# ANNUAL REPORT 2014

LANXESS
Energizing Chemistry

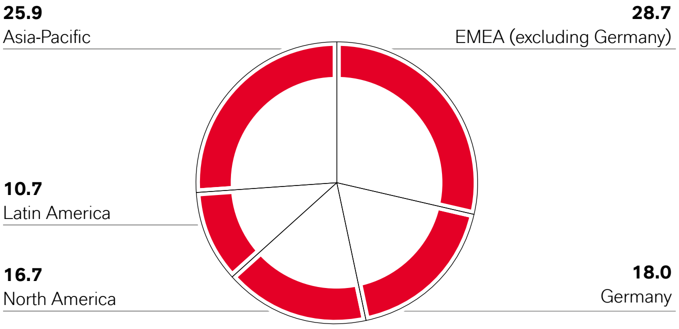
**LANXESS Group Key Data**

| € million | Q4 2013 | Q4 2014 | Change % | 2013 | 2014 | Change % |
|---|---|---|---|---|---|---|
| Sales | 2,014 | 1,904 | (5.5) | 8,300 | 8,006 | (3.5) |
| EBITDA pre exceptionals | 176 | 154 | (12.5) | 735 | 808 | 9.9 |
| EBITDA margin pre exceptionals | 8.7% | 8.1% | | 8.9% | 10.1% | |
| EBITDA | 123 | 62 | (49.6) | 624 | 644 | 3.2 |
| Operating result (EBIT) pre exceptionals | 55 | 49 | (10.9) | 288 | 402 | 39.6 |
| Operating result (EBIT) | (262) | (62) | 76.3 | (93) | 218 | > 100 |
| EBIT margin | (13.0)% | (3.3)% | | (1.1)% | 2.7% | |
| Net income (loss) | (204) | (68) | 66.7 | (159) | 47 | > 100 |
| Earnings per share (€) | (2.45) | (0.74) | 69.8 | (1.91) | 0.53 | > 100 |
| Dividend per share (€) | | | | 0.50 | 0.50[1] | 0.0 |
| ROCE | | | | 5.8% | 7.9% | |
| Cash flow from operating activities | 330 | 374 | 13.3 | 641 | 797 | 24.3 |
| Depreciation and amortization | 385 | 124 | (67.8) | 717 | 426 | (40.6) |
| Cash outflows for capital expenditures | 226 | 240 | 6.2 | 624 | 614 | (1.6) |
| Total assets | | | | 6,811 | 7,250 | 6.4 |
| Equity (including non-controlling interests) | | | | 1,900 | 2,161 | 13.7 |
| Equity ratio | | | | 27.9% | 29.8% | |
| Net financial liabilities | | | | 1,731 | 1,336 | (22.8) |
| Employees (as of December 31) | | | | 17,343 | 16,584 | (4.4) |
| Personnel expenses (€ million) | | | | 1,339 | 1,457 | 8.8 |
| Work-related injuries resulting in at least 1 day's absence (per million hours worked) | | | | 3.2 | 2.3 | |
| Energy consumption (petajoules) | | | | 53 | 53 | 0.0 |
| Total water consumption (in million cubic meters) | | | | 296 | 289.5 | (2.2) |
| Emissions of greenhouse gases ($CO_2$ equivalents in thousand tons) | | | | 1,775 | 1,751 | (1.4) |
| Emissions of volatile organic compounds (in thousand tons) | | | | 6.6 | 5.7 | (13.6) |
| Total waste (in thousand tons) | | | | 273 | 292 | 7.0 |
| Production wastewater (in million cubic meters) | | | | 32 | 31.5 | (1.6) |

1) Dividend proposal to the Annual Stockholders' Meeting on May 13, 2015

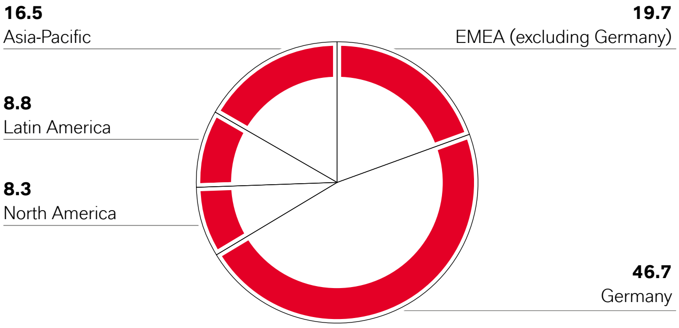
**Sales by Region**

%




**Employees by Region (as of December 31)**

%



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# Letter to Stockholders

Ladies and Gentlemen,

2014 was a year of realignment for LANXESS. Thorough analysis of our situation showed that overcapacities for rubber products, limited cost structure competitiveness and high investment commitments require us to make courageous changes if we want to restore our business to its former strength.

Although LANXESS finished fiscal 2014 with higher earnings than in the prior year, this increase did nothing to alter the fundamental challenges we face. To be successful in the future, LANXESS must become more competitive and profitable again. In the third quarter of 2014, therefore, we initiated a three-phase realignment program named “Let’s LANXESS again.” This followed the capital increase undertaken in May to give ourselves the necessary financial headroom and, at the same time, reduce our debt.

In the first phase of the program, we improved the efficiency of our corporate structure and reduced the number of our business units from 14 to 10. Additionally, we are currently reducing our workforce by some 1,000 positions worldwide – particularly in our administrative functions. Having to say farewell to the employees affected is painful for us all, which is why I am especially pleased we have been able to achieve the workforce reductions in Germany by the end of fiscal 2014 without the need for business-related dismissals.

We have also already started the second phase of the realignment program aimed at achieving improvements along our entire value chain. We expect the first results of these activities to take effect in the current fiscal year. And we have initiated the first steps of the program’s third phase as well. Here, the focus is on improving access to raw materials and customer markets.

As you can see, we are rapidly driving forward our realignment. We have already made good progress but have gone only part of the way toward restoring LANXESS to its former strength and returning the company to a path of sustainable growth. Continuing on this course, we – as a global specialty chemicals company – will not lose sight of our responsibility for people and the environment. We demonstrated our awareness of this by reaffirming our commitment to the principles of the Global Compact in 2014.

The past fiscal year was one of the most difficult in our company’s history to date. However, it reminded us of LANXESS’s early years and how substantial commitment, an effective strategy and broad solidarity enabled us to steer our company to success once before. On behalf of my colleagues on the Board of Management, I would therefore like to express my particular gratitude to our employees for their outstanding performance under difficult circumstances during 2014. I would also like to thank our customers, business partners and not least you, our stockholders, for the confidence you have shown in us. We will continue to do everything we can to ensure the future success of our company.

Kind regards,

Matthias Zachert

Matthias Zachert
(Chairman of the Board of Management)

# Management

## Matthias Zachert

**Chairman of the Board of Management**

Matthias Zachert was born in Bonn in 1967. After completing a commercial apprenticeship, he studied business administration, majoring in finance and international management. Matthias Zachert served as Chief Financial Officer of LANXESS AG from 2004 to 2011, where he had a key role in realigning the company. From June 2011, he was a member of the Executive Board and Chief Financial Officer at Merck KGaA. Matthias Zachert was appointed Chairman of the Board of Management of LANXESS AG effective April 1, 2014.

## Dr. Bernhard Düttmann

**Chief Financial Officer**

Bernhard Düttmann was born in Düsseldorf in 1959. He studied business administration at the University of Cologne, where he also obtained his doctorate. In 1989 he joined Beiersdorf AG, where he was latterly the Executive Board Member responsible for Finance/Human Resources and held regional responsibility for the Middle East, Africa and Turkey. Bernhard Düttmann was appointed by the Supervisory Board of LANXESS AG on April 1, 2011, to become the company's Chief Financial Officer.

## Dr. Rainier van Roessel

**Member of the Board of Management** (Industrial Relations Director)

Rainier van Roessel was born in 1957 in Oisterwijk in the Netherlands. He studied business administration at the University of Cologne, where he also obtained his doctorate, and joined Bayer AG in 1988. When the LANXESS organization was set up in 2004, he became Head of the Rubber Chemicals business unit, and in June 2006 he was additionally appointed Managing Director of LANXESS N.V., Antwerp, Belgium. Rainier van Roessel was appointed to the LANXESS AG Board of Management on January 1, 2007.

# Strategy

# Let's LANXESS again

A changed market environment for the rubber business, limited cost structure competitiveness and high cash outflows for major investments hampered LANXESS's economic development last year. Through our Group-wide realignment program "Let's LANXESS again," we are therefore working to make our company significantly more competitive and profitable again.

As expected, fiscal 2014 was a challenging year for LANXESS. Although we increased our key financial indicator – EBITDA pre exceptionals – compared with 2013, our earning power is still a long way from the level we achieved in previous years. Since April 2014, under the leadership of our new CEO Matthias Zachert, we have been carefully and self-critically analyzing the situation of our company.

## Key trends offering further growth

Although the consolidation measures taken in response to the sovereign debt crisis remain a significant brake on economic momentum in our European markets, the alignment of our product portfolio to the four most important global megatrends is proving to be correct in principle because continuous and above-average growth is forecasted for these four areas in the coming years as well.

Mobility With economic growth and rising prosperity, particularly in emerging nations and developing countries, our world is becoming increasingly mobile. Market research company LMC Automotive forecasts that the number of cars in use worldwide will increase by some 3% each year through 2020. However, this growth goes hand in hand with increasing emissions and higher consumption of resources. Making mobility more environmentally friendly is therefore one of the greatest technical challenges of our time. The business units in our Performance Polymers segment can use their technologies and products to significantly contribute toward mastering this challenge.

Since around one quarter of a car's fuel consumption is accounted for by its tires' rolling resistance, improving the energy efficiency of tires is the primary strategy. As the market leader in high-performance rubbers, we make it possible to combine low rolling resistance, good wet grip and durability in modern tires. Regulations mandating the labeling of new tires to show their fuel efficiency, wet grip and noise emissions – like those introduced in the European Union at the end of 2012 – are a sustainable growth driver for our business. In both the medium and long term, they will translate into an increase in demand for green tires, which can only be produced using high-tech synthetic rubber. However, the European Union is not alone in its efforts. Japanese tire manufacturers voluntarily introduced a comparable labeling system at the start of 2010. In December 2012, South Korea introduced mandatory tire labeling based on the E.U. model; the China Rubber Industry Association did likewise at the start of 2014 with its Green Tire Technology Specification. From November 2016, all tires imported to Brazil or manufactured there for the local market will have to be labeled in this way, too. Similar legislation is also being discussed in the United States.

The second approach for achieving environmentally friendly mobility is the substitution of traditional materials, such as steel or aluminum, with innovative plastics and intelligent composites. In 2014, new vehicles contained an average of around 18 kilograms of high-tech plastics. By 2019, this is likely to have increased to around 25 kilograms. These materials are easier to process than metal components. They have outstanding mechanical properties and weigh up to 50% less than their metal counterparts. By using our high-tech plastics, the automotive industry can therefore lower production costs, increase design freedom and improve vehicle safety in one single step. Other advantages include significant environmental benefits, because lighter cars consume less fuel, which also results in lower emissions.

Agriculture The steadily growing global population is probably the key driver of this megatrend. According to current United Nations forecasts, it will rise to around 9.6 billion in 2050. The Consultative Group on International Agricultural Research (CGIAR) estimates that global food production must expand by 60% by 2050 to meet the needs of this rapid population growth. The situation is compounded by changing eating habits worldwide and the growing use of crops as alternative energy sources. The product portfolios of the business units in our Advanced Intermediates segment include many key intermediates for synthesizing agrochemicals that can help farmers protect their crops and increase their yields.

Urbanization The United Nations forecasts that the proportion of city-dwellers in the world population will increase from slightly more than 50% at present to just under 70% by 2050. The urbanization trend is most evident in emerging and developing countries. It is believed that 11 new cities with more than ten million inhabitants will develop in China and India before the end of this decade. Our products are used in a large number of customer industries that are benefiting from increasing urbanization.

Water Usable water is one of the most valuable of all raw materials. Even in areas where it is available in sufficient quantities, water often cannot be used due to high levels of contamination. State-of-the-art industrial processes cannot be implemented safely and economically without ultra pure water. Studies suggest that the demand for clean water in 2030 will exceed current supply levels by around 40%. We aim to contribute to closing that gap. Products and processes marketed by our business units, especially Liquid Purification Technologies, have an increasingly important role in the treatment of drinking water, wastewater and process water.

## Structural challenges on the supply side

Three significant changes have come together on the supply side.

1. The European chemical industry – and thus also LANXESS – is increasingly experiencing cost disadvantages in the global competitive arena. While labor costs in the European Union have always been higher than in the emerging economies or the United States, now the costs of raw materials and energy supply are also increasing disproportionately. German companies are being particularly hard hit by the development of domestic energy prices.

2. New technologies and competitors are having a sustained impact on market conditions. Our established markets are being penetrated by companies from the emerging countries that are state-owned or at least supported by state subsidies. Their objectives are not always just business-related. The growing availability of shale gas in the United States and the resulting investments in energy-intensive production facilities are expected to further intensify import pressure on the European markets.

3. In particular, our competitors in the emerging economies of Asia – here especially China – have steadily reduced their dependence on imports by building their own production capacities. As a result, export opportunities to the world's growth regions are successively declining. In addition, suppliers from the Middle East and China are increasingly producing high-quality products.

Although raw material and energy prices declined during the second half of 2014, the structural developments are impacting our business with synthetic rubbers especially. Production overcapacities of some 20% already exist for the main rubber grades. Additional capacity start-ups, especially for EPDM and butyl rubbers, could make it even more difficult to correct this imbalance in the coming years. Our realignment aims to address this challenge as well.

**LANXESS Acts Sustainably**

**Good for Business**
- Strengthening the reputation and positive image of the company
- Transparency, trust and good partnership with stakeholder groups
- Satisfied employees and stakeholders
- Increasing awareness among customers and public


**Good for Society**
- Protection of climate/environment
- Social responsibility
- Training and education
- Culture
- Safety and security
- Neighborhood

## Four main success factors identified

This change process, which is being additionally accelerated by globalization, is characterized above all by the following four success factors, which will be crucial to the future competitiveness of European chemical companies.

- Innovation  Ongoing process optimization and high innovative strength in respect of both technologies and products will remain key differentiation factors for the European chemical industry in the future as well.

- Standards  Quality and service are the main characteristics which set established suppliers apart from new competitors from the emerging economies. In addition, the growing awareness of environmental and sustainability issues is increasing the significance of resource-friendly production and the need for chemical products which enhance the sustainability in use of the end products they are used to manufacture.

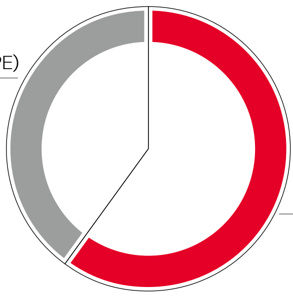
- Productivity  Especially in the synthetic rubbers business, a critical mass – i.e. an adequately large market share – is essential to achieving economies of scale in production. At the same time, cost structures must be kept lean.

- Strategy & Employees  Although the chemical industry's traditional strategy models (e.g. commodities versus specialties, global versus local presence) are still fundamentally intact, the ability to quickly adapt to even temporary changes in market conditions is gaining relevance. In this connection, the demands made on the company's employees in terms of their leadership ability, adaptability and flexibility are also continually increasing.

As far as innovation is concerned, we believe our company is well positioned because we not only reliably deliver premium-quality products to our customers, we actively support their innovation processes and thus add measurable value. In this way, we are able to strengthen customer loyalty and achieve clear differentiation from our competitors. Our research and development activities are closely allied to the needs of the market and our customers. Each business unit therefore has its own development capacities which are primarily used in product development and optimization. These are supplemented by a central organizational unit dedicated to process innovation. Further information about our research and development activities can be found in the combined management report on page 77 of this Annual Report.

**Around 60% of LANXESS's Businesses Are Well Positioned While Some 40% Face a Challenging Situation**

Sales breakdown 2014, %




| | Challenging situation | Good portfolio structure |
|---|---|---|
| Size & market position | ✔ | ✔ |
| Asset base & end-market diversification | ✓ | ✔ |
| Cost structure & processes | ! | ✓ |
| Supply/demand | ! | ✔ |
| Backward integration | ! | not needed |

✔ Well positioned  ✓ Solid, but operational improvements targeted  ! Strategic focus to address weaknesses

LANXESS also holds leadership positions in its markets in respect of standards. Some years ago already, we began aligning our organization and product portfolio to reflect the continually growing importance of sustainability and we have made steady progress in this regard. In 2014, we reaffirmed our commitment to the Responsible Care® Global Charter. The energy management system to ISO 50001 introduced at our international sites in recent years is to be certification-ready in the first quarter of 2015. Many of our production processes, like those used by our Inorganic Pigments business unit, set global standards in ecology. It is not only in the area of mobility, as described above, in which we are responding to the growing significance of sustainability by steadily expanding our sustainable product offering. Our Leather business unit, for example, successfully markets an entire portfolio of products for sustainable leather manufacture. All these activities and measures demonstrate our commitment to making safety, environmental protection, social responsibility, quality and cost-efficiency integral aspects of our business operations. "Good for business, good for society." This short sentence perfectly sums up our principle and reflects our conviction that our products and activities make a significant contribution to strengthening our customers' businesses and improving the quality of life of people everywhere. 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. Further information about our commitment to sustainability can be found in the "Corporate Responsibility" section starting on page 12.

However, our analysis has also shown a need for action relating to the Productivity and Strategy & Employees success factors. We must tangibly improve the efficiency of our business and administration processes and reposition all LANXESS's business units at all stages of the value-added chain so we can clearly substantiate a claim to excellence.

## Extensive realignment program progressing rapidly

In the third quarter of 2014, against the background described here, we initiated the three-phase "Let's LANXESS again" program aimed at the global realignment of the company. We have been working since then to consistently implement this program. In order to fund the realignment and directly strengthen our financial position, we successfully increased our capital at the beginning of May, thus expanding our equity base by around €430 million.

### Phase I: Competitiveness of the business and administrative structure

In the first phase of the program, we consolidated the number of our business units from 14 to 10 with effect from January 1, 2015. The Butyl Rubber and Performance Butadiene Rubbers business units were merged to form the Tire & Specialty Rubbers business unit. This decision was based on overlapping customer structures, regional commonalities in the established markets and changed conditions in the emerging economies. Furthermore, LANXESS consolidated the High Performance Elastomers and Keltan Elastomers business units in

**"Let's LANXESS Again" – A Three-Phase Realignment Program Is Being Implemented**

**Leaner and More Effective – The New Alignment of Our Business Units**

| Previous segment | Business units | Sales | New segment | Business units | Sales |
|---|---|---|---|---|---|
| **Performance Polymers** | Butyl Rubber | > €500 million | **Performance Polymers** | Tire & Specialty Rubbers | > €500 million |
| | Performance Butadiene Rubbers | > €500 million | | High Performance Elastomers | > €500 million |
| | Keltan Elastomers | > €500 million | | High Performance Materials | > €500 million |
| | High Performance Elastomers | €200 million – €500 million | | | |
| | High Performance Materials | > €500 million | | | |
| **Advanced Intermediates** | Advanced Industrial Intermediates | > €500 million | **Advanced Intermediates** | Advanced Industrial Intermediates | > €500 million |
| | Saltigo | €200 million – €500 million | | Saltigo | €200 million – €500 million |
| **Performance Chemicals** | Material Protection Products | < €200 million | **Performance Chemicals** | Material Protection Products | < €200 million |
| | Inorganic Pigments | €200 million – €500 million | | Inorganic Pigments | €200 million – €500 million |
| | Functional Chemicals | €200 million – €500 million | | Rhein Chemie Additives | > €500 million |
| | Leather | €200 million – €500 million | | Leather | €200 million – €500 million |
| | Rhein Chemie | €200 million – €500 million | | Liquid Purification Technologies | < €200 million |
| | Rubber Chemicals | €200 million – €500 million | | | |
| | Liquid Purification Technologies | < €200 million | | | |

■ Sales: > €500 million □ Sales: €200 million – €500 million ■ Sales: < €200 million

the High Performance Elastomers business unit. Here, too, there were substantial overlaps in customer structures. The specialty chemicals product line of the Rubber Chemicals business unit, the Functional Chemicals business unit and the Rhein Chemie business unit now comprise the new Rhein Chemie Additives business unit. Consolidating our additives business operations will enable us to access new markets and customers. The antioxidants and accelerators product lines of the Rubber Chemicals business unit are being integrated into the portfolio of the Advanced Industrial Intermediates business unit.

We have also streamlined the administration of our company through cross-functional workforce reductions worldwide and the consolidation of group functions. The Aliseca, Industrial & Environmental Affairs and Innovation & Technology group functions have been merged to form the new Production, Technology, Safety & Environment Group Function. Legal & Compliance integrates the former Internal Auditing and Law and Intellectual Property group functions with Corporate Security.

A more efficient organizational structure is intended not only to foster market and customer proximity but also to sustainably improve our cost position. From the end of 2016, we aim to achieve annual savings of around €150 million through the key measures described here and a large number of additional optimizations in our business units and group functions. By that time, the first phase of the realignment should result in a reduction of about 1,000 positions worldwide – roughly half of them in Germany. The responsible employee representatives have been involved in the process. In connection with these job reductions, we anticipate exceptional charges totaling around €150 million through 2016 – some €110 million of which were already posted in fiscal 2014.

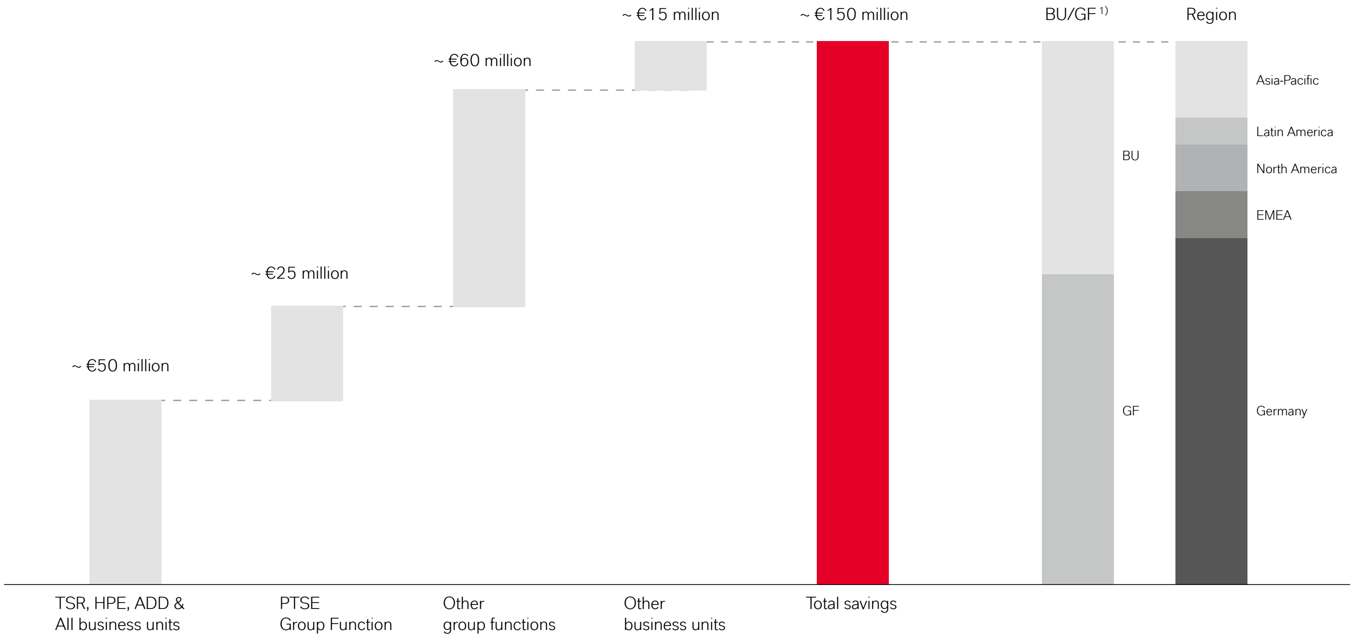
## Phase II: Operational competitiveness

As part of the second phase of the “Let’s LANXESS again” program, we started two excellence initiatives focusing on our operational competitiveness. A manufacturing excellence initiative is examining the possibility of temporary or permanent plant closures and analyzing all production processes and facilities with respect to market requirements and potential synergies. The primary objective through 2016 is to establish a distinct improvement culture in our production operations and implement best practices as far as possible across the board. In the second instance, we aim to identify production facilities which are not sufficiently competitive as things stand at present. On conclusion of our analysis, we cannot rule out the possibility that entire sites may be shut down either temporarily or permanently. At the same time, a further initiative is focusing on commercial and supply chain excellence. Important objectives in this respect are the critical analysis of our current marketing strategies, the greatest possible harmonization and automation of processes, leaner legal structures and the identification of potential synergies between our business units and within individual regions. We are seeking to develop an implementation-ready concept by mid-2015.

## Phase III: Competitiveness of the business portfolio

We have already initiated the first steps of the program’s third phase as well, which must be considered in close conjunction with the second phase. Here, the focus is on examining portfolio options with a view to improving access to raw materials and customer markets – also through strategic partnerships. One possible option could be vertical

**"Let's LANXESS Again" – Phase I Focused on Reducing Administrative Costs**




1) BU business unit
GF group function

cooperation with a petrochemical company to secure our supply of key raw materials in the long term and thus strengthen our cost position. Especially in the rubber business, horizontal cooperation could also be envisaged. For example, we could work with a strategic partner to optimize the joint asset base for a certain type of rubber. During fiscal 2015, we aim to develop and announce concrete steps for the third phase.

