962	17,430

2012 figures restated

Key Data by Region

€ million	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
External sales by market	2,526	2,404	1,577	1,458	1,611	1,332	1,185	966	2,195	2,140	9,094	8,300
Non-current region assets	746	631	1,043	1,039	454	388	397	319	781	882	3,421	3,259
Acquisitions			36		5					18	41	18
Capital expenditures	157	135	211	229	68	46	46	50	252	216	734	676
Employees (December 31)	3,442	3,444	8,072	8,117	1,553	1,526	1,626	1,560	2,484	2,696	17,177	17,343

Notes to the segment reporting The valuation principles applied in segment reporting correspond to the uniform recognition and valuation principles used for the consolidated financial statements prepared in accordance with IFRS.

On December 31, 2013 the LANXESS Group comprised the following reporting segments:

Segment	Operations
Performance Polymers	Special-purpose rubbers for high-quality rubber products, e.g. for use in vehicles, tires, construction and footwear; engineering plastics, polyamide compounds
Advanced Intermediates	Intermediates for the agrochemicals and coatings industries; fine chemicals as precursors and intermediates for pharmaceuticals, agrochemicals and specialty chemicals; custom manufacturing
Performance Chemicals	Material protection products; inorganic pigments for the coloring of concrete, emulsion paints and other coatings; finishing agents for the leather industry; rubber chemicals; reverse osmosis membrane elements and ion exchange resins for water treatment; plastics additives such as flame retardants and plasticizers

The reconciliation eliminates inter-segment items and reflects assets and liabilities not directly allocable to the core segments including, in particular, those pertaining to the Corporate Center. The reconciliation also includes the investments of €12 million (2012: €8 million) accounted for using the equity method and the income of €0 million (2012: €1 million) from these investments (see note [3]).

The transfer prices used for inter-segment business transactions are calculated using the OECD rules as if they had been agreed upon between independent third parties in comparable circumstances (arm's-length principle).

The majority of employees reflected in the reconciliation provide services for more than one segment. They include technical service staff.

The reporting regions are those into which LANXESS's activities are organized: EMEA (Europe [excluding Germany], Middle East, Africa), Germany, North America, Latin America and Asia-Pacific.

Regional sales are calculated according to the recipient's place of business. In fiscal 2013, no individual customer of the LANXESS Group accounted for more than 10% of Group sales.

The earnings indicator used for internal management purposes in the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals (see the section headed "Value management and control system" in the combined management report for 2013). This is disclosed as the "segment result." The starting point for calculating EBITDA pre exceptionals is the operating result (EBIT), which comprises gross profit, selling expenses, general administration expenses, research and development expenses and other operating income and expenses. EBITDA pre exceptionals is calculated from EBIT by adding back depreciation and write-downs of property, plant and equipment, amortization and write-downs of intangible assets, disregarding exceptional items. The latter are effects of an unusual nature or magnitude. They may include write-downs, restructuring expenses, expenses for the design and implementation of IT projects or expenses for portfolio adjustments.

In view of the Group's central financial management, interest income and expense and income tax income and expense are not reported at segment level. The write-downs recognized in the Performance Polymers and Performance Chemicals segments in fiscal 2013 mainly comprised impairment charges resulting from the impairment tests carried out for the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals cash-generating units. Further information is contained in the section headed "Estimation uncertainties and exercise of discretion."

Reconciliation of Segment Sales

€ million	2012	2013
Total segment sales	**9,115**	**8,325**
Other/Consolidation	(21)	(25)
Group sales	**9,094**	**8,300**

Reconciliation of Segment Result

€ million	2012	2013
Total segment results	**1,403**	**906**
Depreciation and amortization	(378)	(717)
Exceptional items in EBITDA	(37)	(111)
Net interest expense	(96)	(106)
Other financial income and expense	(53)	(40)
Income from investments accounted for using the equity method	1	0
Other/Consolidation	(180)	(171)
Income (loss) before income taxes	**660**	**(239)**

2012 figures restated

Segment assets principally comprise intangible assets, property, plant and equipment, inventories and trade receivables. In particular, segment assets do not include cash and cash equivalents, income tax receivables, receivables from derivatives, or other financial assets.