## Sustainable improvement of our financial position

**Clear Capital Allocation Priorities**

| Until 2016 | Beyond 2016 |
|---|---|
| 1. Debt repayment<br>2. Restructuring<br>3. Growth<br>4. Dividends | 1. Portfolio management<br>2. Dividends<br>3. Organic growth<br>4. Debt repayment<br>5. Share buybacks |

With our "Let's LANXESS again" program, we are not only seeking to strengthen our operational competitiveness but also to sustainably improve our financial position. In doing so, the aim is always to safeguard our investment-grade rating. Alongside the cost savings already described, this is to be achieved above all by a far more selective approach to investments in the future. As a result, cash outflows for investment activity in 2016 are to be as much as €200 million below the current level. In this way, we aim to create the financial headroom we need in order to redirect our strategic focus beyond 2016 toward growth.

## Beyond 2016: moderate growth, a balanced portfolio, reduced cyclicality

One important pillar of our future growth strategy will be the expansion of our position in less cyclical businesses. We are therefore strengthening our focus more than before on the Advanced Intermediates and Performance Chemicals segments.

As far as Advanced Intermediates is concerned, we are aiming to continually expand in line with global GDP growth. This is to be achieved by, in particular, debottlenecking production, efficiency enhancements and investments in existing facilities. We will examine any options for acquisitions that arise. Moderate growth is also the objective for Performance Chemicals. We aim to achieve this by expanding our global presence through both organic growth and acquisitions. We plan to continue expanding our asset base in Asia especially. We also intend to improve our profitability by consolidating businesses with similar customer industries in our portfolio.

Against the backdrop of intact demand development and our strong market positions, we are confident that the Performance Polymers segment will successively benefit in the future from our investment activities to date. We will concentrate here on selective organic growth accompanied by ongoing efficiency enhancements and an investment policy aligned to maintenance.

## Outlook

We anticipate that our earnings in fiscal 2015 will be influenced by the persistently challenging competitive environment, especially for our synthetic rubber businesses. Additional effects will likely come from the ramp-up costs for our new rubber plants and the associated idle capacity costs. We do not expect any significant momentum for our business development from the slight growth forecast for the global economy.

2015 for us will be very largely shaped by the implementation of our "Let's LANXESS again" realignment program, with the focus especially on the ongoing measures comprising its second and third phases.

We predict EBITDA pre exceptionals for the full year 2015 to be just about on a comparable level to 2014. This takes account of the anticipated cost savings from the realignment initiated in the reporting year.

With around €2 billion in cash and undrawn credit lines, we have a very good liquidity and financing position which will enable us to safeguard our entrepreneurial flexibility and implement our ongoing realignment program.

LANXESS remains well positioned with its product portfolio in the relevant customer industries and key global markets. We are convinced that we can restore our business to its former strength in the medium term by making our organizational structure more efficient, improving competitiveness at all stages of the value-added chain and adjusting our portfolio to reflect structural market changes.

# Corporate Responsibility

# Corporate Responsibility

As an international specialty chemicals group, we bear a major responsibility toward people and the environment. Our entrepreneurial activities reflect this sense of responsibility, which is also a key component of our strategy. Safety, environmental protection, social responsibility, quality and commercial efficiency are all key corporate goals at LANXESS.

## Good for business, good for society

In the firm conviction that economic success and social values and benefits may be mutually profitable, LANXESS's approach can be summed up by the sentence: "Good for business, good for society." Our Corporate Responsibility (CR) activities focus on climate protection, water, education and cultural involvement. All measures are linked to our core business and should benefit it in the long term.

## Clearly defined responsibilities

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

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

The HSEQ Committee, comprising LANXESS's senior executives under the direction of Board of Management member Dr. Rainier van Roessel, is tasked with ensuring worldwide compliance with uniformly high quality management, safety, environmental and climate protection standards. The committee has responsibility for initiating and monitoring the global implementation of all necessary HSEQ guidelines, strategies and programs, as well as for defining our HSEQ objectives and monitoring their achievement. It also defines the global strategy for our integrated quality and environmental management system in accordance with ISO 9001 and ISO 14001.

The Compliance Committee, which is made up of representatives from a range of specialist backgrounds, handles all referrals concerning compliance violations, with the goal of countering illegal or unethical conduct by LANXESS employees at an early stage and introducing suitable measures to prevent improprieties.

## Integrated management system drives success

At LANXESS, a central management system provides the necessary global structures to ensure responsible commercial practices. With this toolbox, we have created a transparent framework of values and rules that unites management and employees across national borders. Worldwide, we are guided by internal directives and operating procedures and by the international quality and environmental standards ISO 9001 and ISO 14001.

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 2014.

As of December 31, 2014, our matrix certificate covered 46 companies with 76 sites in 23 countries. In 2014, the new butyl rubber production facility in Singapore was included in the certificate for the first time as planned. Our sites in the United States have also received confirmation of certification to RC 14001 (RC = Responsible Care®). In 2015, we plan to integrate the sites at Epierre, France, and Lipetsk, Russia, into the matrix certificate.

HSEQ (health, safety, environmental protection and quality) management is an important part of our integrated management system. We have aligned our HSEQ management system toward ensuring uniform standards and reference bases for all our sites worldwide. The key performance indicators (KPIs) required for this purpose are recorded electronically, thus enabling us to systematically determine and analyze performance in each business unit and at each site and to develop this sustainably in the future.

## Comprehensive values system established

All management systems are based on values and guidelines that provide a clear framework for a company's management and employees. Our system is based on established global standards and on our company's own basic rules, which are subject to ongoing amendment.

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

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

"The company respects applicable law and requires its employees and business partners to do likewise." This is the key statement of our Compliance Code and expresses our basic guiding principle – that each of our decisions and activities must satisfy this premise, irrespective of the aims we are pursuing or the conditions we face. In the first instance, we define applicable law as any applicable international or national legislation in the jurisdictions in which LANXESS operates. Moreover, human rights and ethical principles are considered to take precedence in all cases, even if they are not stipulated in the applicable legislation. In this context, we have also signed the U.N. Global Compact, and recognize the principles it sets forth as inalienable rights. In the Annual Report 2013, we reaffirmed our commitment to these principles for the year under review. You can find more information about the Global Compact at www.unglobalcompact.org. We consider the stated principle of legality and ethical behavior to be more than just compliance issues. Instead, we see them as inextricable aspects of our corporate responsibility and sustainability culture.

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

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

**The Ten Principles of the Global Compact**

| Area | Principle |
|---|---|
| **Human rights** | 1) Businesses should support and respect the protection of internationally proclaimed human rights.<br>2) Businesses should make sure they are not complicit in human rights abuses. |
| **Labor** | 3) Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.<br>4) Businesses should uphold the elimination of all forms of forced and compulsory labor.<br>5) Businesses should uphold the effective abolition of child labor.<br>6) Businesses should uphold the elimination of discrimination in respect of employment and occupation. |
| **Environment** | 7) Businesses should support a precautionary approach to environmental challenges.<br>8) Businesses should undertake initiatives to promote greater environmental responsibility.<br>9) Businesses should encourage the development and diffusion of environmentally friendly technologies. |
| **Anti-corruption** | 10) Businesses should work against corruption in all its forms, including extortion and bribery. |

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

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

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

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

Compliance risks are regularly analyzed by the Compliance Committee and presented to the Board of Management for discussion. They are evaluated according to the likelihood of occurrence and damage potential. Risk exposure is analyzed both for business areas and countries, and Risk Officers are appointed accordingly. Wherever possible, early-warning indicators and monitoring instruments are defined and countermeasures initiated to reduce the risks identified. The principal risk exposures we have identified relate to antitrust law (horizontal), competition law (vertical), anti-corruption, export control, environmental and safety regulations, data protection, product liability, insider trading, discrimination, accounting law and – being closely related to compliance – fraud (against the company).

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

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

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

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

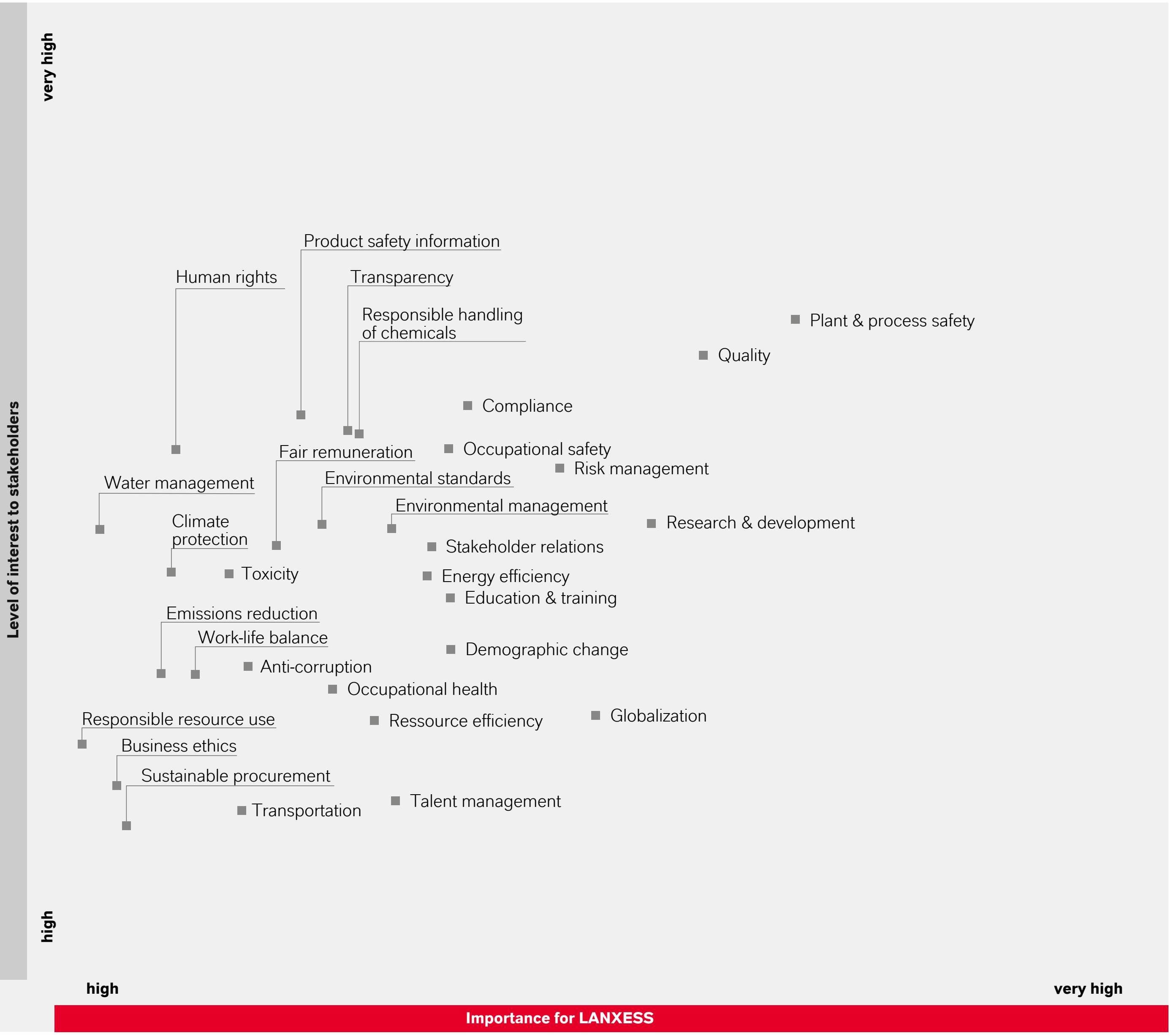
Responsible Care® Transparency and improved public dialogue are among the stated objectives of the Responsible Care® Global Charter launched by the International Council of Chemical Associations (ICCA). This is the only way to build confidence and trust in an industry that has a crucial role in improving people's living standards and quality of life. We have supported this initiative since 2006, when we also became one of the signatories to the ICCA charter. By signing the revised Responsible Care® Global Charter in 2014, we reaffirmed our commitment to the visions and ethical principles of the initiative. For us, applying the Responsible Care® Global Charter to our business means consistently working to improve our processes and services in terms of environmental and climate protection, health, safety and quality. Our corporate directives ensure that the principles of the charter are integrated into our management principles and corporate strategy.

We also expect our suppliers to commit to our values and rules, especially the Global Compact, and establish adequate systems to ensure legally compliant behavior and carry ethical behavior throughout their organizations. The LANXESS Supplier Code of Conduct is part of our communication with suppliers. Reviewing compliance with these requirements is a key aspect of our collaboration in the Together for Sustainability initiative we operate jointly with 11 other international chemical companies (see page 75). Additionally, in the course of acquisitions, we make it a principle of our due diligence processes to ensure that human rights are also respected by the target company.

## Active stakeholder dialogue

The stakeholders of relevance to LANXESS are the groups, institutions and people with whom we are linked directly or indirectly through our business units and who therefore have a justified interest in our activities. Our most important stakeholder groups are customers, employees, suppliers, capital market participants, the media, neighbors of our sites and representatives of politics, public authorities and NGOs. We conduct an intensive dialogue with all these groups with the aim of identifying topics that they consider to be significant in terms of corporate responsibility. At the same time, we seek to encourage mutual understanding and build trust through an open and constructive exchange of views.

**LANXESS Materiality Matrix (as of June 18, 2014)**



## First materiality analysis performed

In order to optimize our sustainability strategy and utilize resources in the most effective way possible, it is essential to systematically prioritize the various areas of activity. In this regard, we consider the materiality analysis as defined by the Global Reporting Initiative to be an important tool.

We performed an analysis of this kind for the first time in May 2014, questioning sustainability experts in our group functions and business units. The issues identified were evaluated from our internal viewpoint and an estimate was made of their importance to external stakeholders. This was additionally compared with external analyses, including those involving the supply chain. The resulting materiality matrix shows the central sustainability issues for LANXESS.

As a chemical company, we are focusing particularly on high-priority issues such as plant and process safety and occupational health and safety. With “Xact,” the Board of Management’s global initiative (see page 28), we are striving to achieve continuous improvements in occupational, plant and process safety and thus systematically and sustainably improve environmental and health protection worldwide. Compliance (see page 14) and other related aspects are particularly important.

We meet the request for a transparent portrayal of sustainability in our supply chain through the Together for Sustainability initiative mentioned above. This is described in detail in the combined management report on page 75 of this Annual Report. Our Diversity & Inclusion initiative (see page 24) also incorporates suggestions received in our stakeholder surveys. In our combined annual and sustainability report, we regularly provide comprehensive information about progress in the aforementioned areas as well as in other areas our stakeholders view as important.

In the future, we will utilize the materiality matrix as an important framework in prioritizing our sustainability activities. To this end, we are planning further surveys as a means of externally validating the results of our internal analyses.

## Customer satisfaction as a success factor

Customer satisfaction and customer loyalty are among the most important success factors to us. Our central inquiry management system provides customers with information about our products, their applications and potential risks and with product certificates. Critical feedback from customers gives us valuable pointers for improving our products and processes. We have established a global customer complaint management system backed by a Group-wide guideline. The aim is to quickly and competently address customer issues so as to establish a sustained bond between the customer and us.

The customer surveys we conduct every two years use recognized opinion research methods and also provide us with vital information about the loyalty of our customers, their expectations and how they perceive our services compared to those of our competitors. In line with our aim, we increased the number of customers contacted in 2013 by 40% compared with the previous survey. The next customer survey is planned for 2015.

Our daily commitment to high product quality and customer satisfaction is regularly recognized and honored with awards and prizes. For example, LANXESS’s Leather business unit was named one of the best nine Launch Nordic Innovators 2014 for the Green Leather Crust concept. Launch Nordic is a platform that helps promising innovations gain access to investors, customers and multiplicators. Among the partners in the global Launch initiative are government bodies and well-known companies such as Nike and Ikea. For the third time after 2009 and 2011, our Inorganic Pigments business unit received the Certified Supplier of the Year Award for outstanding service, inventory management and quality from Sherwin-Williams, a well-known U.S. producer of coatings and building materials.

## Maintaining efficient networks

We are very aware that no single organization alone – company, government, research institute or NGO – will be able to master the major societal challenges of our time. Alongside our own CR activities, we are therefore participating in establishing powerful global networks where we combine our competence in sustainable development with the expertise of other partners. As well as state institutions, NGOs in particular – with their extensive expert knowledge of specific issues – have a crucial role here.

Since 2013, for example, we have been supporting “Chemie³,” the joint sustainability initiative of the German Chemical Industry Association (VCI), the German Mining, Chemical and Energy Industrial Union (IG BCE) and the German Chemical Industry Employers’ Association (BAVC). The initiative focuses on the Guidelines for Sustainability in the Chemical Industry in Germany, which encompass a total of 12 areas of activity and were formulated with input from internal and external stakeholders. They are a mission statement for the industry, supporting companies and their employees in expanding their contributions to sustainability.

In addition to trade shows, high-level congresses provide us with an important forum for discussion with potential and existing business partners, competitors, scientists and opinion leaders on current developments and future challenges in our business areas. In 2014, for example, a member of our Board of Management participated in the main discussion panel at the “auto motor und sport” Congress, which addressed issues such as how modern materials can help the German automotive industry to satisfy increasingly stringent emission guidelines and thus make mobility more environmentally compatible.

We also conduct an open dialogue with government representatives and with authorities on local, European and international level. The focus is on an active exchange of ideas on strategic corporate issues such as environmentally friendly product and process innovations, developments on raw material and energy markets, and issues relating to the labor market and education policy. Our own offices in Berlin and Brussels place us close to the center of political decision-making.

Another important element of our stakeholder communication is structured dialogue with residents in the immediate vicinity of our sites. Since fall 2013, for example, our affiliate Currenta has been operating Chempunkt neighborship offices in Leverkusen, Dormagen and Krefeld-Uerdingen to serve as a point of contact for local residents interested in discussing issues concerning the Chempark sites, where LANXESS has many production facilities. The response has been consistently positive and many people have already taken the opportunity to ask questions, attend events or acquire information material.

## Employees

Our entrepreneurial success is fundamentally based on our employees' professionalism, implementation skills and sense of responsibility. Only through their ongoing training and development – especially aimed at strengthening their willingness to learn and change – can we safeguard our company's ability to continuously adapt to complex market challenges and sustainably improve LANXESS's competitiveness.

### Amended HR strategy in support of realignment

Our HR strategy remains focused on four central areas of activity, within which we provide a range of innovative tools that are constantly being adapted to meet new requirements.

The strategic development of the HR function initiated in 2013 was integrated into the "Let's LANXESS again" program in 2014. Within the context of our realignment, leadership, dialogue, organizational consulting and change management were special areas of focus for the HR organization. Alongside the operational implementation of global job reduction measures, HR also developed a change leadership concept in support of the personnel adjustment process at all levels of the company. In addition, the HR Business Partners especially are cooperating with the HR country functions to advise all business units and central functions on the design and implementation of the new organizational structure worldwide.

**Innovative and Stringently Applied HR Strategies Support our Sustainable Growth**

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

**New Employees** by Age Group, Gender and Region

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age group** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| < 20 | | 2 | 2 | 6 | | | 1 | 5 | | |
| 20–29 | 5 | 19 | 5 | 37 | 3 | 12 | 9 | 26 | 31 | 191 |
| 30–39 | 2 | 14 | 1 | 13 | 4 | 13 | 5 | 22 | 20 | 95 |
| 40–49 | 4 | 8 | | 8 | 1 | 9 | | 7 | 6 | 27 |
| 50–59 | 3 | 1 | | 3 | 2 | 6 | | 1 | 3 | 3 |
| ≥ 60 | | | | | | 2 | | | | 1 |
| **Total** | **14** | **44** | **8** | **67** | **10** | **42** | **15** | **61** | **60** | **317** |

The realignment of the LANXESS Group is reflected in our global headcount. A total of 638 new employees joined the company worldwide in fiscal 2014. 75 new employees were hired in Germany, where our focus was on the recruitment of specialists from various disciplines. At the same time, some 1,000 positions in administration and service units, marketing, and research and development worldwide were identified for elimination by 2016 as part of the first phase of our realignment (competitiveness of the business and administrative structure).

Against the backdrop of this headcount adjustment program, we recorded an increase in turnover during the reporting period. In Germany, the turnover resulting from voluntary resignations was 0.69% in the reporting period. Globally, it was around 3.29%.

## Recruiting talents worldwide

As part of our sustainable corporate policy and against the backdrop of demographic change, LANXESS is continuing to invest in well-qualified young talents – both apprentices and university graduates – and experienced specialists.

By means of various activities, we aim to attract, integrate and retain those talents who are the best fit for our company. Through our dialogue-based programs, we have succeeded in conveying an authentic image of LANXESS as an employer. In 2014, we consistently optimized our market presence aimed at attracting apprentices and specialists and aligned this for the long term to our future needs.

**Turnover** % Resulting from Voluntary Resignations (Excluding Reduction Programs)

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age group** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| < 20 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 88.9 | 0.0 | 0.0 |
| 20–29 | 4.4 | 5.0 | 4.9 | 3.1 | 11.7 | 5.9 | 11.1 | 5.1 | 20.8 | 18.0 |
| 30–39 | 4.4 | 2.2 | 0.4 | 1.4 | 4.9 | 9.1 | 7.4 | 5.2 | 9.6 | 7.5 |
| 40–49 | 1.4 | 1.7 | 1.4 | 0.4 | 9.9 | 5.0 | 0.0 | 1.3 | 9.8 | 5.0 |
| 50–59 | 1.1 | 1.5 | 0.0 | 0.1 | 2.3 | 4.2 | 0.0 | 0.7 | 10.4 | 2.7 |
| ≥ 60 | 0.0 | 8.0 | 0.0 | 0.0 | 17.3 | 20.7 | 0.0 | 0.0 | 36.4 | 12.9 |
| **Total** | **2.9** | **2.2** | **1.0** | **0.6** | **7.1** | **7.0** | **6.2** | **3.3** | **12.6** | **9.0** |

**Turnover** % by Region

| | EMEA (excluding Germany) | Germany | North America | Latin America | Asia-Pacific |
|---|---|---|---|---|---|
| Turnover resulting from voluntary resignations | 2.3 | 0.7 | 7.0 | 3.8 | 9.7 |
| Turnover including restructuring programs | 8.8 | 5.3 | 14.0 | 11.3 | 12.4 |

Our corporate culture is characterized by trust and the opportunity to work independently in an international environment. In order to achieve our corporate goals, it is essential that we remain flexible and open to change in the areas of recruiting and talent management as well and that we adjust our concepts and structures accordingly. When faced with challenging markets and operating conditions, we expect our employees to display a high degree of professionalism, flexibility and willingness to change. In return, we offer a wide range of development opportunities, including foreign assignments, collaboration in interdisciplinary projects and transfer between business units and central functions.

In fiscal 2014, we continued to seek direct contact with talented university and school students through dialogue with universities and our presence at scientific conferences and by organizing our own events. At the forefront of all these activities was personal dialogue with each target group. During the reporting period, we motivated more than 200 students to venture out of the classroom and gain work experience with LANXESS in Germany. As a result, around 30 bachelor's and master's theses were produced in collaboration with our company.

Interns who display above-average qualities have the opportunity to receive further support through our "eXclusive" talent program. This includes personal coaching and preferential access to further training opportunities. The long-term goal is to give preference to candidates who have completed the "eXclusive" program when filling vacant positions within the company.

We are especially committed to fostering young talents during their undergraduate or PhD study programs and facilitating their successful career start. To enable the smartest minds to realize their full potential, we specifically sponsor outstanding master's and PhD students in scientific and engineering subjects through the LANXESS support program. Here we value personal contact as much as the provision of financial support. Other features of the program include an active exchange of information on specialist and career-related issues, the opportunity to gain practical insights into the working day of a specialist and interesting get-together events.

In 2014, LANXESS continued to support more than 50 students at eight renowned universities as part of the German government's "Germany Scholarship" program. The scholarship holders receive a monthly payment of €300. The company pays €150 of this amount and the remaining half is shared equally by the German government and the state of North-Rhine Westphalia. In addition, we offer our scholarship holders individual guidance. We expanded our collaboration with many universities, for example supporting the Cologne University of Applied Sciences in introducing and developing a master's degree program in technical chemistry.

At our French production site in Port-Jérôme, we are developing a number of activities aimed at recruiting young people. These range from regular site visits by teachers and students to internships in maintenance shops, laboratories and HSE units.

In Brazil, we are continuing to offer an internship program with a special part-time contract to students in the concluding stages of their degree programs. They are given responsibility for a project of their own, the results of which will later be presented to top management. This attractive offering targets the best of a year group, enabling us to attract local young talents who bring new expertise to the company. In addition, we maintain close ties with the Universidade Federal do Rio de Janeiro (UFRJ), providing scholarships to master's students that enable their participation in special studies to develop new processes in rubber technology. We also offer more than 50 positions at our sites, both in vocational training and, for students, in operations.

In China, we have further expanded our collaboration with the Changzhou Institute of Engineering (CZIE) and entered a new partnership with Ningbo Polytechnic (NBP). We share practical and scientific expertise with the students by means of a "LANXESS class," give them the opportunity to visit our production facilities and provide early insights into the working world through internships – thus arousing their interest in working for LANXESS. We also continued our collaboration with Qingdao University of Science and Technology and our careers program with high schools partnered by the Goethe Institute.

In view of our major investment projects in Singapore, we also expanded our contacts with renowned universities there. We are now cooperating with the Singapore University of Technology and Design (SUTD), the National University of Singapore (NUS) and Temasek Polytechnic. In this context, we offer selected students customized internships in the fields of HSE, engineering and quality.

In Pittsburgh, United States, we continue to support the Carnegie Science Center in a variety of ways – for example, as a founding sponsor of the Center for STEM (Science, Technology, Engineering and Mathematics) Education and Career Development. We initiated a new partnership with the Community College of Beaver County (CCBC) close to Pittsburgh. This college started a two-year program for process technicians in January 2015 and LANXESS is one of several industry partners.

In fall 2014, we also entered into a new partnership with the Schey Sales Centre at Ohio University, one of the first and highest ranked academic programs for sales training in the United States. We offer students on this program internships in sales at LANXESS or entry-level positions in sales and marketing on completion of their degree. This partnership with Ohio University is a cornerstone of our efforts to build a regional sales and marketing talent pool.

In Canada, we maintain close contacts with Western University, offering post-doctoral internships at our research center in London, Ontario. We provide the Polymer Research Institute at the University of Waterloo with financial and intellectual support in the form of, for example, the transfer of know-how.

Establishing early contact with schools close to our sites in Germany and around the world, for example as part of specialist project weeks, and promoting science education at local high schools are two of the other focal points of LANXESS's extensive education initiative As a company, we consider this initiative to be part of our social and corporate responsibility.

International partnership with Teach First Our special commitment to education is also reflected in our partnership with Teach First in Germany and Teach for India in India. We have been one of the main sponsors of these not-for-profit organizations since 2010. Teach First, which is already established in a number of countries, has set itself the goal of helping school students who have had a difficult start in life, fostering their individual talents and supporting them in developing career prospects. Particularly highly qualified university graduates from all disciplines, who also have the requisite soft skills, act as fellows for a period of two years, helping schools in socially disadvantaged areas with education and schooling tasks. In Germany, we focus particularly on supporting fellows specializing in mathematics and science. The most recent intake of fellows started a two-year deployment in schools in North Rhine-Westphalia in February 2013. In addition to providing financial support, we are also making a practical contribution through activities such as career guidance for school students and personal dialogue with fellows.

We started working with Teach First in India in December 2010 and extended this commitment in 2014 for a further five years. The first fellows assigned to the Indian partner schools in Mumbai and Delhi were given the opportunity to complete internships at our sites in India as part of the program. The school students they support are also given career guidance and an insight into working life through visits to our facilities. In addition, LANXESS employees provide direct support for projects in the schools in their free time.

## Structured development of young managers

In recent years, our international trainee programs have proved very successful. Particularly highly qualified university graduates are prepared for challenging specialist and management roles within the company, already gaining international experience during the program. Latterly, the focus was on controlling, finance and engineering. Since the initiative started, we have offered a wide range of trainee positions to more than 70 university graduates with an interest in embarking on an international career. On account of LANXESS's realignment activities, no new international trainee programs were started in 2014. However, we continued those programs that were already ongoing.

We also continue to offer local trainee and student programs in a number of regions. In the United States, we cooperate with establishments such as the University of Pittsburgh to provide trainee and intern programs in the fields of finance and engineering. We also organize a special Summer Internship Program.

As well as offering internships, partnering universities and attending career fairs, we are piloting a rotation program for engineers aimed at arousing their interest in LANXESS and binding them to our company in the long term. Two young female engineers have already completed their half-year rotation in Industrial and Environmental Affairs and will soon end their respective one-year placements in two business units. The next stage of the program is scheduled to be an international assignment.

LANXESS in India has established three "XTrainee" programs structured individually for students, graduates and prospective managers. Participants in these programs are given a specific project to work on and are supported by a mentor. In 2014, 36 students, graduates and prospective managers received training and guidance in one of these programs. LANXESS in India continued its cooperation with the Indo-German Training Centre (IGTC) in Mumbai and Chennai, acting as a training partner for a postgraduate business administration program. The company is also running a further one-year structured training program for 14 young people in collaboration with the Industrial Training Institute (ITI) which allows them to continue their training after completing an apprenticeship as a production specialist or technician.

## Vocational training – an integral part of our recruiting strategy

Vocational training is an integral part of our recruiting strategy aimed at developing our own skilled workers for our German sites. In 2014, 147 young people (118 men and 29 women) joined our core companies in Germany to start a vocational training or combined vocational training and study program at LANXESS.

With a total of 496 trainees in 19 different career paths and seven combined vocational training and study programs (as of December 31, 2014), LANXESS continues to train more young people than it needs to meet its own requirements. In 2014, despite our restructuring program, we hired around 75% of those who completed their vocational training with us in Germany.

LANXESS has always given priority to training young people as a means of safeguarding the company's future and as an element of our social responsibility. As in previous years, the focus of marketing activities for our vocational training programs in 2014 was on a personal presence achieved by means of visits to schools and our own events such as "NeXt Azubi" (NeXt Apprentice) through which we specifically address young people with an interest in our company and give them valuable guidance for their career choices. In the reporting year, we offered almost 200 two-week placements to high-school students to give them an insight into working life. We also attended all major regional career fairs and took part in Germany's Girls' Day, providing girls with a deeper insight into technical areas of activity in our company. For the first time, we took part in Germany's Boys' Day, giving boys an impression of management assistant roles at LANXESS's headquarters in Cologne. 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.

## Encouraging and supporting individual development

In a multitiered process of global HR development conferences, we annually review the performance, potential, development needs and future career planning of all our managerial employees around the world. During 2014, we piloted the Executive Database as a new tool to facilitate the matching of candidate profiles with the results of the conferences. In this connection, we are also revising our talent management and succession planning processes. The results of these reviews form the basis for detailed feedback discussions between managerial staff and their supervisors. We have also established individual assessment centers aimed at identifying the potential of mid- and high-level managers and diagnosing the suitability of external applicants for key positions. The results of this multidimensional approach are an integral part of our HR development and recruiting strategy.

We do not impose a uniform leadership style on our managers. Instead, we expect them to find a personal balance between strategic vision (Head), empathy (Heart) and the courage to make decisions (Guts). Our management philosophy thus focuses on a holistic approach. The associated skills serve as guidance, with our managers' individual leadership strategies taking the forefront. Within the context of our realignment activities, we continued to offer the Performance Management Workshop developed in 2013, which consolidates the principal elements of the leadership seminars for our managers at various levels and focuses on practical leadership skills and motivation for teams undergoing change processes. Feedback remained positive and confirmed that the concept successfully fosters dialogue between managers and employees during periods of transition.

We also support our managerial staff through a wide range of individual development opportunities that include personal coaching. We regularly revise our internal coaching processes to maximize the sustainability of development measures.

Training and development are significant aspects of personnel development at all levels. Alongside formal training sessions and seminars, which amount to 13,838 hours a year in France, for example, there are many informal measures such as mentoring and peer-to-peer coaching which foster continuous knowledge sharing between employees across the company. Peer-to-peer coaching is the approach also taken in our change leadership program, which uses multipliers and supports the realignment process in all areas of the company.

In 2014, the existing Summer Academy in Germany was expanded with a new concept. Throughout the summer months, some 130 employees (62% men and 38% women) from various business units took part in the LANXESS Summer Campus. In a total of 11 training sessions, they were able to improve their hard and soft skills and participated in an intensive interdisciplinary exchange of experiences. The program was available for the first time to all specialist and managerial employees at LANXESS's sites in Germany. During the rest of the year, it was complemented with in-house training events that specifically addressed the employees' needs at the time.

Under the umbrella of the LANXESS Academy, we continued offering functional training for our global sales employees in 2014. 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. We consistently implemented the program following its reworking in 2013. Each module now addresses one overarching topic and the modules are highly integrated. Module 1 covers negotiation preparation while Module 2 focuses on negotiation management. In Module 3, participants are confronted with challenging negotiation scenarios. ILSA now gives participants numerous opportunities for self-reflection so they can identify and manage their individual strengths and weaknesses. Continuous feedback sessions with the participants' direct supervisors and personal reviews with the ILSA trainers are aimed at ensuring that the program contributes to optimizing sales activities and thus adds value for LANXESS.

ILSA 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, around 250 sales employees from all levels worldwide have taken part in the program.

We are presently working to develop a regional version of the ILSA program which, from 2015, will give more of our sales employees worldwide access to this training content while reducing the amount of travel and time involved. The program is being streamlined and focused to reflect regional specifics.

In 2014, we implemented regional programs in other areas of personnel development as well. With 14 participants each, two special development programs in North America – the LANXESS Business Academy (LBA) and the Personalized Development Process (PDP) – entered their final phases in the first two quarters of the year. Both programs were designed to accelerate the development of young managers and high performers.

On completion of the envisaged organizational and personnel measures that comprise the first phase of the "Let's LANXESS again" program, we will also be realigning our HR development strategy to the newly created structures within the context of our overall corporate strategy.

**LANXESS Employee Structure** by Segment, Gender and Region

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segment** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| Performance Polymers | 155 | 1,673 | 168 | 1,023 | 100 | 656 | 61 | 511 | 127 | 707 |
| Advanced Intermediates | 12 | 9 | 186 | 2,171 | 16 | 33 | 5 | 2 | 28 | 349 |
| Performance Chemicals | 276 | 997 | 435 | 1,848 | 87 | 286 | 134 | 613 | 192 | 766 |
| Reconciliation[1] | 70 | 74 | 532 | 1,384 | 121 | 72 | 96 | 78 | 218 | 345 |
| **Total** | **513** | **2,754** | **1,321** | **6,426** | **324** | **1,047** | **296** | **1,204** | **565** | **2,167** |

1) Includes group functions and LANXESS Distribution

**LANXESS Employee Structure** by Functional Area, Gender and Region

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Functional area** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| Marketing | 100 | 148 | 319 | 487 | 86 | 109 | 71 | 91 | 178 | 355 |
| Production | 264 | 2,448 | 469 | 5,039 | 142 | 867 | 108 | 1,027 | 166 | 1,571 |
| Research and development | 6 | 61 | 113 | 415 | 7 | 14 | 5 | 10 | 21 | 56 |
| Administration | 143 | 96 | 421 | 484 | 89 | 57 | 80 | 76 | 200 | 185 |
| **Total** | **513** | **2,754** | **1,321** | **6,426** | **324** | **1,047** | **263** | **1,204** | **565** | **2,167** |

**LANXESS Employee Structure** by Employment Type, Gender and Region

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Employment type** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| Permanent contract, full-time | 425 | 2,571 | 924 | 6,259 | 308 | 1,046 | 263 | 1,204 | 556 | 2,165 |
| Permanent contract, part-time | 88 | 183 | 398 | 167 | 16 | 1 | | | 9 | 2 |
| Temporary contract, full-time | 30 | 81 | 151 | 494 | | 1 | 16 | 53 | 23 | 50 |
| Temporary contract, part-time | 6 | 3 | 3 | 4 | | 2 | 12 | 25 | 3 | |
| **Total** | **549** | **2,838** | **1,475** | **6,924** | **324** | **1,050** | **291** | **1,282** | **591** | **2,217** |

## Development opportunities and diversity for international markets

Our global alignment is a key strategic advantage. LANXESS currently employs people from 77 countries across the world. Our successful focus on the BRICS countries is a deliberate strategy to increase proximity to local customers and markets. However, training, the transfer of know-how and international experience are not one-way streets, which is why LANXESS is increasingly offering employees from the BRICS countries development opportunities at its sites in Western Europe and North America.

International assignments are a key component of our systematic HR development process. All expatriate positions at LANXESS have been advertised globally since mid-2012. This gives all our employees the same opportunity to pursue an international career. We also feel it is important to give the best-possible consideration to an employee's family circumstances in the event of international assignment. That is why we support the accompanying partner's professional development, for example.

Short-term assignments, which are often necessary for project work, are becoming increasingly important at LANXESS. They also enable employees with limited international mobility to work abroad. We have therefore enhanced the framework conditions for these short-term assignments. To this end, our International Assignment Policy includes an attractive mix of fringe benefits and special training for both long-term and short-term assignments. In this way, we are making it easier for new and experienced managers as well as skilled non-managerial employees to acquire international work experience.

In the course of implementing our "Let's LANXESS again" program, we have tangibly reduced the number of employees on long-term assignments. At year end, 136 employees – around 4% of our managers – were working as expatriates outside their home countries, mainly Singapore, China and the United States.

In addition to achieving a global transfer of knowledge by sending experts and managers abroad, our goal is still to develop local management with the necessary expertise and international competencies in each country and to transfer challenging tasks to suitable local employees. Outside Germany, 80.9% of our management functions are currently filled by local employees.

The global Diversity & Inclusion initiative With the goal of achieving structured development of diversity at LANXESS and utilizing its positive effects for our company and its employees, we established the Diversity & Inclusion (D&I) initiative in 2011 under the patronage of Board of Management member and Industrial Relations Director Dr. Rainier van Roessel. This initiative reflects the great importance of a diverse workforce for our competitiveness on global markets, for increasing our innovative strength and performance capabilities and for attracting and retaining promising talents – especially in light of the demographic challenges in various countries.

Given the many different dimensions of diversity (e.g. age, gender, nationality, ethnicity, disability, social origin and experience), we decided at an early stage to establish a clear focus by concentrating on the dimensions of age, gender and nationality. The criteria for this decision included the expected leverage effect for a diverse corporate culture at LANXESS and the importance of different dimensions in key country organizations and target markets. The D&I Dashboard completed in 2013 facilitates the detailed analysis of data pertaining to the three dimensions in our focus. Each business unit and group function can view its D&I indicators on national, regional and global level, enabling the development of appropriate strategic measures.

At the same time, the path to greater diversity at LANXESS requires a cultural change process above all else. We must also create the structural framework (e.g. organization, processes, guidelines) so that diversity generates added value for our employees and the company. During the reporting year, we continued to develop and implement a range of measures as part of our Diversity & Inclusion initiative.

The D&I focus in the NAFTA region in 2014 was on knowledge transfer and succession planning and was tailored especially to one of our core dimensions: the aging of our employees in this region. The central question was how to fill our talent pool and further develop potential managers.

In China, where the proportion of women in management positions is already above the average for the LANXESS Group at around 26%, promoting qualified women to management functions is of particular interest in terms of corporate strategy – also because it fosters our perception by specialists as an attractive employer. In September 2014, we therefore held an in-house "Female Forum" in Shanghai where we debated career paths for women within the LANXESS Group. The HR organization in India implemented an experiential learning program specifically for women with the aim of strengthening their confidence to pursue their own career paths.

Our global mentoring program developed as part of the D&I initiative was successfully implemented at the start of the year and is now being continued outside this initiative. 2014 saw the entry into force of a number of new recommendations such as a recruiting guideline that anchors diversity aspects and a guideline for managers about parental leave. We also added detail to workplace flexibilization concepts with an innovative job-sharing model for shift workers.

The Senior Trainee Program – the Diversity & Inclusion lighthouse project launched in 2012 – was successfully concluded in 2014. The 18-month program offered a qualified full-time position to 14 employees with an academic background who wanted to return to working life after a period of time spent raising a family. Alongside their actual work, the participants received personal support from a mentor, individual coaching and tailor-made training. On conclusion of the program in April 2014, 12 senior trainees took over responsible positions within the LANXESS Group.

Through all these measures, our D&I initiative is making a key contribution to reaching the goal we have set ourselves of raising the proportion of women in middle and upper management to 20% by 2020. The figure currently stands at around 15.3%.

## Taking action on demographic change

In view of the challenges posed by demographic change, LANXESS cooperated closely with the employee representatives in 2009 to develop "XCare," a comprehensive demographic program for our German companies based on the collective agreement on lifelong worktime and demography in the chemical industry. This program aims to find answers to the challenges posed by a steady rise in the average age of our workforce coupled with a shortage of skilled young people.

The "XCare" program was initially based on an extensive demographic analysis of the entire LANXESS organization, which resulted in five areas of activity – people and health; work and training; time and organization; career and family life; and savings and retirement provision.

On account of the challenging economic situation LANXESS faced in the reporting year, the elements of the various areas of activity in the "XCare" program were critically reviewed in terms of their effectiveness and cost. We concentrated on and systematically evolved a selection of particularly relevant activities so as not to weaken LANXESS's competitiveness when confronting demographic challenges in the coming years.

Demographic management Balancing career and family life remains an important focus of the "XCare" program. It is evident that this is an important issue for a growing number of LANXESS employees. 6.7% of our employees in Germany aged between 20 and 40 made use of the option to take parental leave. Of this figure, almost 42% were fathers. Of the employees who ended a parental leave period in 2014, 82% rejoined the LANXESS workforce. In 2011, in support of parents looking for care for their children, we started offering our employees reserved places at childcare facilities in Cologne ahead of the relocation of our company headquarters to that city that took place in 2013. Our "Xkids" company daycare center in Leverkusen is now in its second year of operation and all places are full. The facility offers around 50 places for children aged between six months and six years in two preschool groups and one crèche group. "Xkids" is open to all parents but LANXESS Group employees have preferential rights.

Providing care is an important aspect of career and family life. We aim to support employees in the care of dependents, either financially or in terms of time. In line with the German government's draft legislation on family caregiver leave, which came into force in 2012, we were one of the first companies to conclude a comprehensive agreement with employee representatives on a multistage caregiving program that includes advice from an external service provider, paid short-term release from duties, and individually agreed part-time working for caregivers. We added two further modules to this program in 2012 – a care loan at favorable terms and the support of an external service provider in arranging care placements throughout Germany.

**LANXESS Employee Structure** by Age Group, Gender and Region

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age group** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| < 20 | | 1 | | | | | 1 | 2 | | 1 |
| 20–29 | 59 | 221 | 116 | 442 | 23 | 112 | 64 | 217 | 132 | 506 |
| 30–39 | 209 | 726 | 271 | 1,040 | 60 | 170 | 120 | 385 | 267 | 928 |
| 40–49 | 139 | 876 | 491 | 2,180 | 75 | 275 | 46 | 308 | 132 | 535 |
| 50–59 | 93 | 840 | 411 | 2,450 | 123 | 390 | 32 | 270 | 31 | 190 |
| ≥ 60 | 13 | 90 | 33 | 316 | 43 | 100 | | 22 | 3 | 7 |
| **Total** | **513** | **2,754** | **1,321** | **6,426** | **324** | **1,047** | **263** | **1,204** | **565** | **2,167** |

Caregiver leave remains at the heart of the program. This allows employees to reduce their working time to a greater extent than their salary during the care phase and to make up the shortfall when they return to work. 22 employees have already taken advantage of caregiver leave and other job release options.

Health and preventive action Health policy issues and measures remain an important area of activity for LANXESS, especially in challenging economic times. During the reporting year, communication in this area focused on awareness.

Our primary goal is to raise awareness of health issues among employees and managers at all our sites worldwide and encourage them to adopt healthy behaviors at work and in their free time. We take seriously our responsibility of involving the employees and managers concerned in making workplaces as healthy as possible, but at the same time rely on the individual responsibility of our workforce. In Germany, our reintegration and occupational health management programs are based on corresponding agreements with our employee representatives.

As part of our reintegration management program, we give individual, case-by-case support to employees who are suffering illness or have had long periods of absence from work due to ill health in the past twelve months. To this end, workplace integration teams comprising integration officers and employee representatives have been in place at all our German sites since 2011. In 2014, as in the previous years, many employees accepted the offer of an individual consultation with the workplace reintegration team.

One focus of occupational health management during the reporting year was to position this issue as a significant factor in the success of the company, despite the difficult framework conditions. As a rule, the projects are steered by working groups made up equally of employee and employer representatives who analyze the existing health situation and develop a participatory action model. They again encompassed management workshops and prevention concepts. In addition, we established a cooperative medical specialist service in Germany alongside the annual influenza vaccination program.

Experience from the pilot projects in Germany shows that our employees are particularly keen to obtain personal advice about their health and the possible need for preventive action. Building on this awareness and knowledge about their own health, employees are also responding well to follow-up offers. In addition, special medical check-ups are offered specifically for top management. Around 500 eligible managers were invited to regular appointments in 2014.

A growing number of employee health promotion initiatives are also being offered at our sites outside Germany. For example, there is a fitness center at our site in Pittsburgh in the United States. Throughout the year, it organizes a range of competitions and incentive programs to attract new members and freshen the motivation of those employees who have been in training for some time. In addition, a Wellness Committee organizes events promoting a healthier diet and regular exercise. In Canada, our employees can take advantage of financial support to pay for membership at a gym or other health-promoting establishment. Support is also available for smoking cessation courses offered by local health care services and all employees are offered influenza vaccinations during the winter season.

In the area of savings and retirement provision, we made no changes to the long-term account for non-managerial employees as regulated by the agreement with the employee representatives and the collective bargaining agreement. In 2014, a new campaign to promote the long-term account further increased the already very good participation rate.

All benefits with respect to work and family, health and retirement provision apply to the core workforce. Individual benefits may vary regionally and be adjusted locally to our employees' needs. Variable remuneration systems have been implemented for 88% (2013: 78%) of our employees worldwide, while 65% benefit from unfunded company pension plans.

## Rewarding performance

LANXESS has established a fair remuneration policy that is linked to the long-term success of the company and offers employees worldwide a transparent, market-rate compensation system. Collective bargaining agreements provide the main basis for the compensation of non-managerial staff in Germany and numerous other countries.

In the participating countries, the fixed salaries of managerial staff – and of some non-managerial staff – are supplemented by a performance-based short-term variable compensation component known as the Annual Performance Payment (APP). This is linked to the attainment of the Group's defined EBITDA targets and, in the case of top management, to additional individual performance targets. In 2014, our employees around the world shared in the company's success in 2013 with a payout totaling €21.9 million.

During the course of the year, supervisors are also able to reward outstanding employee performance quickly and unbureaucratically with an Individual Performance Payment (IPP). All employees worldwide are entitled to such rewards on the basis of a prompt assessment of their performance. In fiscal 2014, this resulted in payments of €9.6 million worldwide for outstanding individual performance.

For some time now, we have also offered a long-term incentive program for managers in Germany and similar programs in the United States, Canada, India, China and the Netherlands. The Stock Performance Plan 2008–2010 and the Long-Term Stock Performance Plan (LTSP) 2010–2013 compared the performance of LANXESS stock against the Dow Jones STOXX 600 Chemicals$^{SM}$ over a period of three and four years, respectively.

For the period 2014 to 2017, the Board of Management introduced a comparable long-term program to replace the LTSP 2010–2013: the Long-Term Stock Performance Plan 2014–2017. Like its predecessor, this plan comprises four tranches, one commencing each year. However, in order to reflect LANXESS's internationality in this long-term compensation component, it compares the performance of LANXESS stock against the MSCI World Chemicals Index over the four-year period, starting with the first tranche for 2014. Since participants make a personal investment and there is the chance that the stock will increase in value, these programs are an attractive long-term incentive and a means of enhancing employee loyalty. The participation rate is 91%.

## Recognizing and rewarding good ideas

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

In 2014, employees at LANXESS's German companies submitted a total of 2,807 new suggestions, a rate of 373 per thousand employees. In the same period, 1,312 ideas were implemented, yielding total savings of €2.52 million. As well as cutting costs, 887 of these ideas led to improvements in occupational safety and environmental protection. More than €1.0 million was paid out to employees whose ideas were put into practice.

## Acting in partnership

A key pillar of our HR policy that we practice worldwide is close cooperation between employee representatives and management, including trade unions and employers' associations, in line with the principle of active codetermination. This means that we also comply with the ILO convention in respecting our employees' freedom of association and valid collective agreements, as confirmed by our membership of the Global Compact. Worldwide, more than 67% 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. This was the case especially in 2014 in light of the global restructuring program. In addition, the European Forum in particular serves as a platform for codetermination and dialogue in Europe. It brings together members of the LANXESS works councils from across the continent and the company's management in an annual meeting lasting several days. The meeting in August 2014 was dominated by the realignment of the LANXESS Group. Additionally, the Executive Committee of the European Forum met twice with company representatives to discuss current issues.

In accordance with the German Works Constitution Act, LANXESS is obliged to inform the Works Council fully and in good time of any planned operational changes which could result in material disadvantage to all or substantial parts of the workforce. In light of the realignment activities, this close dialogue was a cornerstone of our HR policy in the reporting year especially. We also regularly provided information about the company's economic affairs to the Economics Committee. We fully comply with our legal obligations with respect to the responsible bodies. In Germany, the notification period is four weeks.

## Health, safety, environment and climate protection in the value creation chain

LANXESS is responsible for its actions across the entire supply and value creation chain – from the global procurement of raw materials and product development, through production, storage and transport, to use and disposal. The health and safety of our stakeholders – employees, contractors, immediate neighbors of our production sites, customers and end users – is of central importance at each of these stages.

Through our safety standards, we aim to ensure the responsible application of chemistry in health and environmental protection, in the handling of chemicals, in plant safety and in workplace safety precautions. Company-wide standards are in place to define the associated requirements and responsibilities. Through the ongoing training of our employees and regular auditing of our health, safety and environmental management, we ensure that the requirements are systematically and sustainably implemented in our processes.