Information on equity-method income is contained in Note [3]. This mainly arises from the provision of site services by Currenta GmbH & Co. OHG, Leverkusen, Germany, and is not allocated among the segments.

Reconciliation of Segment Assets

€ million	Dec. 31, 2012	Dec. 31, 2013
Total segment assets	**6,261**	**5,712**
Cash and cash equivalents	386	427
Deferred tax assets	211	254
Near-cash assets	411	106
Derivative assets	44	78
Income tax receivables	41	56
Other financial assets	14	17
Other/Consolidation	151	161
Group assets	**7,519**	**6,811**

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and write-downs in fiscal 2012 and 2013 were recognized directly in profit or loss.

Segment liabilities mainly comprise provisions, trade payables and other liabilities. In particular, segment liabilities do not include income tax liabilities, liabilities from derivatives, or other financial liabilities.

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2012	Dec. 31, 2013
Total segment liabilities	**2,091**	**2,065**
Other financial liabilities	2,334	2,317
Income tax liabilities	80	70
Derivative liabilities	14	34
Deferred tax liabilities	82	29
Other/Consolidation	588	396
Group liabilities	**5,189**	**4,911**

2012 figures restated

38 Audit fees

In 2013, total audit fees of €2,151 thousand (2012: €2,429 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,333 thousand (2012: €1,292 thousand) related to the auditing of financial statements, €485 thousand (2012: €916 thousand) to audit-related services and €333 thousand (2012: €221 thousand) to other services rendered to Group companies. The fees for financial statements audit services comprise all fees, including incidental expenses, paid or to be paid for the audits of the consolidated financial statements of the LANXESS Group and the mandatory financial statements of LANXESS AG and its German subsidiaries.

39 Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act

Declaration of Compliance with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act (AktG) and made available to stockholders on the LANXESS website.

40 Exemptions under Section 264, Paragraph 3 of the German Commercial Code

In 2013, the following German subsidiaries made use of disclosure exemptions pursuant to Section 264, Paragraph 3 of the German Commercial Code (HGB):

- Aliseca GmbH, Leverkusen
- Bond-Laminates GmbH, Brilon
- IAB Ionenaustauscher GmbH Bitterfeld, Greppin
- LANXESS Accounting GmbH, Cologne
- LANXESS Buna GmbH, Marl
- LANXESS Deutschland GmbH, Cologne
- LANXESS Distribution GmbH, Leverkusen
- LANXESS International Holding GmbH, Cologne
- Perlon-Monofil GmbH, Dormagen
- Rhein Chemie Rheinau GmbH, Mannheim
- Saltigo GmbH, Leverkusen
- Vierte LXS GmbH, Leverkusen

Responsibility Statement

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

Cologne, March 6, 2014

LANXESS Aktiengesellschaft, Cologne

The Board of Management

Dr. Bernhard Düttmann	Dr. Werner Breuers	Dr. Rainier van Roessel

Auditor's Report

We have audited the consolidated financial statements prepared by the LANXESS Aktiengesellschaft, Cologne, comprising the statement of financial position, the income statement and the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the company, for the business year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the E.U., and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the E.U. and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, March 7, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki
German Public Auditor

Carsten Manthei
German Public Auditor

Financial Calendar 2014

May 8
Interim Report Q1 2014

May 22
Annual Stockholders' Meeting

August 6
Interim Report H1 2014

November 6
Interim Report Q3 2014

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if you have any questions or comments.

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March 20, 2014.

The print version of the Annual Report 2013 will be available at our Annual Stockholders' Meeting, taking place in the LANXESS arena in Cologne, Germany, on May 22, 2014. It can also be sent by mail on request.

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