Our commitment was again recognized with various awards in 2014. For example, the Indian Chemical Council recognized the particularly sustainable water management concept in place at our Nagda production site. The honors we received in China included the Golden Rubber Award for our contribution to the sustainable development of the Chinese rubber industry and recognition from the China Finance Summit as the Best Green Company for our sustained commitment along the value chain. In addition, the China Petroleum Chemical Industry Federation ranked LANXESS among the top ten in its Corporate Citizen Model List. Our sites in Changzhou and Qingdao received local recognition for their occupational and product safety records. Also, our country company in Mexico was honored for its outstanding performance in implementing the principles of Responsible Care.

### Uniform standards in production

Across the globe, LANXESS operates at 50 production sites in which it holds more than 50% (as of December 31, 2014). The diversity of the company's product portfolio necessitates the use of many different chemical and technical processes. Uniform standards for planning, engineering and operating facilities are applied to ensure a high level of process, plant and occupational safety. Handling chemical substances and working with technical equipment fundamentally involve health and safety risks. We systematically identify these risks and the hazard potential and minimize these by taking them into account when planning facilities and by defining and implementing the necessary preventive and protective measures. To help us achieve this, we have established LANXESS-specific guidelines within the context of our global management system. These govern our procedures for all safety-critical processes in our production facilities and cover aspects such as the definition and implementation of technical and organizational protective measures and the environmentally friendly handling of raw materials and waste.

Experts conduct targeted spot checks as part of on-site audits to assess implementation of the relevant LANXESS guidelines and local regulations for safe plant operation. At each facility, compliance with the safety standards must be certified regularly, at least at the intervals required by local legislation. In 2014, a total of 38 facilities (2013: 36), 19 of them in Germany (2013: 14), were audited in the course of HSE compliance checks.

It goes without saying that safety and environmental aspects also have an important role in our acquisition projects. Before making any acquisition, we carry out technical due diligence tests alongside the economic appraisals. Gap analyses are performed by LANXESS soon after the takeover of a production site. These are used to identify any differences between the management system already in place at the site and LANXESS's own system. The results serve as the basis for drawing up action plans to implement LANXESS's binding global HSE standards at these locations. In 2014, we performed one gap analysis.

### "Xact": Board of Management's global safety initiative

LANXESS attaches the highest priority to the safety of all its work processes. Our "Xact" global safety program, launched in 2011, is aimed at encouraging our employees to work together to improve safety throughout the company and at raising their awareness of this issue.

Making a company safer is a complex task in which each and every employee has the most crucial role. That is why we developed six "Xact" safety regulations as the central principles of safe working at LANXESS. These address the main areas in which every employee – whether they are employed in production or administration and irrespective of their function or position in the hierarchy – can actively contribute to their own safety and that of their colleagues.

In 2014, we familiarized our employees around the world with the cultural elements of our occupational safety program. For five of the new global HSE standards developed in the context of "Xact," we prepared training documents in our various corporate languages and adapted these to the cultural requirements of different countries. After receiving extensive training from the "Xact" regional managers, our managerial staff communicated these standards throughout the entire organization during the reporting year.

**Striving for Safety**

- I always take time for safety.
- I always pay attention to my own safety and that of my coworkers.
- I decline to do work I cannot do safely.
- I openly address unsafe situations.
- I take action when safety rules are breached.
- I do not give instructions for unsafe actions to be carried out.

One measure has been the introduction of a safety dialogue worldwide. Positive and critical behaviors are discussed and possible improvement measures devised. These discussion sessions regularly take place between supervisors and their staff as well as among groups of colleagues.

We are also seeking to achieve an improved mutual understanding of occupational safety with our partner companies and are increasingly integrating them into our safety culture. Here, we apply the principle of "select, train, support and evaluate." For example, our partners must provide verification of their own safety management system and that their employees who work for us have received certain safety training. Independent of this, we additionally give individual safety briefings to the employees of our partner companies, the success of which is measured by a test.

Another new tool introduced as part of the "Xact" program is the "Pulse Check" survey, which was conducted among all LANXESS employees for the first time in 2014. This gave them the opportunity to describe their personal experience of key safety aspects at LANXESS. Among other things, the anonymous survey seeks to establish the importance that individuals attach to safe working, whether they feel involved in safety activities and whether they receive positive feedback for working safely.

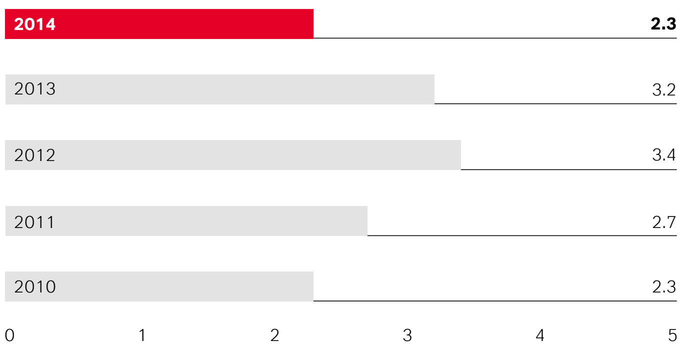
## Recording accidents and incidents

Thanks to our global electronic Incident Reporting System (IRS), we are able to record accidents and incidents using standardized procedures. The incidents that are documented include accidents involving people, transport accidents, near accidents, environmental incidents and downtime caused by, for example, bad weather or strike action. We communicate significant incidents worldwide via our intranet or by newsletter. Each incident is carefully analyzed to identify measures that can be taken to avoid similar accidents, disruptions or near accidents in the future.

The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, is one of the indicators used to assess occupational safety. In 2014, the LTIFR was 2.3, compared with 3.2 in 2013 and 3.4 in 2012. This substantial improvement is proof that the joint efforts undertaken in the past three years to improve occupational safety at LANXESS are now bearing fruit. For example, we have seen a significant decrease in the number of work-related accidents at our chrome oxide mine in South Africa.

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

**Work-Related Injuries to LANXESS Employees Resulting in Absence from Work (LTIFR)[1)]**




1) LTIFR: accident rate per million hours worked resulting in one workday or more lost following the day of the accident, calculated for all employees (including temporary workers) at all sites

## Global product stewardship

LANXESS is committed to the Responsible Care® Global Charter, an initiative for product stewardship by the world's chemical industry launched in 2006 by the International Council of Chemical Associations (ICCA) that was the key factor in the development of the Global Product Strategy (GPS). This aims to provide basic information and risk assessment data about substances so that the impact of chemicals on human health and the environment can be minimized and products can be manufactured and marketed in such a way as to prevent injury to people and damage to the environment.

In line with the aforementioned commitment, our product stewardship covers the safe handling of chemical substances and products throughout their life cycle – from procurement and research and development, through production, storage, transportation and downstream processing to marketing and disposal.

The Product Safety Management at LANXESS Directive steers the Group-wide observance of product stewardship and secures the necessary participation of everyone involved. This applies in particular to those substances in our product portfolio that are classified as hazardous.

Management of chemical control regulations The safe handling, marketability and safe transportation of our chemicals and products are conditional on compliance with global chemical control regulations.

LANXESS has a global organization supported by an electronic safety data system to ensure compliance with both mandatory and voluntary control requirements. Safety data sheets in more than 30 languages inform our customers worldwide about substance data and the safety measures that are necessary when using LANXESS products. We aim to raise marketability and the provision of hazardous goods data to a globally uniform safety and technical standard by successively integrating this safety data system into our SAP system worldwide. In 2014, as planned, we finished connecting our organization in China to this system, which was also rolled out to our country organizations in Central and Eastern Europe, Turkey and the United Kingdom.

We regularly adapt our electronic safety data system to reflect changes to the GHS (Globally Harmonized System of Classification and Labeling of Chemicals) in various countries. The GHS is a system under the umbrella of the United Nations that aims to harmonize existing classification and labeling systems used in various sectors such as transportation and consumer, employee and environmental protection. Of course, we observe regional variations in the implementation of the GHS such as the European Union's CLP (Classification, Labelling and Packaging of Substances and Mixtures) regulation.

Before manufacturing, importing or selling our products in a given country, we examine their marketability in accordance with the chemicals legislation in force there. We register our substances and products in line with local requirements and we participate in the substance analysis programs of the relevant authorities by supplying all available information and producing new data if necessary. During the reporting year, changes were made to chemicals legislation – especially in Taiwan and South Korea – in respect of registration requirements for both new and previously listed substances. Benefiting from REACH implementation in the European Union, we will be working to comply with these requirements over the coming years.

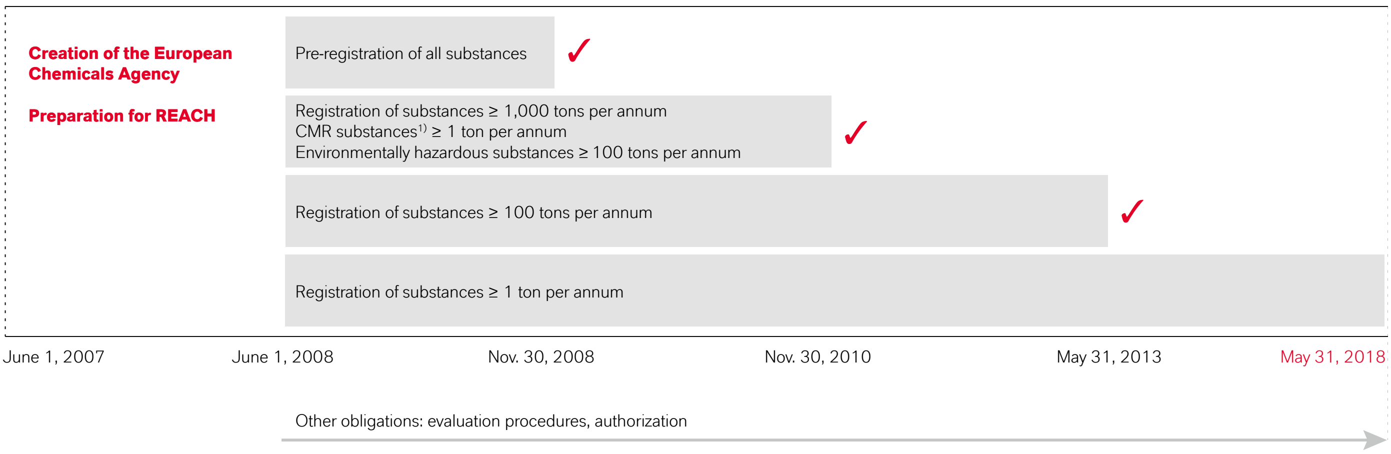
We expressly support the protection goals of the E.U. REACH regulation, which aims to achieve a high level of safety for human health and the environment in the manufacture and use of chemicals. We met the December 1, 2008, deadline for preregistering all substances of relevance to LANXESS with the European Chemicals Agency (ECHA) in Helsinki, Finland. We then registered 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. Registration involves the systematic evaluation of information concerning our substances and their uses. In doing this, we consider the entire product life cycle.

Within the context of a voluntary commitment made by the German Chemical Industry Association (VCI) in 1997 to record and assess substances, we go beyond the legal requirements to determine a basic data set for our intermediates as well, in line with Appendix VII of the REACH regulation.

In the case of consumer applications in particular, such as those in the areas of food and drinking water contact, toys, cosmetics, pharmaceuticals and medical products, we ensure the availability of information regarding the conformity of our products with national and international laws and standards, religious dietary laws and quality hallmarks. In this way, we actively support our customers in the certification of their materials for drinking water contact applications, for example.

The exchange of information with our customers is an important aspect of our product stewardship activities. We therefore provide them with extensive information about our products via the IMDS (International Material Data System), an automotive industry database for archiving, exchanging and managing information, or via LANXESS's product-specific database, which has a public area and a restricted area for registered business partners.

**REACH Implementation Schedule**




1) CMR: carcinogenic, mutagenic and reprotoxic

**Product monitoring** LANXESS's Central Product Surveillance Directive systematically governs worldwide tracking of our products and their applications in respect of potential health and environmental impacts. The information acquired is used by our product developers and product safety experts in their evaluations.

A good example of how we use the information gained from product monitoring to develop our own measures is the No Pellet Emission project launched in 2013. This focuses on plastic pellets which may be released into the marine environment due to inattentiveness at various stages of the value chain – in production, distribution, storage and transportation. Plastic pellets themselves do not react chemically but may have an undesired impact on account of their small size and volume. Therefore, under the umbrella of the Responsible Care® Initiative, we and PlasticsEurope Deutschland together launched the No Pellet Loss initiative aimed at motivating all stakeholders to handle plastic pellets in a responsible way. In LANXESS's No Pellet Emission project, the units that handle pellets have set themselves the goal for 2015 of preventing the emission of pellets in the long term.

**Procurement in the supply chain** Responsible action begins in procurement. At LANXESS, all the raw and other materials, plant and services needed for our operations must satisfy uniform global safety and environmental protection requirements. Raw materials in particular are subject to stringent monitoring to ensure safe processing in our production facilities. For example, the procurement of any raw material is dependent on the submission by the supplier of a current safety data sheet. Our procurement department clarifies which of the REACH requirements must be satisfied in the case of raw materials from non-European suppliers. In order to minimize our procurement risks and enhance supply chain transparency, we and five other international chemicals companies founded the Together for Sustainability initiative in 2012. Further detailed information is contained in the "Procurement and production" section in the combined management report on page 74.

**Global dangerous goods and transport safety management** Through our global dangerous goods and transport safety management system, we ensure the avoidance of hazardous situations in the relevant processes. We centrally coordinate, supervise and review the implementation of international, regional and local dangerous goods and transport safety regulations and internal company guidelines. The central classification of our products ensures uniform interpretation of international, regional and local dangerous goods regulations – at the same time respecting regional and local specifics. The classification determines the wrapping (packaging and tanks), marking and labeling, the permitted modes of transport and transport routes. The necessary classification database is filed in LANXESS's chemicals safety data system. The restructuring of the dangerous goods and transport safety officer organization at our logistics sites worldwide, implemented in 2013, was continued with further process optimizations in 2014. Improvements were made to the communication processes between the dangerous goods and transport safety officers, the local and global reporting processes, the procedure for exchanging best practices (e.g. securing loads in freight containers) and the harmonization of training standards.

Storage management We operate our own warehouses, but also commission external warehousing service providers on the basis of a specified process that considers relevant aspects of logistics, safety and security, environmental protection and cost-effectiveness. In line with a corresponding chemical industry concept, we apply a globally standardized warehouse concept that takes into account the substances stored and meets fire protection and occupational health and safety requirements.

## Ecological responsibility

As LANXESS sees it, conserving natural resources – for example, through the most efficient possible use of raw materials and energies – and identifying further potential for reducing emissions and waste are an ongoing mission and an inherent part of our ecological responsibility to which we must apply our expertise.

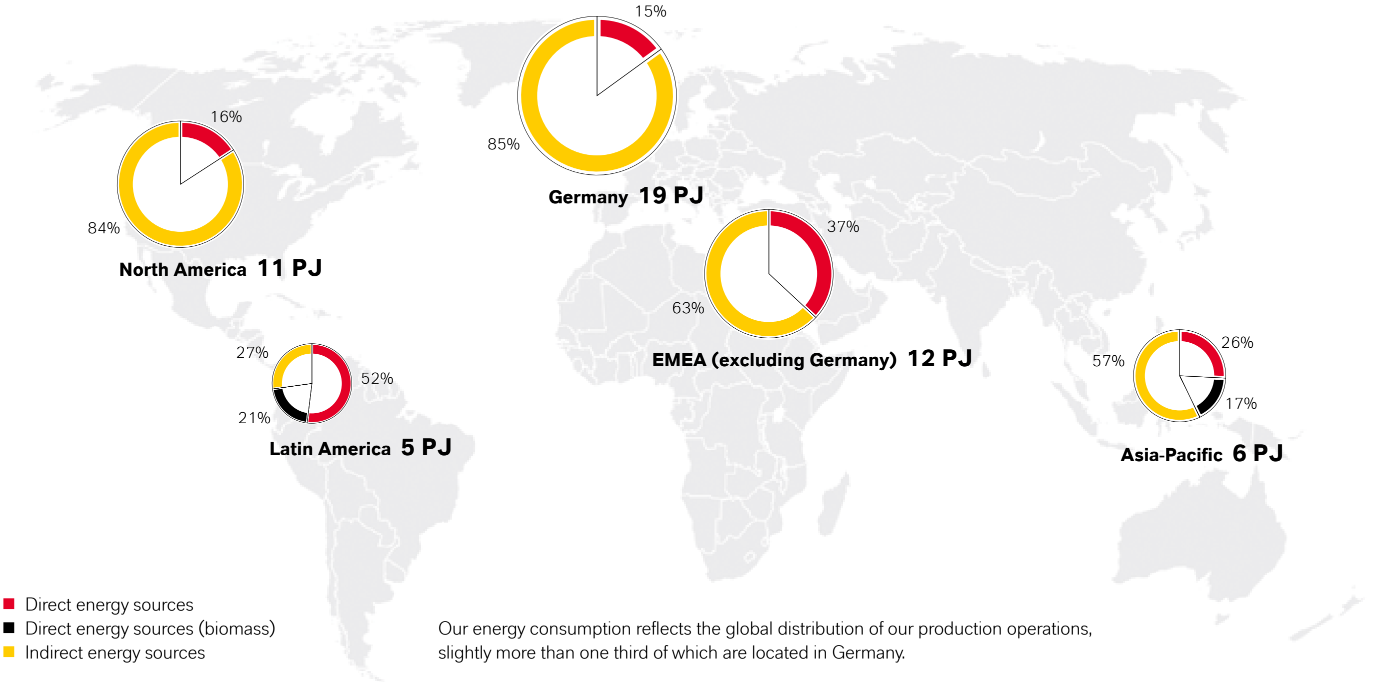
We equip all new production sites in line with state-of-the-art environmental standards, taking into account local requirements. This often sets us apart from local competitors.

Environmental protection in proximity to our production sites Close to some of our European sites are protected areas that fall under the European Habitats Directive. Our industrial sites themselves do not contain any protected or restored natural habitat since, as a rule, these areas continue to be used for industrial purposes. Some unused areas outside the sites are near-natural, for example at La Wantzenau, France, or – outside Europe – at Duque de Caxias, Brazil.

We are responsible for landfill sites which are still in use and others which have already been closed. The latter are recultivated in line with legal requirements and we have established provisions for this purpose. However, the sites do not necessarily revert to natural habitat.

**Direct and Indirect Energy Consumption by Region**

petajoules/%




- Direct energy sources
- Direct energy sources (biomass)
- Indirect energy sources

Our energy consumption reflects the global distribution of our production operations, slightly more than one third of which are located in Germany.

Progress in climate protection Our aim is to reduce each segment's specific energy consumption and specific emissions of $CO_2$ equivalents by 10% by year end 2015 (base year: 2010). Our measures are applied in all value creation processes – from energy generation through manufacturing processes and transportation to waste disposal.

Systematic energy management Resource and energy efficiency are significant factors in our company's economic efficiency and in climate and environmental protection. In this connection, we have established a global procedure for an energy management system in line with ISO 50001. The centrally managed global implementation project was completed in 2014. The further implementation and preparation for local certification are taking place decentrally at our sites outside Germany. Our certification in Germany was reconfirmed in 2014.

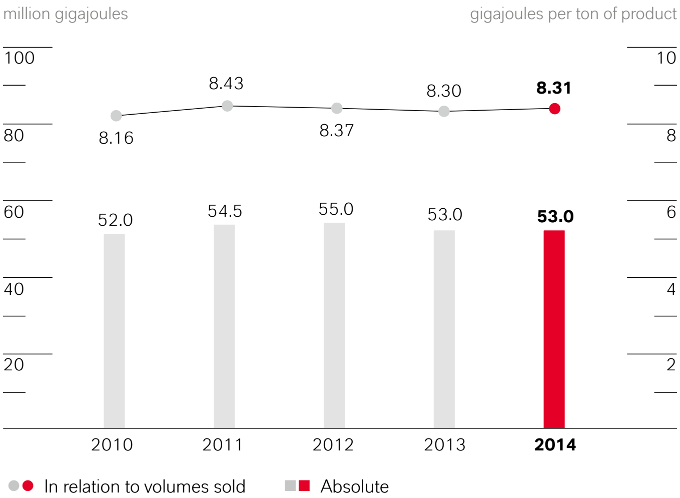
On account of our realignment activities, we have revised our strategy of global certification of the energy management system in favor of a regional certification strategy. In future, certification decisions will be taken locally on the basis of regulatory requirements. In line with this new strategy, we are preparing for certification at sites in Belgium and China in 2015.

Since 2012, our measures to increase energy efficiency have been combined in the LANXESS Energy Efficiency Program (LEEP) which facilitates a Group-wide overview of potential savings, the cost of their implementation and their impact on our energy goals. A team of LANXESS energy experts supports the business units in identifying new measures. Most of the measures concern especially the optimization of our production capacities, the use of residual heat and improvements to refrigeration. A future focus is to be found in fine-tuning our plant operations to reduce energy consumption.

By the end of 2015, we aim to cut our specific energy consumption and with it our specific energy costs by 10% compared with 2010. We continued our pursuit of this target in 2014, systematically implementing it as part of our LEEP project. Some 250 individual measures will be completed and undergo final evaluation in 2015.

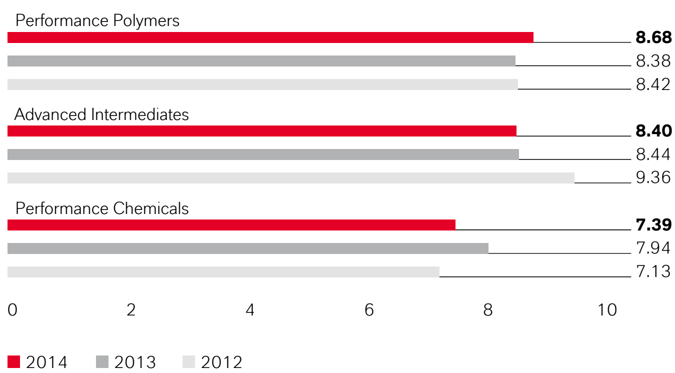
As the volumes produced and our product mix have a significant role alongside efficiency, the savings cannot be directly represented in our absolute energy and emissions data. For this reason, global energy consumption appears largely unchanged compared with the previous year.

**Energy Consumption**




**Energy Consumption by Segment**

gigajoules per ton of product

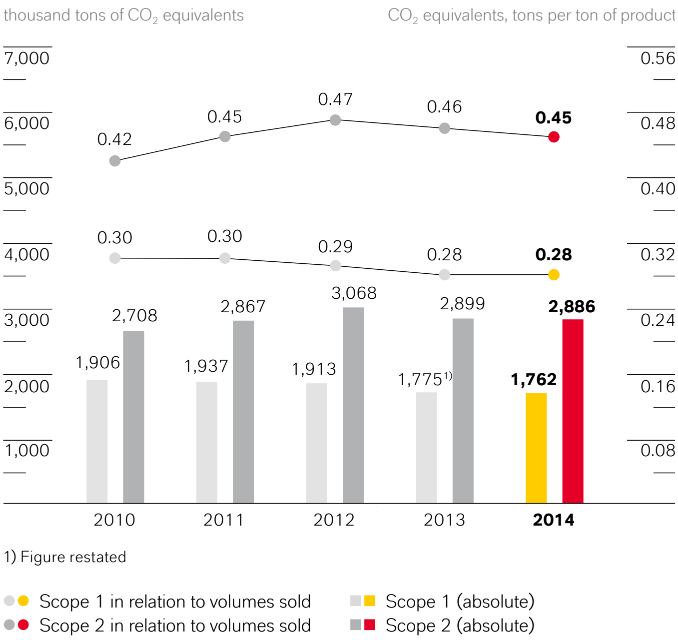


Reduction of climate gas emissions In 2014, we pursued our goal of reducing specific emissions of $CO_2$ equivalents in each of our segments by 10% compared with the base year (2010) by year end 2015.

In the reporting period, we were able to slightly reduce Scope 1 emissions in absolute terms. However, our specific Scope 1 emissions remained on the same level as the previous year. Scope 1 emissions cover direct emissions from production and our own energy generation operations. Scope 2 emissions are indirect emissions associated with the procurement of energies. The graphic on the following page shows the development of LANXESS's specific Scope 1 and Scope 2 emissions.

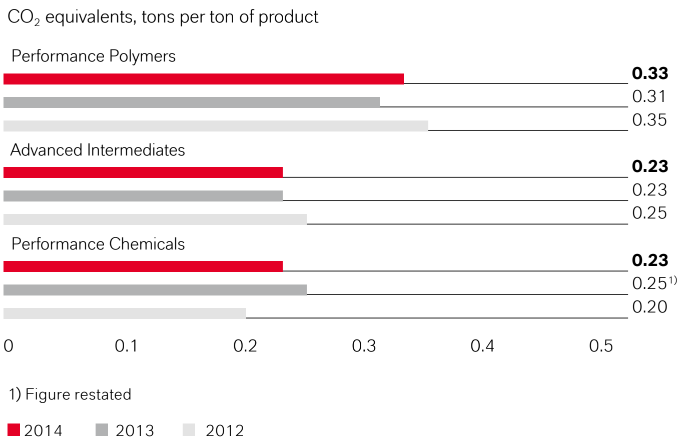
18 LANXESS facilities in Europe are subject to the European Emissions Trading System (EU-ETS). Trading in $CO_2$ emission rights – or allowances – is a cost-effective way of reducing harmful $CO_2$ emissions. Three trading periods were defined for emissions trading in the European Union. The second trading period that ran from 2008 to 2012 was concluded without us having to purchase additional allowances. The German Emissions Trading Authority (DEHSt) has not yet allocated the allowances for 2013 and 2014 to German companies. Since all of our facilities that are eligible for emissions trading are at the cutting edge of technology and participate in international competition, we expect to receive an adequate number of free allowances for the coming years to cover our anticipated $CO_2$ emissions.

**Greenhouse Gas Emissions (Scope 1 and Scope 2)**




1) Figure restated

**Greenhouse Gas Emissions (Scope 1) by Segment**




1) Figure restated

In 2014, we participated for the ninth time consecutively in the Carbon Disclosure Project (CDP), sharing data and information on climate protection and the reduction of emissions. The CDP is an organization representing international institutional investors who have joined forces in order to improve transparency for the financial market on questions linked to climate change and the requisite corporate guidelines. We were not among the top10% and therefore not listed in the Climate Disclosure Leadership Index (CDLI) in 2014, as we had been in the prior two years.

Sustainable logistics We select our transport solutions worldwide on a case-by-case basis, applying the principles of safety, punctuality and cost-effectiveness. We also take into account the $CO_2$ emissions resulting from our transports. A $CO_2$ monitoring dashboard introduced in 2012 enables us to compare the costs and potential $CO_2$ savings of a transport solution, and thus develop an effective strategy for reducing emissions in our supply chain. The emission factors used in this dashboard were determined by a working group set up by the German Chemical Industry Association (VCI). The dashboard also visualizes our transport-related $CO_2$ emissions for our employees responsible for logistics procurement and planning, thus raising their awareness of the issue. In 2014, we recorded some 90% of global transports in our database. The volumes were carried by ship, rail, truck and aircraft.

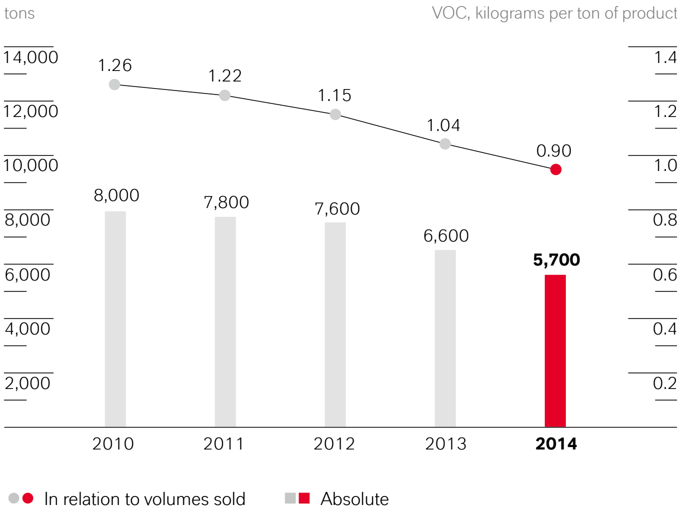
Today we already select ships as the means of transport with the lowest emissions for around 90% of all ton-kilometers (tonnage transported multiplied by the distance transported in kilometers). In Germany, we continue to use the TÜV SÜD-approved Eco Plus solution offered by logistics provider DB Schenker Rail for transporting our products by rail. The electricity required for transport is obtained from renewable energy sources. In this way, we can reduce the $CO_2$ emissions from our German rail transport operations by almost 75%. Overall, transport operations caused around 330,000 tons of $CO_2$ emissions worldwide in 2014. We use the emission factors determined by the German Chemical Industry Association (VCI) in 2010 to calculate our global $CO_2$ emissions. International emission factors were not used. On account of extensive restructuring as of the reporting date, these emissions data are based on extrapolations of half-year figures.

In 2013, we collaborated with TÜV Rheinland as our testing partner in conducting a large-scale trial of green tires for trucks at one of our logistics service providers. During meetings with our other logistics service providers, we presented the positive results of these trials with the aim of demonstrating the benefits of green tires. The trial found that, under normal operating conditions, high-quality tires with low rolling resistance reduce fuel consumption by more than 8% and $CO_2$ emissions by 700 kilograms for every 10,000 kilometers driven compared with conventional tires.

Packaging is an often critical aspect in sustainable logistics processes. However, it is of only limited significance to a chemical company like LANXESS because 60% of our products are transported in reusable containers.

Other atmospheric emissions In the year under review, our emissions of volatile organic compounds (VOC) decreased further – both in absolute terms and in relation to the volumes sold. This was due to, among other things, various measures taken to achieve our environmental protection target of cutting VOC emissions by 30% by year end 2015 (base year: 2010).

**VOC Emissions**

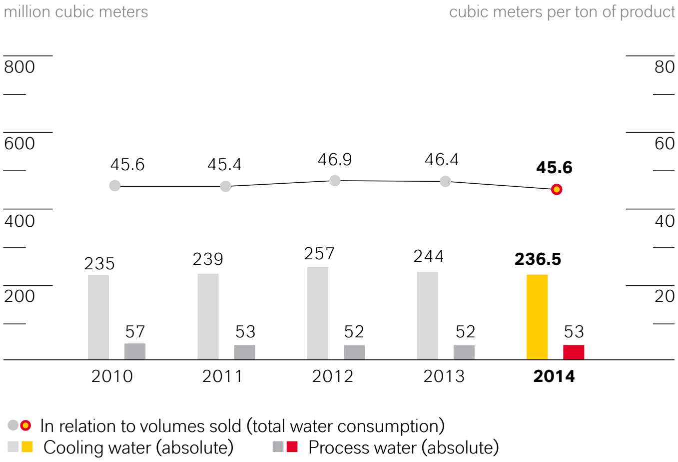



Responsible use of water resources All wastewater and surface water discharges at our sites are subject to legal and permitting requirements. We use both technical (wastewater treatment) and organizational (monitoring) measures to comply with these requirements.

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

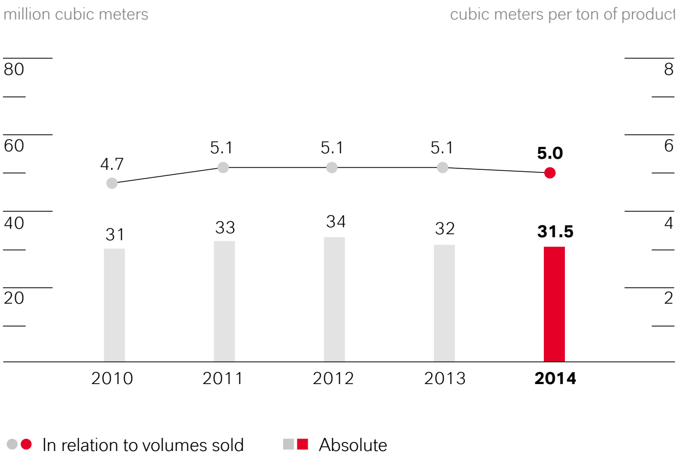
In the year under review, we again achieved a slight reduction in our total water consumption in relation to volumes sold. Viewed over the longer term, we have thus kept consumption at a stable level.

**Water Consumption**




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

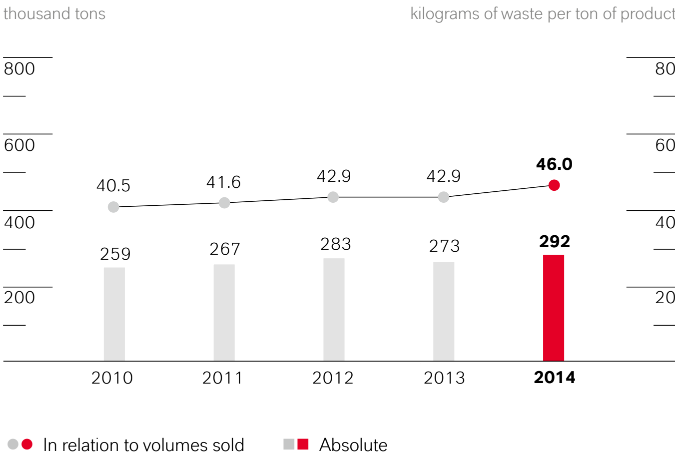
**Wastewater**



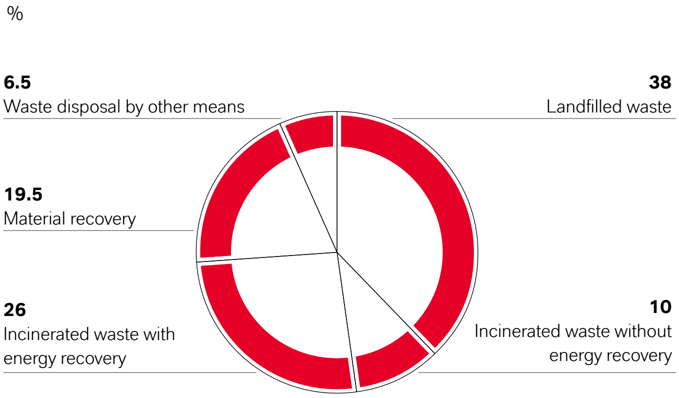

Sustainable waste management The company aims to employ a consistent material flow management process – from the use of raw materials to the manufacture of the final product – so as to use resources as efficiently as possible and minimize the amount of waste we produce. Some forms of waste can be used as secondary raw materials and are thus a valuable resource. Sustainable waste management therefore involves systematically avoiding waste and, if this is not possible, using waste as a raw material or energy source. In order to minimize the amount of waste requiring disposal, we seek to continuously improve our production processes.

The total amount of waste generated worldwide in relation to volumes sold increased by around 7% on the prior year. At the same time, the amount of waste classified as hazardous increased by some ten percentage points to 65%. Both increases are primarily due to the expansion of production at two waste-intensive sites. All forms of waste are disposed of or reused in compliance with statutory requirements. Some 46% of our waste is used in material or energy recovery.

**Total Waste**

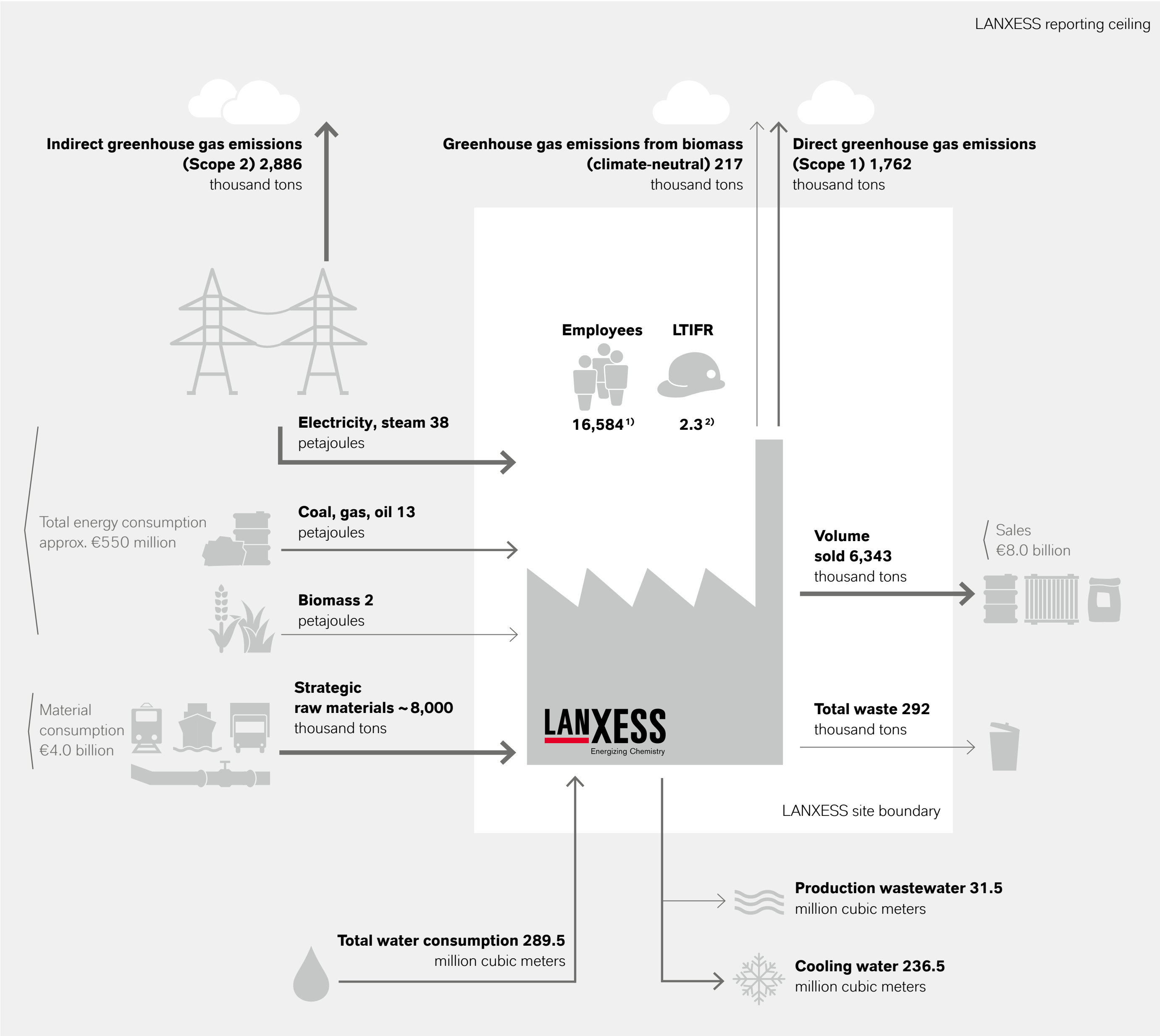



**Waste for Disposal**



The graphic below describes the relationship between the key indicators.

**Input-Output Balance Sheet 2014**




1) Permanent workforce at the core companies (excluding temporary workers) as of December 31, 2014
2) LTIFR: accident rate per million hours worked resulting in one workday or more lost following the day of the accident, calculated for all employees (including temporary workers) at all sites

Systematic recording of key performance indicators We use an electronic system for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. This system enables us to capture a broad range of HSE performance data for each business unit and location worldwide. These provide a valid database for internal and external reporting and map the progress we are making toward achieving our globally applicable HSEQ objectives (see table on page 40). 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%. We are working systematically to improve our data recording processes and data quality.

In the year under review, as in 2012 and 2013, Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft assessed our HSE indicators and the necessary data recording processes in the course of a business audit with a view to achieving a “limited assurance” rating. The audit certificate is on page 189 of this Annual Report.

**Environmental and Safety Performance Data***

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Safety** | | | |
| Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked)[1] | 3.4 | 3.2 | 2.3 |
| **Volume sold**[2] in thousand tons/year | 6,596 | 6,371 | 6,343 |
| **Energy** in petajoules ($10^{15}$ joules)[3] | 55 | 53 | 53 |
| **Direct energy sources (EN3)** | | | |
| Non-renewable | 14 | 13 | 13 |
| Renewable | 0 | 0 | 0 |
| **Indirect energy sources (EN4)** | | | |
| Non-renewable | 40 | 38 | 38 |
| **Other direct energy sources** | | | |
| From biomass | 2 | 2 | 2 |
| **Water** in million cubic meters/year | | | |
| **Total water consumption (EN8)** | 309 | 296 | 289.5 |
| Surface water | 135 | 138 | 120.5 |
| Groundwater | 7 | 7 | 6 |
| Rainwater | 0.0 | 0.5 | 0.5 |
| Wastewater | 2.0 | 1.5 | 1.0 |
| Other water sources | 165 | 149 | 161.5 |
| **Cooling water in total water consumption**[4] | 257 | 244 | 236.5 |
| **Process water in total water consumption** | 52 | 52 | 53 |
| **Atmospheric emissions** in thousand tons $CO_2$e/year | | | |
| **Total greenhouse gas emissions $CO_2$e (EN16)** | 4,981 | 4,674[a] | 4,648 |
| Direct (Scope 1)[5] | 1,913 | 1,775[a] | 1,762 |
| Indirect (Scope 2)[6] | 3,068 | 2,899 | 2,886 |
| **Ozone-depleting substances (EN19)** | 0.00231 | 0.00115 | 0.00132 |
| **$NO_X$, $SO_X$ and other emissions (EN20)** | | | |
| $NO_X$[7] | 2.4 | 2.5 | 2.8 |
| $SO_2$[8] | 1.2 | 1.1 | 1.1 |
| CO | 2.1 | 2.1 | 2.1 |
| $NH_3$ | 0.1 | 0.1 | 0.1 |
| NMVOC[9] | 7.6 | 6.6 | 5.7 |
| **Wastewater** in million cubic meters/year | | | |
| **Total wastewater discharge (EN21)** | 291 | 276 | 268 |
| Cooling water (uncontaminated, without treatment)[4] | 257 | 244 | 236.5 |
| Production wastewater (with treatment) | 34 | 32 | 31.5 |
| **Emissions in wastewater (after treatment)** | | | |
| Total nitrogen | 0.53 | 0.48 | 0.52 |
| Total organic carbon (TOC) | 2.2 | 2.0 | 2.2 |
| Heavy metals[10] | 0.0060 | 0.0045 | 0.0065 |

**Environmental and Safety Performance Data***

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Waste** in thousand tons/year | | | |
| **Total weight of waste (EN22)** | 283 | 273 | 292 |
| Incineration with energy recovery | 68 | 63 | 76.5 |
| Incineration without energy recovery | 22 | 22 | 29 |
| Landfilling | 111 | 99 | 111 |
| Material recovery | 64 | 64 | 56.5 |
| Other forms of disposal | 18 | 25 | 19 |
| **Type of waste** | | | |
| Hazardous | 153 | 160 | 190 |
| Non-hazardous | 130 | 113 | 102 |

**Explanations concerning our environmental and safety performance data**

* The aggregate data refer to all LANXESS production sites in which the company holds an interest of more than 50%. On account of their recent acquisition by LANXESS, the following production sites are not yet included: Epierre, France, and Lipetsk, Russia.

- 2012: The data are based on actual values for the period January through October. Appropriate estimates were used for November and December.
- 2013/2014: Some of the data are based on estimates and projections.

The indicators were assessed (limited assurance) by PwC AG Wirtschaftsprüfungsgesellschaft in the course of a business audit.

1) LTIFR: accident rate per million hours worked resulting in one workday or more lost following the day of the accident, calculated for all employees (including temporary workers) at all sites
2) Volume sold of goods manufactured by LANXESS and sold internally to another LANXESS company or externally (excluding commercial products)
3) The energy volumes given were calculated on the basis of simplified assumptions and typical substance values. They do not include other forms of imported energy (e.g. the energy contained in raw materials).
4) Equivalent to circulating cooling water
5) The emission factors used for fossil fuels are based on calculations by the U.S. EPA (AP-42 from 1998) and on the IPCC Guidelines for National Greenhouse Gas Inventories (2006). In accordance with the GHG Protocol (2004), the factors for calculating $CO_2e$ are based on the global warming potential (time horizon: 100 years) defined in the IPCC Second Assessment Report (SAR 1995).
All Scope 1 greenhouse gases are calculated as $CO_2e$. In accordance with the GHG Protocol, the $CO_2$ emissions from the combustion of biomass are shown separately and are not included in the Scope 1 emissions. The following emissions were produced during the reporting period: 2012: 225 kt $CO_2$, 2013: 223 kt $CO_2$, 2014: 217 kt $CO_2$.
6) All Scope 2 greenhouse gases are calculated as $CO_2e$. The conversion factors used were provided by the energy producers for 2008 or 2009. Where these were not available, factors from the IEA (International Energy Agency) for 2010 were used for fiscal year 2012, factors from 2011 were used for fiscal year 2013 and factors from 2012 were used for fiscal year 2014.
7) Nitrogen oxide ($NO_X$) calculated as $NO_2$ (excluding $N_2O$ – nitrous oxide)
8) Sulfur dioxide ($SO_2$) + $SO_3$ calculated as $SO_2$
9) Total VOC (volatile organic compounds) excluding methane and acetone
10) Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc)

a) Value for 2013 corrected for additional data

**HSEQ Targets for 2014**

| Target | Program/Action | Target Date | Target Attainment |
|---|---|---|---|
| 1. Improvement in occupational and plant safety – no injuries or environmental incidents | Implementation of the "Xact" safety program | Ongoing program | In 2014, the "Xact" team developed measures to implement the LANXESS safety culture and began their global rollout. At 2.3, the LTIFR was substantially lower than in previous years. |
| 2. Consolidation of corporate audits | Increased efficiency of corporate audits through harmonization/consolidation | 2014 | The audit consolidation concept was successfully concluded, increasing efficiency by approx. 30%. It will be implemented in 2015. |
| 3. Climate protection | Reduction of specific $CO_2e$ emissions by 10% per business segment (base year: 2010) | 2015 | Ongoing measure |
| | Reduction in specific energy consumption by 10% per business segment (base year 2010) | 2015 | Ongoing measure |
| | Increase in resource efficiency and performance of environmental footprint and life cycle analyses for relevant products | 2014 | On account of the ongoing portfolio review, it has not been possible to define the substances for analysis. |
| 4. Environmental protection | Reduction in absolute emissions of volatile organic compounds (VOC) by 30% (base year: 2010) | 2015 | Ongoing measure |
| 5. Energy management | Global implementation of the energy management system and certification readiness | 2014 | The centrally managed global project to implement the EnMS through to certification readiness was completed at the end of 2014. Further implementation and preparation for local certification are taking place decentrally at our sites outside Germany. |

**HSEQ Targets for 2015**

| Target | Program/Action | Target Date |
|---|---|---|
| 1. Management of HSEQ risks | Development and introduction of a global HSEQ risk identification and evaluation process with the following objectives:<br>• Strengthen awareness of occupational safety and foster continuous improvements in support of LANXESS's "Xact" global safety program<br>• Reduction and prevention of<br>  • incidents relating to plant and process safety<br>  • environmental incidents and their impact<br>  • transport incidents | 2020 |
| 2. Sustainable supplier management | Development and establishment of a new sustainability standard for our suppliers:<br>• The sustainability standard for our suppliers to be advanced in tandem with relevant industry initiatives<br>• Support for the Together for Sustainability initiative, which aims to standardize and share sustainability assessments of suppliers in the same industry | 2020 |
| 3. Climate protection and resource management | Consolidation of existing efficiency measures in a global resource efficiency program with the following goals:<br>Improved energy efficiency within the LANXESS Group:<br>• Reduction of specific greenhouse gas emissions<br>• Establishment of a water management system at all sites in water-scarce areas | 2016 |
| | Continued from prior years:<br>• Reduction in specific $CO_2$ emissions by 10% per business segment (base year: 2010)<br>• Reduction in specific energy consumption by 10% per business segment (base year: 2010)<br>• Reduction in emissions of volatile organic compounds (VOC) by 30% (base year: 2010) | 2015 |
| 4. Product stewardship | Compilation of life-cycle analyses for the most important key products (e.g. for all "green" products) | 2016 |

## Society

As a company, we draw numerous benefits from the society in which we operate – well-trained employees, satisfied customers, legal and political stability and an excellent infrastructure. We believe it is only right that, in line with the concept of corporate citizenship, we assume responsibility and thus also contribute to the evolution of society. Our social commitment is based on the same fundamental principle as our entrepreneurial activities – a consistent focus on a limited number of projects that promise long-term success.

Our not-for-profit activities focus on providing support for science education in schools. After all, skilled employees are a crucial prerequisite for the sustainable success of our company, no matter where in the world it operates. We endeavor to encourage young people to develop a passion for chemistry at a young age, awaken their inventive spirit and make them aware of the diverse career opportunities that the LANXESS Group offers.

Consequently, some 71% of the 92 projects we implemented in 2014 were dedicated to education. A second major pillar of our social commitment is promoting culture, which in 2014 comprised around 11% of our projects. Europe was the geographical focus of our activities in the reporting year and we implemented almost one third of all projects in that region. Overall, more than 218,000 (2013: more than 237,000) mainly young people benefited from our projects, which we funded with some €0.9 million in 2014 (2013: some €1.5 million).

### The LANXESS education initiative – a global success story

In 2008, we launched the LANXESS education initiative to underscore our clear commitment to Germany as a business location and as a base for the chemical industry. We have since provided support to more than 30 schools close to our sites in Germany. Our funding enabled the provision of new laboratory facilities, technical equipment and teaching materials for chemistry, biology, physics and IT classes. We also cooperate with the schools when it comes to teaching content.

We offer interested and talented students the chance to take part in project weeks and workshops. In 2014, middle- and high-school students in cities including Krefeld and Cologne explored the issues of water and mobility. We supported one of these projects with water treatment products which, owing to their properties, can be used repeatedly for further experiments. In order to intensify cooperation with our schools, we designed a new website as a platform where they can submit their MINT projects (mathematics, information technology, natural sciences and technology) and apply directly for support. By the end of 2014, the website had been used by various partner schools in Cologne, Leverkusen, Dormagen, Krefeld, Marl and Brunsbüttel to agree MINT projects for 2015.

LANXESS collaborates with elementary schools as well as with middle and high schools. Working with educational experts, we developed an experiment kit for this level of education containing special teaching materials related to mobility, globalization, urbanization and water. In 2014, we distributed kits worth a total of €360,000 to elementary schools close to our sites in Germany and elsewhere in the world – from Canada and South Africa to Japan. Wherever they are in use, our kits convey the fascination of science and technology and are intended to wake the inventive spirit of both girls and boys as early as possible.

It is not just in Germany that education is a valuable asset, which is why our initiative has been extended to other countries in recent years. Today, projects focusing particularly on the promotion of science education are in place at many LANXESS sites across the globe.

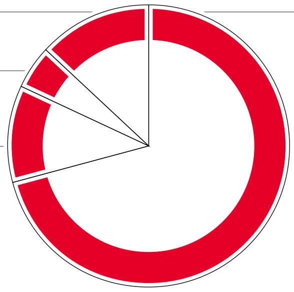
Since 2010, for example, we have been fostering scientific knowledge and environmental awareness at our sites in Brazil with our Green Cycle competition. The winners receive recognition for the environmental protection projects they develop for the competition and LANXESS fully finances implementation of these projects. Participants additionally receive assistance from an agency that specializes in implementing environmental projects. In 2014, a total of 65 projects were submitted for consideration at our six sites in Brazil. Since the competition began, we have successfully initiated 30 projects that have benefited more than 6,000 people. In addition, our employees in Brazil have participated in Community Day since 2011 and spend the day providing practical assistance to facilities such as kindergartens, hospitals, schools and social centers. More than 20% of our employees around the country took part in 2014.

The “Educar para Crecer” (Educate to Grow) initiative in Argentina aims to promote development in the Zárate region by supporting schools and not-for-profit organizations engaged in educational, social and environmental protection activities there. As part of this initiative, we provide funding for sustainable education projects and help those wishing to launch such projects by delivering the fundamental know-how they need. Some 10,000 people have already benefited directly or indirectly from the more than 40 projects implemented since the program was launched in 2007. At the end of 2014, our experiment kits were also provided through the initiative which, from 2015, will be targeting technical colleges.

The “La Basura Sirve” (Waste is Useful) initiative launched in Zárate in 2012 also seeks to promote responsible environmental practices. The program, which we conduct in collaboration with a group of schools, encourages the collection and sorting of inorganic household waste. The income from the sale of reusable materials to recycling companies is used by the participating schools to purchase essential items. Since the launch of the initiative, thousands of students have already collected more than 20 tons of PET waste.

**Social Activities by Topic**[1)]

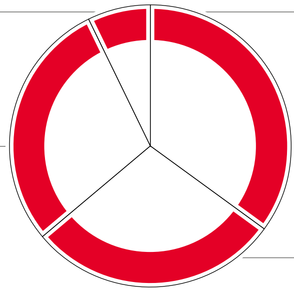
%




1) Basis: 92 projects undertaken in 2014

**Social Activities by Region**[1)]

%




1) Basis: 92 projects undertaken in 2014

One of our most important CR projects in India is the long-term Teach for India program initiated in 2010. The program recruits top graduates from Indian universities as fellows who, after completing their studies, spend an initial period of two years teaching full-time at schools with insufficient funding. Through to the end of 2018, we will be supporting Teach for India with €75,000 each year.

As part of our commitment in Nagda, where we have a production facility, we made a substantial contribution toward establishing the city's first computer training center. Opened in August 2014, the center teaches primary computer skills to students and working professionals, enabling them to greatly enhance their proficiency profiles. LANXESS procured and installed the necessary hardware and funded the renovation of the premises provided by the Madhya Pradesh Labour Welfare Board.

In China, we collaborate with the Goethe Institute to offer the LANXESS-PASCH Dream Career Program. Each year, two students from the Goethe Institute's partner schools are given the opportunity to complete a four-week internship with LANXESS. In Liyang, we have been providing support to particularly gifted or very committed students since 2012. Each year, students from the three renowned universities we partner in Qingdao, Shaanxi and Changzhou can apply to LANXESS for a scholarship and internship.

In Japan, we expanded the cooperation we initiated some years ago with aid organization Save the Children Japan in the area of education. With the aim of teaching children more about chemistry and Germany, employees of our Japanese company held workshops at two elementary schools in Ishinomaki in August 2014. The program includes small experiments and a film depicting what our world would be like without chemistry. The workshops are intended as the first in a range of educational activities in the region which is still suffering the effects of the devastating earthquake in March 2011.

Since 2011, we have been the main sponsor of the Rally to Read initiative in South Africa, which aims to reduce the significant difference in reading and writing skills between students in rural regions and their urban counterparts. Each year, we provide schools in remote areas with items such as teacher training guides, container libraries, writing materials, sports equipment, educational toys and school shoes. More than 8,000 children benefited from the campaign in 2014. Their progress is regularly monitored by the local education authorities and the READ Trust, partner of the Rally to Read initiative.

Our partnership with Junior Achievement in the United States, initiated in 2013, also fully reflects our commitment to corporate volunteering. LANXESS employees regularly visit schools in the Pittsburgh area to teach first- to- third-grade classes basic aspects of economics and entrepreneurship.

Since the launch of the LANXESS education initiative, we have invested more than €6 million worldwide in activities which have reached tens of thousands of children, adolescents and young adults. Feedback from teachers, principals and school authorities shows that the initiative has significantly enhanced the importance of the MINT subjects in school timetables.

## Promoting art and culture

We are convinced that successful scientific work and, ultimately, social progress can only flourish in a culture of thought, research and critical evaluation. As part of our cultural commitment, we therefore sponsor both literary and musical talents. We have been the main partner to lit.COLOGNE, Europe's biggest literature festival in Cologne, since 2010. Since 2013, we have also been supporting its sister event phil.COLOGNE, a top-class international philosophy festival. In addition, we foster our employees' interest in literature. As part of "fliX," the Festa Literária LANXESS, several libraries were established at our Brazilian sites with books donated by our employees, who also operate the libraries.

The second mainstay of our cultural commitment is support for musical training, especially for young people. The Young Euro Classic initiative brings together the greatest talents from Germany and LANXESS's main markets around the world. Until 2015, LANXESS SNYO Classic is sponsoring an exchange and mentoring program for the Singapore National Youth Orchestra. Also until 2015, we will be supporting the Ozawa International Chamber Music Academy (OICMA) in Japan, enabling talented young musicians from across Asia to receive a top-quality musical education. Since 2012, we have been a partner to the "Kölner Philharmonie," one of Europe's premier cultural institutions. In addition to the "Acht Brücken" (Eight Bridges) contemporary music festival, we support many other activities at this venue, including a discounted concert subscription for students.

# Investor Information

# Investor Information

The price of LANXESS stock saw substantial declines in fiscal 2014. The way our stock performed was affected especially by the challenging situation the company faced, as well as by the turbulent market environment. Our share price closed at €38.46 on December 30, 2014.

2014 was an eventful year for Europe's stock markets. The German lead index, the DAX, which includes our stock, turned in a very volatile performance ranging from new record highs above 10,000 points to a low of less than 8,400 points. Throughout the fiscal year, the European stock markets experienced the negative effects of geopolitical risks, especially the crisis in Ukraine. Other restraining factors were disappointing economic data in the eurozone, weaker growth in China and South America, and a less expansive U.S. monetary policy. The substantial drop in the oil price at year end also had a negative impact on the markets. Factors which buoyed the markets in 2014 were especially further reductions of the key interest rate made by the European Central Bank (ECB) and positive economic data from the United States. The U.S. stock markets in particular benefited from that country's gratifying economic development and posted a much more positive performance than their European counterparts. The leading U.S. index, the Dow Jones Industrial Average, topped the 18,000-point threshold for the first time, gaining 10.7% in 2014. The DAX closed at 9,806 points on December 30, 2014, delivering growth of 2.7%.

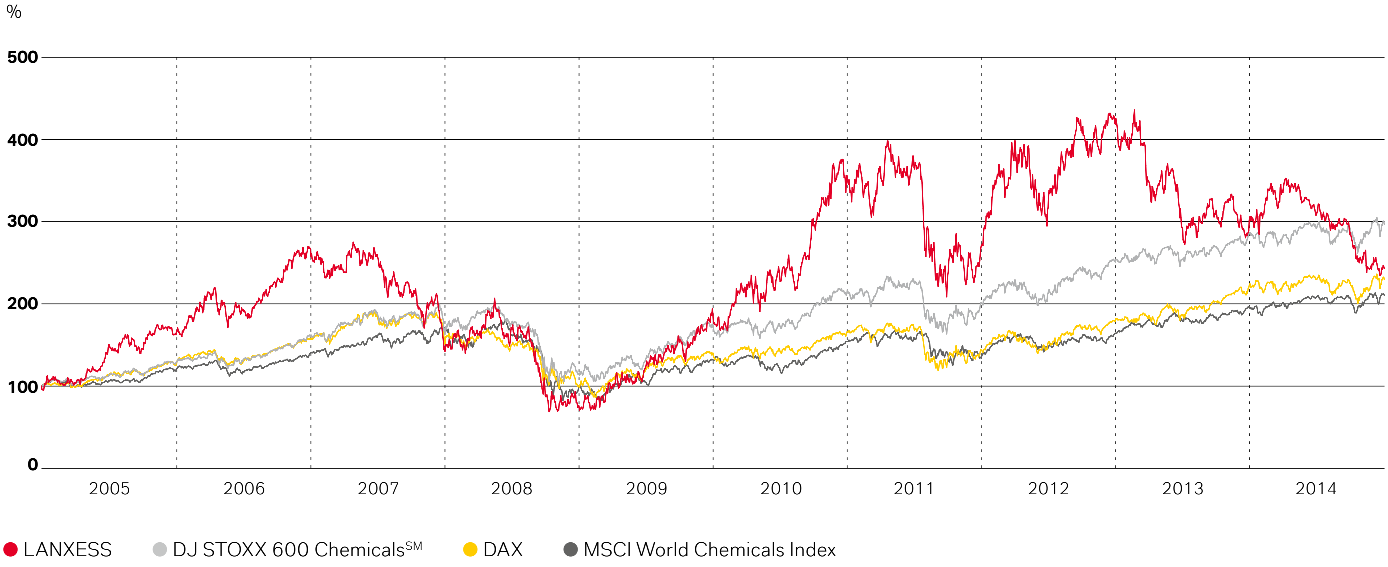
At the start of fiscal 2014, stock market performance was still very restrained and was impacted by the crisis in Ukraine. A significant recovery prevailed in the second quarter, especially as the result of the ECB's continuing low interest rate policy. As a result, the DAX climbed above 10,000 points in June to deliver growth of 2.9% for the second quarter. The third quarter was marked by some substantial losses. In July, as the situation in Ukraine worsened, the DAX declined by 4.3% to post its largest monthly loss for 2014. Performance remained volatile for a decrease of 3.6% at the end of the third quarter. This was followed by a very turbulent fourth quarter in which the DAX fell below 8,400 points in mid-October before again climbing above the 10,000-point threshold to a new all-time high of 10,087 points. These extreme fluctuations were caused by news ranging from fears of recession in the eurozone to speculation about bond purchases by the ECB and the reduction of the key interest rates in China. At the end of the reporting period, the stock index was influenced by further events such as the strongly declining oil price and the devaluation of the ruble. At the close of trading on December 30, 2014, the DAX stood at 9,806 points.

The LANXESS benchmark indices Dow Jones STOXX 600 Chemicals$^{SM}$ and MSCI World Chemicals Index also registered growth last year. After starting the year at 758 points, the Dow Jones STOXX 600 Chemicals$^{SM}$ ranged between 720 and 780 points in the subsequent months before also fluctuating very widely in the fourth quarter. In October, it fell to a low for the year of 677 points and then jumped to 806 points in early December. At year end, this benchmark index stood at 786 points for a gain of 3.8%. The MSCI World Chemicals Index, which we adopted in 2014 as a new benchmark index for our share because it is more comprehensive and has a more international composition, closed the year up 2.6% following a volatile performance. After reaching lows around 230 points in both the first and fourth quarters, this index posted a clear increase in value to end the year at 256 points.

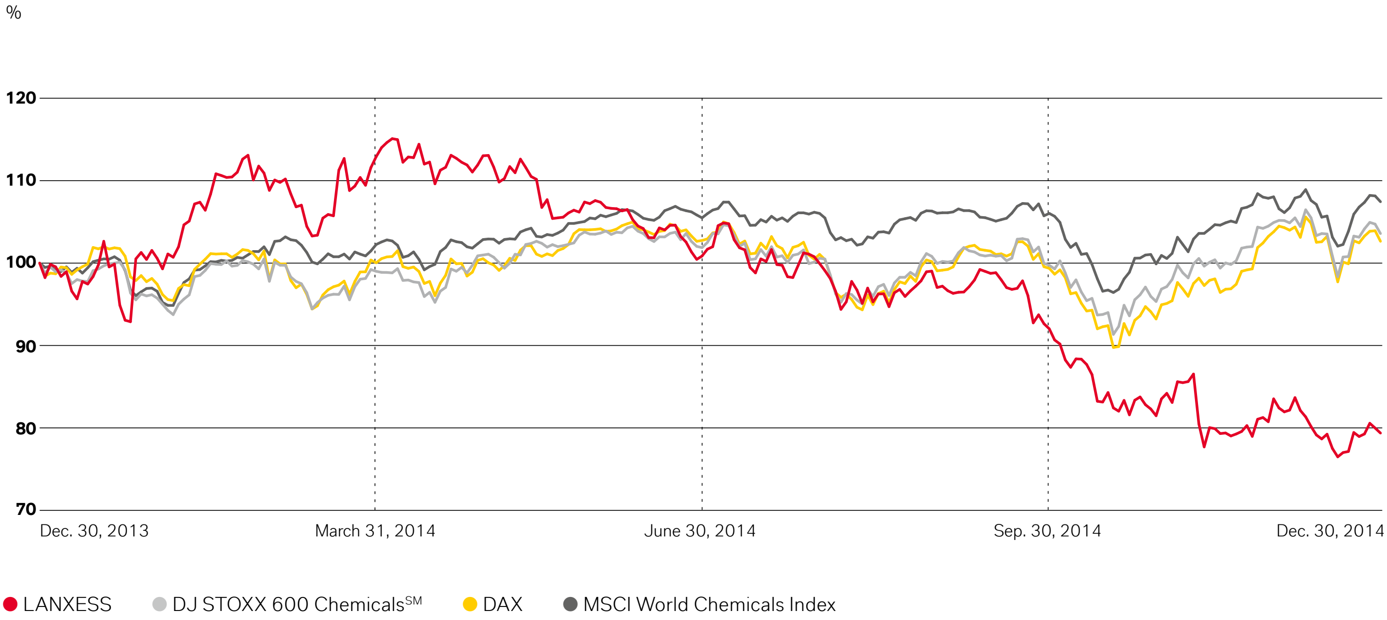
The development of our share price in 2014 was greatly influenced by LANXESS's business performance. It opened the year at €48.90 and initially increased in value in the first few months. During this time, positive momentum came from news of the change of leadership on the Board of Management. At the end of January, we announced that Matthias Zachert, former CFO of LANXESS AG, had been appointed as the new Chairman of the Board of Management effective April 1. In the first quarter, our share price remained above €50 and closed the quarter at €54.75.

In the subsequent months, the focus was on communication of LANXESS's realignment. At the start of May, we announced that we would be developing an extensive realignment program. The ten-percent increase in the capital stock of LANXESS AG to €91,522,936, also at the start of May, represented an important step in financing the planned measures and strengthening our financial position. However, despite the measures we had initiated, our share took losses in the second quarter, falling below the €50 threshold at the end of June. The uncertainty surrounding the current competitive environment for our rubber businesses, our future positioning in that arena and the

**LANXESS Stock Performance since Listing**




**LANXESS Stock Performance 2014**



**Performance Data 2014**

| | | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 | Year 2014 |
|---|---|---|---|---|---|---|
| Capital stock/no. of shares[1] | €/no. of shares | 83,202,670 | 91,522,936 | 91,522,936 | 91,522,936 | 91,522,936 |
| Market capitalization[1] | € billion | 4.56 | 4.51 | 4.00 | 3.51 | 3.51 |
| High/low for the period | € | 55.13/44.64 | 56.75/48.07 | 51.16/43.37 | 43.79/36.24 | 56.75/36.24 |
| Closing price[1] | € | 54.75 | 49.30 | 43.71 | 38.46 | 38.46 |
| Volatility[2] | % | – | – | – | – | 25.01 |
| Trading volume | million shares | 70.901 | 38.903 | 41.129 | 60.900 | 211.833 |
| Average daily trading volume | shares | 1,125,413 | 627,472 | 623,171 | 998,367 | 893,385 |
| Earnings per share | € | 0.30 | 0.63 | 0.38 | (0.74) | 0.53 |
| Price/cash flow ratio[1] [3] [4] | | – | – | – | – | 4.65 |

1) End of quarter: Q1: March 31, 2014, Q2: June 30, 2014, Q3: September 30, 2014, Q4 and full year: December 31, 2014
2) Source: Bloomberg
3) Data, especially cash flow, are influenced by exceptionals, which restricts the significance accordingly
4) Reference value: operating cash flow

further development of our business in 2014 impacted our share price too strongly. At the end of July, the Board of Management announced the launch of our Group-wide realignment program "Let's LANXESS again," providing first details of this already in early August. The three-phase program is focused on increasing the competitiveness of the business and administrative structure, operational competitiveness and the competitiveness of the business portfolio (see also "Strategy" on page 8). We also reported on the implementation of the first measures: the consolidation of business units and administrative functions. The realignment program received a positive response from the capital market but was unable to provide any momentum for our share price. At this time, news from the general market environment was negative and clearly dominated the development of share prices, including the price of the LANXESS share which stood at €43.71 at the end of the third quarter.

During our Capital Markets Day and Media Day in early November, we announced further details of our realignment and the expected cost reductions we intend to achieve from the end of 2016 after implementation of the first phase of the program. We also provided information about future negative effects in fiscal 2015 and 2016 arising from, for example, the start-up of our new rubber plants. The capital market responded positively to the high degree of transparency of this information and the details of the financial impact anticipated from the first phase of the realignment program. Nevertheless, the development of our share price remained under the influence of our challenging business situation and, toward the end of the fourth quarter, was additionally impacted by the negative stock market environment. The LANXESS share closed at €38.46 on December 30, 2014, for a decrease of 20.7% over the year.

**Capital Market Information**

| | |
|---|---|
| Share class | No-par shares |
| Listing code | LXS |
| WKN (German securities identification number) | 547040 |
| ISIN | DE0005470405 |
| Reuters/Bloomberg codes | LXSG.DE/LXS:GR |
| Market segment | Prime Standard |
| Trading venues | XETRA, Frankfurt, Munich, Stuttgart, Düsseldorf, Hamburg, Hannover, Berlin |
| Selective indices | DAX, Dow Jones STOXX 600 Chemicals℠, DAXsupersector Basic Materials, MSCI Germany Standard, MSCI Germany Mid Cap, Dow Jones Sustainability Index World, Dow Jones Sustainability Index Europe, FTSE4Good |
| Investment-grade ratings (outlook) | Standard & Poor's: BBB– (stable)<br>Moody's: Baa3 (stable)<br>Fitch: BBB– (stable) |

## Sustainability

Exercising responsibility in our entrepreneurial activities is a key element of our corporate strategy. We therefore continued to view sustainable development as a high priority in 2014 and underscored our claim that LANXESS is a sustainable investment.

Last year, our sustainable development was rewarded by our renewed inclusion in the respected Dow Jones Sustainability™ Indices (DJSI). We were listed for the fourth year consecutively in the DJSI World and for the second year in the DJSI Europe following our debut in that index in 2013. We were given very good ratings especially in the areas of environmental policy/management system, climate strategy, corporate citizenship, risk and crisis management and antitrust guidelines. The DJSI World is compiled by assessing the world's 2,500 largest corporations across 59 different industries.

Our listing in the FTSE4Good Index, in which we were first included in 2011, was also confirmed. In addition, oekom research – one of the leading sustainability rating agencies – has put our corporate responsibility rating at C+ since 2011.

Climate protection and transparent reporting about our achievements in this area have a key role in our sustainability activities, which we again demonstrated through our participation in the Carbon Disclosure Project (CDP). Although we no longer ranked in the top 10% of the 350 largest companies surveyed in Germany, Austria and Switzerland in the reporting year, we continue to systematically pursue our climate protection objectives and will be ensuring the greatest possible transparency of the environmental data we report to the CDP in the future, too. In addition, environmental data remain an important component of our sustainability reporting in this Annual Report.

We made a further major commitment by signing the United Nations Global Compact, the world's largest and fastest-growing corporate social responsibility (CSR) initiative, in 2011 and have annually reaffirmed our commitment since then.

Our commitment in the area of sustainability goes beyond the aforementioned listings and initiatives. For example, we support the Responsible Care® Global Charter initiated by the International Council of Chemical Associations (ICCA) and we are a cofounder of the Together for Sustainability (TfS) initiative, which has the goal of assessing and improving sustainability in the chemical industry supply chain.

Detailed information about sustainability is available from page 13 and on our corporate website. Strengthening our sustainability profile will remain a priority for LANXESS in 2015.

## Ownership structure

The majority of LANXESS's stockholders are institutional investors whose strategy is oriented toward growth or value. At January 31, 2015, these investors held around 89% of the stock.

In addition to the stakes held by institutional investors, a holding of around 11% of our shares is in the hands of private investors, including LANXESS employees who collectively own some 1%. Since LANXESS was first listed on the stock market, our private investors have been primarily located in Germany.

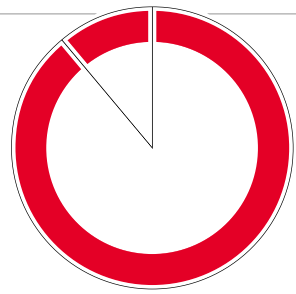
In 2014, as in the past, many of our institutional investors were based in the United States, the United Kingdom and Germany. The proportion of our stockholders in the United States increased year on year and at January 31, 2015, was around 31% (2013: 27%). At the same date, some 18% (2013: 17%) of LANXESS shares were held in the United Kingdom. In Germany, institutional investors represented about 14% (2013: 12%) of our shares. Taking private and institutional investors together, ownership of our shares in Germany increased to around 25% (2013: 24%).

In other regions, LANXESS is represented in France, the Scandinavian countries and Switzerland, in particular. Overall, institutional investors in the rest of Europe owned about 18% of our stock (2013: 24%), while other regions again accounted for some 8% (2013: 8%).

An overview of the institutional investors which have issued mandatory notices reporting ownership of at least 3% of LANXESS's outstanding shares is published on our website. All voting rights announcements can be found under Investor Relations/Shares.

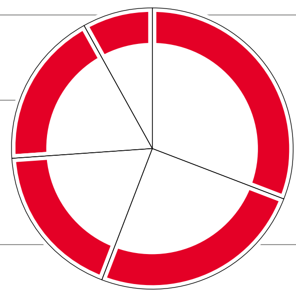
**Stockholder Profile as of January 31, 2015**

%




**Geographical Breakdown as of January 31, 2015[1]**

%




1) Based on the stockholders identified

## Analysts

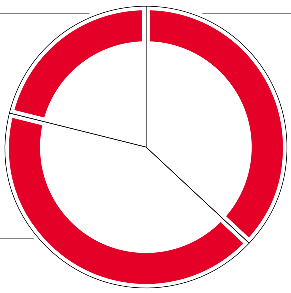
LANXESS's performance is monitored by a large number of analysts. In fiscal 2014, around 30 sell-side analysts again issued reports detailing their estimates of our company's current and future development. In light of the challenges in the 2014 fiscal year, focal points of the dialogue with analysts were the market situation for our businesses and the realignment of LANXESS. Alongside our dialogue with the sell side, we intensified our interaction with fixed-income analysts during the reporting year. We will continue to accord high priority to the regular and detailed exchange of information with analysts within the context of our IR activities.

As of January 31, 2015, 37% of analysts (2013: 50%) recommended buying LANXESS shares. A further 42% (2013: 32%) said to hold our shares, while 21% (2013: 18%) gave a sell recommendation.

On the basis of the most recent analysts' appraisals, an independent service provider regularly compiles consensus estimates, which we make available on our website under Investor Relations/Shares.

**Recommendations as of January 31, 2015**

%




## Annual Stockholders' Meeting

At our Annual Stockholders' Meeting on May 22, 2014, LANXESS shareholders showed their clear support and passed all the agenda items by solid majorities. 42,284,197 shares and the same number of votes – equivalent to 51.10% of the voting capital – were represented at the meeting. Detailed voting results and additional information about LANXESS's Annual Stockholders' Meeting are available on our website under Investor Relations/Events & Presentations.

The next Annual Stockholders' Meeting takes place on May 13, 2015, in the LANXESS arena at Willy-Brandt-Platz 1, Cologne.

## Dividend

LANXESS follows a consistent dividend policy. We aim for our stockholders to share in our business performance in an appropriate and sustainable way. With a view to maintaining continuity, we therefore also intend to propose a dividend for the very challenging fiscal year 2014. The Board of Management and Supervisory Board of LANXESS AG will therefore propose to the Annual Stockholders' Meeting on May 13, 2015, that a dividend of €0.50 per share be declared for fiscal 2014 (2013: €0.50 per share). This reflects the company's difficult business performance in the past year and the present realignment phase.

Relative to the price of €38.46 at which LANXESS shares ended 2014, this equates to a dividend yield of 1.3%. Subject to approval of the corresponding resolution by the Annual Stockholders' Meeting, the dividend will be paid on May 14, 2015.

## Bonds

LANXESS placed no new Eurobonds on the capital market in fiscal 2014. The €500 million Eurobond with a term of six years and an annual interest coupon of 7.750% that we issued in April 2009 matured in April 2014 and was repaid.

The following table provides an overview of our presently outstanding bonds.

**Overview of LANXESS's Main Bonds**

| ISIN/WKN | Volume | Term | Coupon |
|---|---|---|---|
| XS0452802175 | €200 million | September 21, 2009 – September 21, 2016 | 5.500% |
| XS0629645531 | €500 million | May 23, 2011 – May 23, 2018 | 4.125% |
| XS0746637296 | CNH 500 million (around €60 million) | February 16, 2012 – February 16, 2015 | 3.950% |
| XS0855167523 | €500 million | November 21, 2012 – November 21, 2022 | 2.625% |

All LANXESS's existing Eurobonds were issued by LANXESS Finance B.V. and are listed on the Luxembourg Stock Exchange. The term sheets are available on our website under Investor Relations/Bond.

Further information about our bonds can be found on page 95 ff. of this Annual Report.

## Capital increase

In the second quarter of 2014, we increased the capital stock of LANXESS by 10%, in part by utilizing our existing authorized capital. The capital stock was increased by a nominal €8,320,266 against issuance of 8,320,266 new no-par bearer shares which are entitled to a dividend as of fiscal 2013.

The additional shares were offered at a price of €52.00 per share to international institutional investors in a private placement using an accelerated bookbuilding process, resulting in gross proceeds of around €430 million. These will be used above all to finance the ongoing realignment of LANXESS and reduce the company's debt.

Since May 9, 2014, the capital stock has amounted to €91,522,936, with 91,522,936 shares in circulation.

## Ratings

The rating agencies Standard & Poor's, Moody's Investors Service and Fitch Ratings adjusted their investment-grade ratings for LANXESS in fiscal 2014 in light of the persistently challenging business environment. Standard & Poor's and Fitch both reduced their ratings from BBB to BBB–, while Moody's adjusted its rating from Baa2 to Baa3. However, all three rating agencies raised their outlook from negative to stable.

LANXESS's weaker financial indicators resulting from the persistently difficult market environment for the company's synthetic rubber businesses were cited by the three agencies as the main reason for their changed ratings. Against this background, they are assuming that it will be some time before LANXESS can again sustainably strengthen its financial profile. All three rating agencies justified raising their outlook to stable by their assumption that the measures initiated by LANXESS will improve profitability and strengthen key financial indicators in the coming two years. They also noted as positive LANXESS's continuing sound liquidity.

Standard & Poor's and Moody's have had LANXESS at an investment-grade rating since 2007, Fitch since 2006.

## Investor relations activities

Maintaining an active, broad and uninterrupted dialogue with investors and analysts is a top priority for LANXESS. Our declared objective is to provide a continuous and sustained flow of information about our company. For this reason, roadshows, capital market conferences and individual dialogue meetings at LANXESS headquarters have been features of our central investor relations (IR) activities right from the start. We also use events such as our LANXESS Capital Markets Day to explain and discuss important current corporate topics.

In fiscal 2014, the Chairman of the Board of Management, the Chief Financial Officer and the Investor Relations team represented LANXESS at roadshows and capital market conferences on a total of 72 days. Especially in this difficult year, we felt it was very important to sustain the high frequency of our IR activities so that we could provide timely information about LANXESS's performance and realignment. We continue to focus on our stockholders and foster an intensive dialogue with fixed income investors and with investors who are focused on sustainability.

### Roadshows and conferences for active and personal dialogue worldwide

We consider roadshows and conferences to be highly relevant because they enable us to engage in a broad and personal dialogue with institutional investors. International capital market centers like Boston, New York, London, Paris, Frankfurt and Zurich are important roadshow destinations for LANXESS management and the Investor Relations team. Elsewhere in Europe, the Benelux and Scandinavian countries have also become destinations for regular roadshows. Other regions where there is an interest in our shares include especially Asia (Singapore and Japan) and North America.

We utilize international cross-industry conferences organized by global banks as important platforms for communicating with our target groups. We also participate at conferences specifically for mid caps or the chemical industry. In addition, we attend forums for private investors in order to present our company's business performance.

In 2015, we intend to maintain a strong presence at international conferences. We will also continue our participation at events for private investors.

## LANXESS Capital Markets Day and Media Day provide details of realignment

The realignment of LANXESS was the central focus of our Capital Markets Day and Media Day on November 6, 2014. As well as describing the current challenges resulting from the changed market environment, we presented details of our three-phase program to increase competitiveness and reported on the current status of its implementation. Already at the end of 2014, we had almost completed the first phase of the program aimed at improving the competitiveness of the business and administrative structure. We expect these measures to generate annual savings of around €150 million from the end of 2016. We have also initiated the first measures in the next phase of the program, which seeks to increase operational competitiveness. Here, the focus is on optimizing production, marketing and the supply chain. In 2015, we aim to develop and announce specific steps that will comprise the third phase of the program, which is directed at improving the competitiveness of the business portfolio. Repositioning our rubber businesses is of key importance here.

The presentations made at both the Capital Markets Day and Media Day are available on our website under Investor Relations/Events & Presentations.

## Further IR activities provide timely information

Conference calls are a further important means of providing capital market participants with timely and extensive information updates. In these calls, the Board of Management comments on our published results and reports on current measures taken by LANXESS. Conference calls are streamed live in the Investor Relations section of the LANXESS website, and recorded versions are available for download for one year.

The Investor Relations section of our website also contains the presentations from our roadshows and Capital Market Days and from the external conferences at which we participate. The offering is rounded out by our financial reports, publications like the LANXESS Fact Book, investor news and details about our shares and bonds.

## LANXESS honored for its capital market communications

Maintaining a broad, timely and transparent dialogue with the capital markets has always been a high priority for us. That is why we are pleased that, despite the difficulties we faced in fiscal 2014, our IR activities were recognized by portfolio managers and analysts in prestigious rankings. The main criteria for these were again the credibility and transparency of our communications, the focus on target groups and access to top management.

In the ranking of European companies performed by the U.K.'s respected IR Magazine, based on a survey of some 500 European portfolio managers and analysts, LANXESS was placed first for investor relations work by a mid-cap company.

The investors and sell-side analysts surveyed by U.S. magazine Institutional Investor also rated our performance very highly, ranking LANXESS second among European chemical companies. In the Best IR Professional category, sell side and buy side placed LANXESS first and second, respectively. In compiling its rankings, Institutional Investor again asked more than 850 fund managers and 1,500 analysts to rate the investor relations work of European companies.

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# Corporate Governance

# 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 10, 2014, 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 11 December 2013, LANXESS AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code ("Government Commission") as amended on 13 May 2013, which was published on 10 June 2013 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 11 December 2013 in Section 4.2.3, Paragraph 2, Sentence 6, Paragraph 4, Sentence 1, 5.1.2 Paragraph 2 Sentence 3, 5.4.5 Paragraph 2 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 24 June 2014, which was published on 30 September 2014, 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 2, Sentence 8

   *Changing such performance targets or the comparison parameters retroactively shall be excluded.*

   In light of the company's current realignment program the Board of Management and the Supervisory Board agreed to reduce the potential maximum amount of payment of the variable salary component Annual Performance Payment (APP) for the members of the Board of Management for fiscal year 2014. Moreover, the Supervisory Board reserves its right to retroactively adapt the comparison parameters of the APP for the members of the Board of Management for fiscal year 2015 in consideration of the general conditions.

3. 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.

4. 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 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.

5. 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 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.

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 11 December 2013, LANXESS AG has complied with the suggestions of the Government Commission as amended on 13 May 2013, which was published on 10 June 2013 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 24 June 2014, which was published on 30 September 2014, 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 Corporate Responsibility/Corporate Governance/Compliance at LANXESS.

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 section of our website at http://www.lanxess.com/. Additionally, LANXESS joined the United Nations Global Compact initiative in July 2011 and has supported the Responsible Care® Global Charter adopted by the International Council of Chemical Associations (ICCA) since 2006, a commitment the company reconfirmed by signature in August 2014.

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 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

The Board of Management of LANXESS AG currently comprises three members: Matthias Zachert (Chairman), Dr. Bernhard Düttmann 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 Investor Relations/Corporate Governance/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, Ulrich Freese, Dr. Hans-Dieter Gerriets, Thomas Meiers and Hans-Jürgen Schicker serve as the employee representatives on the Supervisory Board. Effective July 1, 2014, Dr. Gerriets, as the elected substitute, became the representative of the LANXESS managerial employees, succeeding Dr. Rudolf Fauss on his retirement. Claudia Nemat, Dr. Friedrich Janssen, Robert J. Koehler, Rainer Laufs, Dr. Rolf Stomberg and Theo H. Walthie serve as the stockholder representatives. 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 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 does not apply a rigid age limit for its members as it does not consider age alone 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.

Two of the twelve members currently serving on the LANXESS AG Supervisory Board are women. Elections of both stockholder and employee representatives on the Supervisory Board will take place in 2015. Only Ms. Nemat's term of office continues until the Annual Stockholders' Meeting in 2019. One of the candidates for election as an employee representative is a woman. No other women have come forward as candidates for election. As a result, it will not be possible to achieve the aim of having at least three women members on the LANXESS AG Supervisory Board from the beginning of its new term. With a view to ensuring the appropriate representation of women, the Supervisory Board remains committed to the aim of increasing the number of its women members to at least three. For this reason, women candidates are to be proposed if possible should any seats on the Supervisory Board become vacant during the course of its new term. Should legislation be enacted to mandate a higher proportion of women members on supervisory boards, the Supervisory Board will implement these legal requirements. 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.

### 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. Gerriets, 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.

Other Supervisory Board committees established for a particular purpose perform the duties assigned to them by Supervisory Board resolution.

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 2014, 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, 2014 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 2014 fiscal year was audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("PwC"), the auditors chosen at the Annual Stockholders' Meeting held in 2014. PwC also reviewed the 2014 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 February 27, 2015, the Board of Management of LANXESS AG issued its declaration for fiscal 2014 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 Investor Relations/Corporate Governance.

## Offices held by serving Board of Management members

(as of December 31, 2014)

| Member of the Board of Management | External offices | Offices within the LANXESS Group |
|---|---|---|
| Matthias Zachert<br>Chairman of the Board of Management | • Member of the Presidium of the German Chemical Industry Association (VCI)<br>• Member of the Asia-Pacific Committee of German Business (APA)<br>• Member of the Presidium of stiftung neue verantwortung e.V. | • Chairman of the Executive Board of LANXESS Deutschland GmbH |
| Dr. Bernhard Düttmann<br>Chief Financial Officer | • Member of the Supervisory Board of GfK SE, Nuremberg<br>• Member of the Board of Directors of Deutsches Aktieninstitut (DAI)<br>• Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU) | • Member of the Executive Board of LANXESS Deutschland GmbH<br>• Member of the Board of Directors of LANXESS Corp. |
| Dr. Rainier van Roessel<br>Member of the Board of Management and Industrial Relations Director | • Member of the Supervisory Board of Currenta Geschäftsführungs-GmbH, Leverkusen<br>• Member of the Board of the VCI Regional Association in North Rhine-Westphalia<br>• Member of the VCI Trade Policy Committee<br>• Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP)<br>• Member of the Board of the German Chemical Industry Federation (BAVC) | • Member of the Executive Board of LANXESS Deutschland GmbH<br>• Chairman of the Supervisory Board of Aliseca GmbH<br>• Chairman of the Supervisory Board of Rhein Chemie Rheinau GmbH<br>• Chairman of the Board of Directors of LANXESS S.A. de C.V.<br>• Executive member of the Board of Administration of LANXESS N.V.<br>• Chairman of the Board of Directors of LANXESS Hong Kong Ltd.<br>• Chairman of the Board of Directors of Holding Hispania S.L.<br>• Chairman of the Board of Directors of LANXESS Chemicals S.L.<br>• Chairman of the Board of Directors of LANXESS Corp.<br>• Chairman of the Governing Board of LANXESS Srl.<br>• Member of the Board of Directors of LANXESS Chemical (China) Co. Ltd.<br>• Chairman of the Board of Directors of LANXESS India Private Ltd.<br>• Chairman of the Board of Directors of LANXESS K.K.<br>• Chairman of the Board of Directors of LANXESS Butyl Pte. Ltd.<br>• Chairman of the Board of Directors of LANXESS International S.A. |

# LANXESS AG Supervisory Board

## Serving members (as of December 31, 2014)

### 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* (Vice Chairman)
- HOYER GmbH, Hamburg
- KEMNA Bau Andreae GmbH & Co. KG, Pinneberg
- OAO Severstal, Cherepovets, Russia

### 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*
- Vivawest Wohnen GmbH, Essen* (Vice Chairman)

### 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*

### Dr. Hans-Dieter Gerriets

- Chairman of the LANXESS AG Group Managerial Employees' Committee
- Chairman of the LANXESS Managerial Employees' Committee
- Manager of a production facility in the Advanced Industrial Intermediates business unit of LANXESS Deutschland GmbH

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*
- HanseWerk AG, Quickborn* (formerly E.ON Hanse AG)
- Avacon AG, Helmstedt*
- Thüga Assekuranz Services München Versicherungsmakler GmbH, Munich
- Hoberg & Driesch GmbH, Düsseldorf (Chairman of the Advisory Board)

### 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*
- Benteler International AG, Salzburg, Austria (Chairman)

### 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)
- Asklepios Kliniken GmbH, Hamburg*
- Asklepios Kliniken Verwaltungsgesellschaft mbH, Königstein im Taunus*
- MediClin AG, Offenburg* (since October 23, 2014)
- Bilfinger Industrial Services GmbH, Munich (Member of the Advisory Board)
- Bilfinger Industrial Technologies GmbH, Frankfurt am Main (Member of the Advisory Board)

### 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*

| **Claudia Nemat** |
|---|
| Member of the Board of Management of Deutsche Telekom AG, Bonn |
| Further offices:<br>• LANXESS Deutschland GmbH, Cologne*<br>• Buyln SA, Brussels, Belgium (Vice Chairwoman)<br>• 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:<br>• LANXESS Deutschland GmbH, Cologne* |

| **Gisela Seidel** |
|---|
| Chairwoman of the Works Council at the Dormagen site |
| Further offices:<br>• LANXESS Deutschland GmbH, Cologne* |

| **Theo H. Walthie** |
|---|
| Self-employed consultant |
| Further offices:<br>• LANXESS Deutschland GmbH, Cologne*<br>• NBE Therapeutics AG, Basle, Switzerland (President of the Board of Administration) |

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, 2014).

* Statutory supervisory boards

# Report of the Supervisory Board

**Dear Stockholders,**

Behind LANXESS lies a very challenging year. In particular, the persistently difficult competitive environment in the synthetic rubber businesses and the resulting price pressure continued to substantially impact LANXESS's earnings development. With an EBITDA pre exceptionals of €808 million, LANXESS posted slight year-on-year growth in earnings. However, the earnings situation in the polymers business clearly reflected the difficult market environment the company faced.

In 2014, the Supervisory Board implemented a change of leadership of the Board of Management. At the start of the year, on account of strategic differences with Dr. Axel C. Heitmann, the Supervisory Board approved the mutually agreed termination of Dr. Heitmann's appointment as a member and Chairman of the Board of Management. Effective April 1, 2014, the Supervisory Board appointed Matthias Zachert as the new Chairman of the Board of Management. Until he joined Merck KGaA in 2011, Mr. Zachert had been Chief Financial Officer of LANXESS.

In the reporting year, under the leadership of Matthias Zachert as the new Chairman of the Board of Management and with the support of the Supervisory Board, LANXESS initiated an extensive corporate realignment program in response to the difficult economic situation. The three-phase program is aimed at sustainably increasing LANXESS's competitiveness. The first phase of the program, which is focused on the competitiveness of the business and administrative structures, was successfully concluded at the end of 2014. In this phase, business units were merged and their number reduced from 14 to 10 effective January 1, 2015. Additionally, LANXESS will be reducing the workforce by 1,000 positions worldwide through the end of 2016 by means of voluntary separation. Also in 2014, LANXESS initiated measures from the second phase of the realignment program, which is focused on manufacturing, commercial and supply chain excellence. In the reporting year, LANXESS achieved initial savings of around €20 million as a result of the program. The realignment program will be systematically pursued in the current fiscal year.

During 2014, 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. Alongside the personnel changes on the Board of Management, the Supervisory Board concerned itself in particular with the realignment program initiated after the change of leadership and the measures aimed at increasing competitiveness.

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 and 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 eight times in 2014.

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.

In an extraordinary meeting on January 26, 2014, the subject of which was the change in leadership at LANXESS, the Supervisory Board approved the mutual termination of the appointment of Dr. Heitmann as a member and Chairman of the Board of Management effective February 28, 2014. At the same time, it approved a severance agreement concluded with Dr. Heitmann. The Supervisory Board also approved the appointment of Matthias Zachert as the new Chairman of the Board of Management. Until Mr. Zachert joined the company, initially planned for May 15, 2014, Dr. Düttmann was provisionally assigned the tasks and responsibilities of Chairman of the Board of Management. In connection with the change of leadership, the Supervisory Board also reassigned Board of Management responsibilities.

In a further extraordinary meeting on February 21, 2014, the Supervisory Board resolved the immediate mutual termination of Dr. Heitmann's appointment to the Board of Management. Furthermore, we approved the conclusion of an amendment agreement to the severance agreement made with Dr. Heitmann on January 26, 2014, in which Dr. Heitmann declared his willingness to waive his right to the agreed termination benefits. At this meeting, the Supervisory Board also resolved that Mr. Zachert would already join the LANXESS Board of Management effective April 1, 2014, after his former employer agreed to release him from his duties effective that same date.

The focus of the Supervisory Board meeting held on March 18, 2014 was the review of the annual financial statements and consolidated financial statements for fiscal 2013, the proposal for use of the distributable profit, and preparation of the motions for resolution by the Annual Stockholders' Meeting. The Supervisory Board also considered issues pertaining to corporate governance. Furthermore, it defined the variable compensation components for the members of the Board of Management on the basis of target attainment in fiscal 2013.

At the meeting on May 7, 2014, after detailed discussion and on the basis of the authorization by the Stockholders' Meeting on May 28, 2010, concerning the use of Authorized Capital II, the Supervisory Board approved an increase in the company's share capital by just under 10%, excluding stockholders' subscription rights, in an accelerated bookbuilding process. This increase by a nominal amount of €8,320,266 was against the issuance of 8,320,266 new, no-par bearer shares in the company. The Supervisory Board also resolved to establish a Capital Increase Committee to represent the full Supervisory Board in making the further decisions necessary to implement the capital increase, which resulted in gross proceeds of around €433 million. This measure strengthened LANXESS's equity and reduced net financial liabilities. During the meeting, we also discussed in detail with the Board of Management possible courses of action for the rubber businesses and other LANXESS business units. Other subjects discussed included possible measures to reduce costs and increase competitiveness. Furthermore, the Supervisory Board decided to extend Dr. Rainier van Roessel's term of office as a member of the Board of Management by five years from January 1, 2015, and to reappoint him as the company's Industrial Relations Director.

The meeting that took place immediately prior to the Annual Stockholders' Meeting on May 22, 2014, served to prepare that meeting.

On August 5, 2014, the Board of Management presented the program for the realignment of LANXESS. We again discussed in detail strategies and possible measures for the company's economic recovery. Other subjects for discussion were the causes of the changed market developments in the rubber businesses, the anticipated development of capacities, the cost situation and raw material supplies. At this meeting, we resolved the mutual termination of the appointment of Dr. Werner Breuers as a member of the Board of Management effective

August 5, 2014. At the same time, a change to the assignment of Board of Management responsibilities was also decided.

In the meeting held on November 5, 2014, the Board of Management reported on the current status of and further steps in the LANXESS realignment program. We were also informed about the status of the associated human resources measures. Additionally, the Board of Management explained the company's internal control, risk management and auditing systems.

At its meeting on December 10, 2014, the Supervisory Board reviewed in full and approved the corporate planning for 2015 proposed by the Board of Management. It also discussed the company's strategic alignment and capital expenditure policy. We additionally looked at the future compliance organization of the LANXESS Group and resolved to amend the rules of procedure for the Supervisory Board. In light of the ongoing projects for the company's realignment and in deviation from the original Supervisory Board resolution of December 11, 2013, the Board of Management and the Supervisory Board agreed to reduce the potential maximum amount of the Annual Performance Payment (APP) variable salary component payable to the members of the Board of Management for fiscal 2014. Lastly, the Supervisory Board defined the conditions for the Board of Management's variable compensation components for fiscal 2015.

All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The Supervisory Board's meetings in 2014 were attended by all members, with the exception of one member who was not present at two meetings. Committee meetings were attended by all members, with the exception of two meetings 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. The members of the Board of Management attended the Supervisory Board meetings unless the Chairman of the Supervisory Board determined otherwise.

## 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 2013, the consolidated financial statements of the LANXESS Group and the combined management report for fiscal 2013, the interim reports issued during fiscal 2014, and the condensed consolidated financial statements and interim management report included in the 2014 half-year financial report. It also reviewed the company's risk management and internal control systems. Other topics discussed were the significant findings by the internal audit department, corporate planning, compliance and the determination of the principal areas of focus for the audit of the 2014 financial statements. The external auditor attended two of the Audit Committee's four meetings and reported on the auditing activities.

The Presidial Committee convened six times during 2014 to prepare the meetings of the Supervisory Board and the decisions to be reached by the full Supervisory Board concerning human resources measures in the company's Board of Management.

The Nominations Committee met twice in fiscal 2014. The Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act did not have to convene.

At its meeting on May 7, 2014, the Supervisory Board established a Capital Increase Committee up until midnight on May 21, 2014 to represent the Supervisory Board in taking the further necessary decisions to implement the capital increase resolved by the Board of Management on the same day. On May 8, 2014, the Capital Increase Committee approved the Board of Management's decision concerning the placement price for the issuance of shares in respect of the capital increase. The members of this committee were the Chairman of the Supervisory Board, Dr. Rolf Stomberg, and Supervisory Board members Dr. Friedrich Janssen, Ms. Gisela Seidel and Mr. Hans-Jürgen Schicker. Dr. Stomberg was elected chairman of this committee, with Ms. Seidel as his deputy.

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). The joint declaration of compliance made on December 10, 2014, 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 company's 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 2014 fiscal year in accordance with the rules of the German Commercial Code, the consolidated financial statements for fiscal 2014 in accordance with the International Financial Reporting Standards (IFRS) and the combined management report for 2014. 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 16, 2015. 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 17, 2015. 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 2014. At midnight on June 30, 2014, Dr. Rudolf Fauss retired and ceased to be the representative of the LANXESS managerial employees on the Supervisory Board. He was succeeded as a member of the Supervisory Board by Dr. Hans-Dieter Gerriets, who was his elected substitute member.

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

Cologne, March 17, 2015

The Supervisory Board

**Dr. Rolf Stomberg**
Chairman

# Financial Information

# Combined Management Report of the LANXESS Group and LANXESS AG

**Combined Management 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, Performance Chemicals |
| 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 | Performance Polymers |
| Rhein Chemie Rheinau GmbH, Mannheim, Germany | Production and sales | Performance Chemicals |
| Saltigo GmbH, Leverkusen, Germany | Production and sales | Advanced Intermediates |

## Changes to the Group portfolio

In March 2014, we divested our wholly owned subsidiary Perlon-Monofil GmbH, Dormagen, Germany. This company is among the world's leading producers of polyamide and polyester monofilaments, which are used above all in paper manufacturing, shipping and agriculture.

## 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 also see the Corporate Governance Report.

# Business

## Business organization

As part of the realignment of the LANXESS Group by means of the "Let's LANXESS again" program, we consolidated our business units effective January 1, 2015. LANXESS is still structured in three segments but these now comprise a total of 10 business units, each of which conducts its own operations and has global profit responsibility. The Butyl Rubber and Performance Butadiene Rubbers business units were merged to form the Tire & Specialty Rubbers business unit. This decision was based on overlapping customer structures, regional commonalities in the established markets and changed conditions in the emerging economies. Furthermore, LANXESS consolidated the High Performance Elastomers and Keltan Elastomers business units in the High Performance Elastomers business unit. Here, too, there were substantial overlaps in customer structures. The specialty chemicals product line of the Rubber Chemicals business unit, the Functional Chemicals business unit and the Rhein Chemie business unit now make up the new Rhein Chemie Additives business unit. By consolidating our additives business operations, we are seeking access to new markets and customers. Effective January 1, 2015, the antioxidants and accelerators product lines of the Rubber Chemicals business unit were integrated into the portfolio of the Advanced Industrial Intermediates business unit. These restructuring measures have no impact on our reporting for fiscal 2014.

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.

## The segments in brief

We have combined our synthetic rubber and engineering plastics activities in the Performance Polymers segment.

**Performance Polymers**

| | |
|---|---|
| **Business units** | Butyl Rubber[1] |
| | Performance Butadiene Rubbers[1] |
| | Keltan Elastomers[2] |
| | High Performance Elastomers[2] |
| | 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, Porto Feliz and Triunfo, Brazil |
| | Nantong and Wuxi, China |
| | Jhagadia, India |
| | Singapore |
| **Applications** | Tires |
| | Automotive |
| | Electronics |
| | Electrical engineering |
| | Medical equipment |

1) Effective January 1, 2015, merged to form the new Tire & Specialty Rubbers business unit
2) Effective January 1, 2015, merged to form the new High Performance Elastomers business unit

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[1] |
| | Saltigo |
| **Sites** | Brunsbüttel, Dormagen, Krefeld-Uerdingen and Leverkusen, Germany |
| | Baytown, U.S.A. |
| | Liyang, China |
| | Nagda, India |
| **Applications** | Agrochemicals |
| | Automotive |
| | Construction |
| | Dyestuffs |
| | Coatings |
| | Pharmaceuticals |

1) Effective January 1, 2015, also includes some activities of the Rubber Chemicals business unit

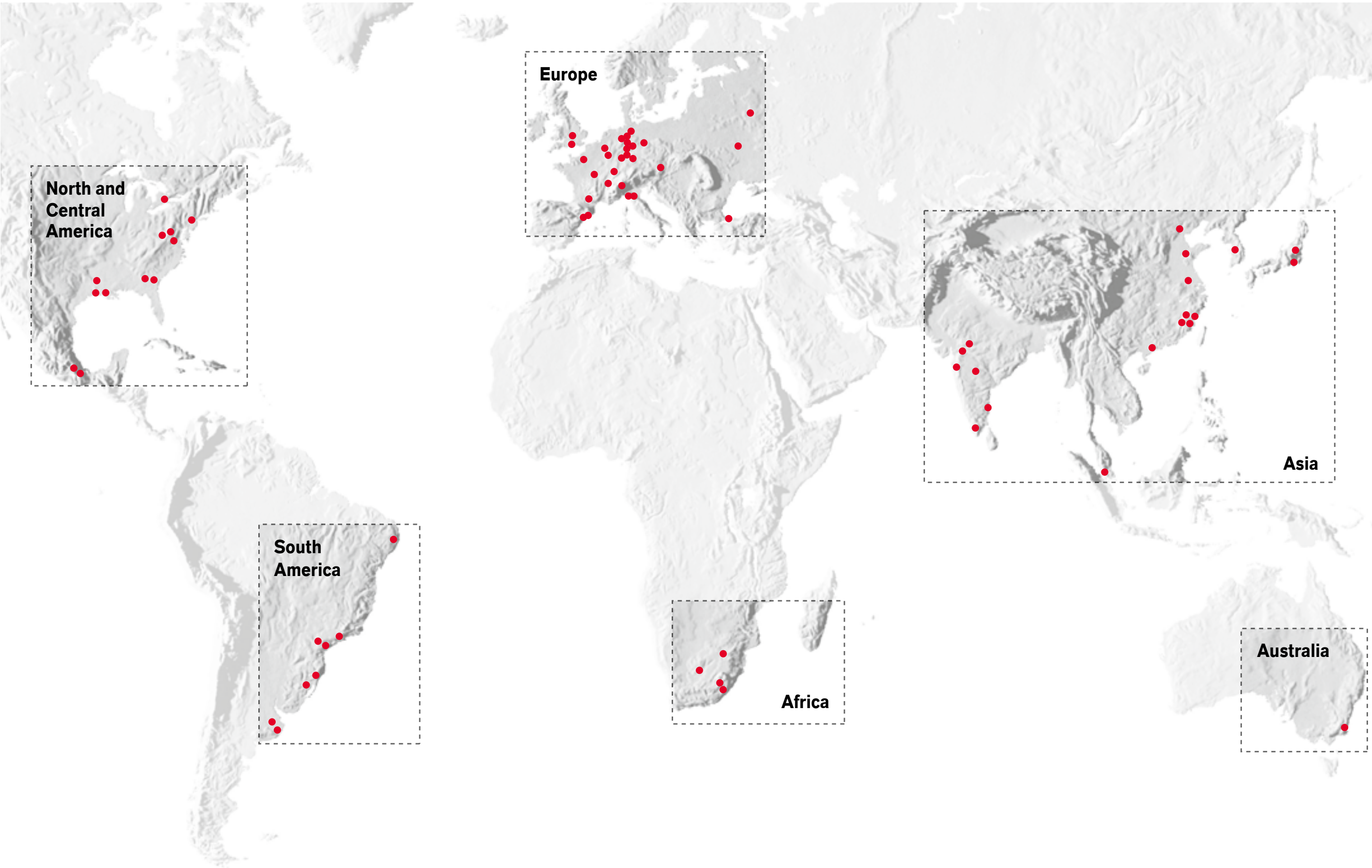
We have combined our application-oriented process and functional chemicals operations in the Performance Chemicals segment.

**Performance Chemicals**

| | |
|---|---|
| **Business units** | Material Protection Products |
| | Inorganic Pigments |
| | Functional Chemicals[1] |
| | Leather |
| | Rhein Chemie[1] |
| | Rubber Chemicals[2] |
| | Liquid Purification Technologies |
| **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) Effective January 1, 2015, merged to form the new Rhein Chemie Additives business unit
2) Effective January 1, 2015, divided between the Advanced Industrial Intermediates and the new Rhein Chemie Additives business units

**LANXESS has a Presence Throughout the World**




## Strategy

The LANXESS Group is a globally operating chemicals enterprise that is characterized particularly by flexible asset structures, a diversified customer base, a worldwide presence with regional flexibility and an entrepreneurial management structure. The company's portfolio ranges from polymers to industrial, specialty and fine chemicals. Its development 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 valuable commodity 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.

### Structural challenges on the supply side

Whereas we consider long-term demand development to be largely intact, supported by the aforementioned megatrends, we are facing three significant structural changes on the supply side:

- The European chemical industry – and thus also LANXESS – is increasingly experiencing cost disadvantages in the global competitive arena because of higher raw material and energy prices.
- Import pressure on the European markets is being increased by suppliers from the emerging economies that are state-owned or at least supported by state subsidies and by U.S. companies that benefit from much lower energy costs.
- As the result of expanding local production capacities – also for high-quality products – export opportunities to the world's growth regions are successively declining.

Although raw material and energy prices declined during the second half of 2014, the structural developments are impacting our synthetic rubber business especially. Overcapacities of some 20% already exist for the common rubber grades. Additional capacity start-ups, especially for EPDM and butyl rubbers, could further reinforce this imbalance.

To be successful in this changed environment in the long term, we must tangibly improve the efficiency of our business and administrative processes and make LANXESS's business units more competitive again.

## Extensive realignment program initiated

Against the background of these structural challenges, we initiated the three-phase "Let's LANXESS again" program in the third quarter. We have been working since then on its consistent implementation.

In the first phase of the program, we reduced the number of our business units from 14 to 10 with effect from January 1, 2015 (see "Business organization" in this combined management report). We are also streamlining the administration of our business units and service functions through cross-functional workforce reductions worldwide and the consolidation of group functions. Through a more efficient organizational structure, we are fostering market and customer proximity and also seeking to sustainably improve our cost position. From the end of 2016, we aim to achieve annual savings of around €150 million. The first phase of the realignment will result in a reduction of about 1,000 positions worldwide.

As part of the second phase, we have started two excellence initiatives focusing on our operational competitiveness. In a manufacturing excellence initiative through to the end of 2016, we will be examining all production processes and facilities with respect to market requirements, potential synergies and the need for temporary or permanent plant shutdowns. A parallel initiative is focusing on commercial and supply chain excellence.

We have already initiated the first steps of the program's third phase as well, which is closely allied with the second phase. Here, the focus is on examining portfolio options, as well as improving access to raw materials and customer markets – also through strategic partnerships.

With the financial headroom gained by "Let's LANXESS again," we aim to redirect our strategic focus beyond 2016 toward growth – especially in less cyclical businesses.

## Capital expenditure strategy

We are striving to increase our international competitiveness through capital expenditures focused on continuous efficiency improvements in our production facilities and attractive growth opportunities in profitable markets. The following principles guide our capital expenditure activities:

- Having focused in recent years on the construction of world-scale plants in Singapore and China, we intend in the future to target investment more specifically – with the exercise of strict cost discipline – on improving the efficiency of existing plants and on new plants for the Advanced Intermediates and Performance Chemicals segments.
- 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 financing policy is conservative and sustainable. Its cornerstones 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**

| | | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| EBITDA pre exceptionals | € million | 918 | 1,146 | 1,223 | 735 | 808 |
| EBITDA margin pre exceptionals | % | 12.9 | 13.1 | 13.4 | 8.9 | 10.1 |
| Capital employed | € million | 3,750 | 4,784 | 5,442 | 4,969 | 5,093 |
| ROCE | % | 17.0 | 17.2 | 15.6 | 5.8 | 7.9 |
| Days of inventory outstanding (DIO) | Days | 69.3 | 73.7 | 82.8 | 70.7 | 79.1 |
| Days of sales outstanding (DSO) | Days | 46.3 | 49.9 | 47.4 | 47.8 | 48.0 |
| Net financial liabilities | € million | 913 | 1,515 | 1,483 | 1,731 | 1,336 |
| Net financial debt ratio | | 1.0x | 1.3x | 1.2x | 2.4x | 1.7x |
| Investment ratio | % | 7.4 | 8.0 | 8.1 | 8.1 | 8.6 |

To achieve our strategic goals, we need specific indicators that we can use to measure the outcome of our activities. The most important indicator of our financial performance – and thus the company's key controlling parameter – is EBITDA (earnings before interest, income taxes, depreciation and amortization) pre exceptionals. We view other financial performance ratios such as return on capital employed (ROCE), days of inventory outstanding (DIO) and net financial debt ratio as company-specific lead indicators that we monitor but which are not relevant to steering our business.

The calculation of specific indicators is 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 Corporate 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 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. Grants and subsidies from third parties for the acquisition and construction of property, plant and equipment are accounted for as deferred income using the gross method. In this respect, 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. We use EBITDA pre exceptionals as our key controlling parameter because it facilitates assessment of the company's development over several reporting periods.

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 influences sales but, other than short-term effects, has largely no impact on the margins that are significant to our profitability. We therefore set no sales targets, either for the short or medium term.

## Company-specific lead indicators

Lead indicators support the timely identification of material changes in the company's earnings, asset and financial position 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, have 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 2014, ROCE was 7.9% – against 5.8% in 2013 – and thus almost level with our weighted average cost of capital (WACC) after adjustment for comparability.

## Capital employment

To optimize our working capital at the operational level, we use two key performance indicators: DSO (days of sales outstanding) and DIO (days of inventory outstanding). These describe receivables in relation to sales and inventories in relation to the cost of goods sold for the previous quarter. From the reporting year, DIO replaces the previously used ratio DSI (days of sales in inventories). In 2014, DIO was at 79.1 days (2013: 70.7 days) and DSO at 48.0 days (2013: 47.8 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 financial 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 lower net financial liabilities at December 31, 2014, the net financial debt ratio decreased to 1.7, against 2.4 at the previous year's reporting date. Our net financial liabilities declined by €395 million to €1,336 million. Moreover, at Group level, provisions for pensions and other post-employment benefits are considered components of debt. They rose by €347 million compared with the end of 2013, to €1,290 million.

**Net Financial Liabilities**

| € million | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Non-current financial liabilities | 1,302 | 1,465 | 2,167 | 1,649 | 1,698 |
| Current financial liabilities | 176 | 633 | 167 | 668 | 182 |
| Less | | | | | |
| Liabilities for accrued interest | (41) | (55) | (54) | (53) | (26) |
| Cash and cash equivalents | (160) | (178) | (386) | (427) | (418) |
| Near-cash assets | (364) | (350) | (411) | (106) | (100) |
| | **913** | **1,515** | **1,483** | **1,731** | **1,336** |

## 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 been a crucial factor in facility location decisions. For our butyl rubber plant in Singapore, for example, we source a large proportion of the most important feedstocks via nearby pipelines. We have taken the same approach to sourcing the raw materials for our plant to manufacture neodymium-based performance butadiene rubber (Nd-PBR), also in Singapore. We procure key raw materials like butadiene and utilities in the form of 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 2014 included BASF, Bayer, BP, Braskem, Evonik, ExxonMobil, INEOS, LyondellBasell, Nova Chemicals, PT Petrokimia Butadiene Indonesia, Sabic, Shell Chemicals and Total.

Among the most important strategic raw materials by far for our production operations in 2014 were ammonia, benzene, butadiene, caustic soda, cyclohexane, ethylene, isobutylene, propylene, styrene and toluene. In all, strategic raw materials accounted for a purchasing volume of about €3.0 billion in fiscal 2014 (2013: about €3.2 billion), or around 75% of the LANXESS Group's total expenditure for raw materials and goods in 2014, which amounted to approximately €4.0 billion (2013: about €4.2 billion). Around 78% (2013: 83%) of our total expenditure for raw materials and goods went to suppliers from countries in the upper third of the Country Sustainability Ranking. Of the remaining 22%, nearly two thirds were accounted for by supplies from Brazil, China and India. Our total procurement volume in 2014 was around €6.2 billion (2013: about €6.2 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, auctions and electronic marketplaces, many of which are integrated into our internal IT systems. In 2014, about 66% of all items ordered (2013: around 64%) 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 16,500 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, have a key role in our selection and evaluation of suppliers.

As a founder of the Together for Sustainability (TfS) initiative, we aim to enhance supply chain transparency and thus further minimize procurement risks. The goal of this initiative, membership of which rose to 12 international chemical companies in the reporting year, 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. As the assessment and audit results are shared within the initiative, we had access to a substantially larger number of sustainability assessments (more than 2,600) and audit reports (286) at the end of 2014. Countries such as Brazil, China and India remained the focus of the 93 audits conducted during the reporting period. These identified a continuing need for action in respect of labor and human rights and occupational safety. The first joint TfS Supplier Day held in Shanghai, China, in October 2014 attracted around 350 participants. It was used to explain to the attending suppliers the growing importance of a sustainable supply chain to LANXESS and the other members of the initiative.

## 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 2014:

- The High Performance Elastomers business unit has a new production line for Baypren solid polychloroprene rubber at our Dormagen, Germany, site.
- The High Performance Materials business unit opened a state-of-the-art compounding facility for engineering plastics with an annual capacity of around 20,000 tons in Porto Feliz, Brazil.
- At our site in Antwerp, Belgium, the High Performance Materials business unit commissioned a new world-scale plant for polyamide plastics with an annual capacity of some 90,000 tons.
- LANXESS subsidiary Bond-Laminates GmbH, which is assigned to the High Performance Materials business unit, completed capacity expansion measures for the Tepex high-performance composite at its headquarters in Brilon, Germany.
- At the site in Leverkusen, Germany, the Liquid Purification Technologies business unit commissioned a state-of-the-art, food-compatible filling and packaging facility and an additional production line for weakly acidic cation exchange resins.

Including the measures described above, our cash outflows for capital expenditures came to €614 million in 2014. Details are given under "Capital expenditures" in the "Statement of financial position and financial condition" section of this combined management report.

A strike at our butyl rubber facility in Zwijndrecht, Belgium, in March and April 2014 resulted in a production stoppage of nine weeks in total. During this time, we supplied our customers from our butyl rubber plants in Sarnia, Canada, and Singapore.

## Sales organization and customers

### Sales organization

We sell our products all over the world, to several thousand customers in more than 150 countries across all continents. LANXESS's long-standing customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers' needs, we have set up very flexible marketing and sales structures. We manage our sales throughout the world through 49 companies owned by LANXESS itself. 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 derived from having 52 of our own 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 2014, we expanded our e-business activities in purchasing, sales and logistics. Altogether, more than 1,000,000 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 €1.8 billion, an increase of about 3% on the previous year.

Selling costs in the reporting year came to 9.3% of LANXESS Group sales, up 0.2 percentage points on the prior-year level of 9.1%.

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

**Selling Costs**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **Selling costs (€ million)** | 646 | 732 | 763 | 755 | 742 |
| % of sales | 9.1 | 8.3 | 8.4 | 9.1 | 9.3 |
| **Breakdown by segment** | | | | | |
| Performance Polymers | 216 | 262 | 284 | 286 | 277 |
| Advanced Intermediates | 122 | 127 | 125 | 126 | 123 |
| Performance Chemicals | 300 | 320 | 335 | 328 | 330 |
| Reconciliation | 8 | 23 | 19 | 15 | 12 |

### 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, automotive, plastics, chemicals, agrochemicals, construction, electronics, leather and footwear, pharmaceuticals, food, water treatment and furniture.

**Shares of Sales by Industry Sector**

| % | 2014 |
|---|---|
| Tires | ~ 25 |
| Automotive | ~ 20 |
| Chemicals | ~ 15 |
| Agrochemicals | ~ 10 |
| Construction, electrical/electronics, leather/footwear | ~ 15 |
| Others (cumulative share) | ~ 15 |

In fiscal 2014, our top ten customers accounted for about 22% of total sales (2013: 24%). None of our customers accounted for more than 10% of Group sales. 50 (2013: 57) customers accounted for annual sales in excess of €20 million.

The number of customers in each segment varies widely. The Performance Polymers segment had some 3,600 customers in 2014 (2013: 3,500), while Advanced Intermediates and Performance Chemicals had about 3,100 (2013: 3,000) and around 11,300 (2013: 11,600), 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 product portfolio through the development of innovative products and processes as well as the ongoing optimization of existing production processes. In 2014, we redefined our focus in the course of realigning our decentral and central research and development activities. We are now concentrating on projects with a short- to medium-term time horizon for the products and processes in our core businesses.

### Organizational focus

Our research programs are directly and consistently aligned with the needs of our customers in the end markets relevant to our businesses. For example, the business units in the Performance Polymers segment are strengthening the focus of their activities on optimizing their products and product quality, as well as on developing new products.

Business units with most of their products in very mature markets, such as the Advanced Industrial Intermediates business unit in the Advanced Intermediates segment, concentrate on continuous process optimization to improve their production facilities and processes.

Our central research unit – the Production, Technology, Safety & Environment Group Function – complements the business units' research work with cross-business unit projects to ensure that potential synergies are exploited to the full and innovations can be applied in various LANXESS units.

Research concentrates on both process and product innovation, which are handled by separate units.

In the area of process innovation, the emphasis is on planning 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, for example, we have identified and in some cases achieved considerable savings on raw materials and energy. We have also succeeded in further reducing our operating costs by implementing process control concepts that include online analytics in a number of plants. These concepts enable us to run our plants even closer to the optimum operating point.

Product innovation is focused on generating 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. Here, too, our research goals are derived from the needs of our customers in the markets that are relevant to LANXESS.

Our main research and development units are at the sites in Leverkusen, Krefeld-Uerdingen and Dormagen, Germany; London, Canada; and Qingdao and Wuxi, China. Testing covers, for example, high-performance rubbers and engineering plastics for lightweight automotive engineering applications. In Hong Kong, we operate a center for engineering plastics to strengthen our relations with automakers in the Asia-Pacific growth region.

### Main research and development projects

In the reporting year, the Performance Polymers segment launched an innovative crosslinking technology for EPDM rubber using resol synthetic resin with zeolite as the new coactivator. This not only results in high vulcanization rates but also in particularly efficient crosslinking. Alongside the established vulcanization processes using sulfur and peroxide, the main crosslinking technologies for EPDM, resol vulcanization represents a promising alternative for processing this synthetic rubber. We have also developed a new heat-stabilized polyamide 6 for use in direct long fiber thermoplastic (DLFT) flow molding. This is the first customized polyamide 6 for this process and, unlike conventional long fiber compression molding compounds based on polyamide 6, it has outstanding flow properties and can be processed fume-free at extrusion temperatures of around 300 degrees Celsius. It therefore extends the spectrum of use for the process, which was previously dominated by polypropylene, to include applications that must display the typical advantages of polyamide 6.

The Advanced Intermediates segment has introduced Baynox Extra, a highly concentrated liquid stabilizer for biodiesel. This easily metered additive prolongs the stability of biodiesel produced from renewable raw materials, even if it contains polyunsaturated fatty acids. The combination of our proven antioxidants Baynox and Baynox Plus has an active ingredient content of 50% and prevents premature aging. As the stabilizer does not crystallize out, it can be used without any problems even at temperatures of minus ten degrees Celsius, therefore eliminating the need to heat the pre-tank.

The Performance Chemicals segment also brought a number of innovations to market in the reporting year. LANXESS has developed a new class of retanning materials designated Levotan X-Biomer, for which it has filed patent applications. These products make up a complete portfolio for all key steps in the retanning process and offer an alternative to synthetic retanning materials. All the products are based on biodegradable polymers derived from renewable raw materials and are given their functionality for retanning applications in a biotechnological process. They can be used to produce chrome-tanned leathers (wet blues) which meet even the stringent technical requirements for automotive applications and children's shoes, for example. Moreover, the use of Levotan X-Biomer reduces the environmental impact of the tanning process in many ways. In June 2014, LANXESS also launched its new Lewabrane RO S range of products, initially comprising three grades of spiral-wound membrane elements for reverse osmosis, which were specially developed for seawater desalination. These products already successfully completed important field tests prior to the launch.

Our central research unit has also developed a new technology which makes it possible to directly bond elastomers like EPDM to polyamide components in a single step during vulcanization. No adhesion promoter or primer is needed, thus reducing the number of steps involved in the overall process.

The research-intensive product and process development activities coordinated by the Production, Technology, Safety & Environment Group Function are conducted mainly via alliances with universities and research institutes. Generating knowledge in this way is substantially more efficient and cost-effective than if we were to maintain our own resources for this purpose. In 2014, we had a total of 154 (2013: 194) major research and development alliances, 41 (2013: 73) of which were with universities, 79 (2013: 72) with suppliers or customers, and 34 (2013: 52) with research institutes.

## Cost trend and employees

Our total research and development expenses in 2014 decreased by 14.0% on the prior year to €160 million, or 2.0% of sales (2013: €186 million, or 2.2% of sales). The Butyl Rubber, High Performance Materials, Saltigo, High Performance Elastomers and Keltan Elastomers business units accounted for the largest share of these expenditures in 2014 at 53% (2013: 59%). Saltigo, Butyl Rubber, Liquid Purification Technologies, Material Protection Products and High Performance Elastomers were the business units most active in research in terms of their ratios of research and development expenses to sales.

The decrease in research and development expenses already reflects the first savings achieved by our "Advance" and "Let's LANXESS again" programs.

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

**Research and Development Expenses**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Research and development expenses (€ million) | 116 | 144 | 192 | 186 | 160 |
| % of sales | 1.6 | 1.6 | 2.1 | 2.2 | 2.0 |

At the end of 2014, we employed 708 people – against 931 in 2013 – in our research and development laboratories worldwide. In our central research unit, the number of employees declined to 309 from 383 on December 31, 2013. Headcount in the decentral units decreased from 548 in 2013 to 399.

**Number of Employees in Research and Development**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Year end | 519 | 731 | 843 | 931 | 708 |
| % of Group employees | 3.5 | 4.5 | 4.9 | 5.4 | 4.3 |

## Fields of activity and patent strategy

Within the context of our global realignment, we are focusing our research and development activities on market-driven core projects. In 2014, we conducted around 210 projects (2013: 260), around 120 of which (2013: 150) aimed to design new products and applications or improve existing ones. Some 90 projects (2013: around 110) 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 2014 in the market or technical implementation stages by the end of 2015 (2013: about 20%).

The results of our activities are protected by patents, where this is possible and expedient. In the course of 2014, we submitted 94 priority applications worldwide. As of December 31, 2014, the full patent portfolio included approximately 1,010 patent families covering around 7,360 property rights.

## Corporate responsibility

As an international specialty chemicals group, we bear a major responsibility toward people and the environment. Our entrepreneurial activities reflect this sense of responsibility, which is also a key component of our strategy. Safety, environmental protection, social responsibility, quality and commercial efficiency are all key corporate goals at LANXESS. Our products and activities enable us to make a significant contribution worldwide to supporting our customers and improving people's quality of life. Our responsibility spans the entire supply and value creation chain – from the global procurement of raw materials and product development, through production, storage and transport, to use and disposal. Moreover, 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.

We have been supporting the Responsible Care® initiative since 2006 and, by signing the revised Responsible Care® Global Charter in 2014, we reaffirmed our commitment to the visions and ethical principles of the initiative in the year under review. We are also committed to the established principles of the world's largest corporate social responsibility initiative, the U.N Global Compact.

### Integrated management system

At LANXESS, a central management system provides the necessary global structures to ensure responsible commercial practices. Worldwide, we apply internal directives and operating procedures together with the ISO 9001 and ISO 14001 international standards for quality and environmental management. 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 2014.

As of December 31, 2014, our matrix certificate covered 46 companies with 76 sites in 23 countries. In 2014, the new butyl rubber production facility in Singapore was included in the certificate for the first time as planned. Our sites in the United States have also received confirmation of their certification to RC 14001 (RC = Responsible Care®). In addition, we have implemented an ISO 50001-certified energy management system in Germany, which was recertified in 2014.

On account of our realignment activities, we have revised our strategy of global certification of the energy management system in favor of a regional certification strategy. In future, certification decisions will be taken locally on the basis of regulatory requirements. In line with this new strategy, we are preparing for certification at sites in Belgium and China in 2015.

### Environment data

We use an electronic data capture 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 (lost time injury frequency rate) 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 HSE indicators for 2014 and the necessary data recording processes in the course of a business audit, again with a view to achieving a "limited assurance" rating.

### Social commitment

Our not-for-profit activities focus on providing support for science education in schools. The LANXESS education initiative is the Group-wide platform for these activities and has been used to establish relevant projects at almost all LANXESS sites. Since its launch in 2008, we have invested a total of more than €6 million worldwide in activities which have reached tens of thousands of children, adolescents and young adults.

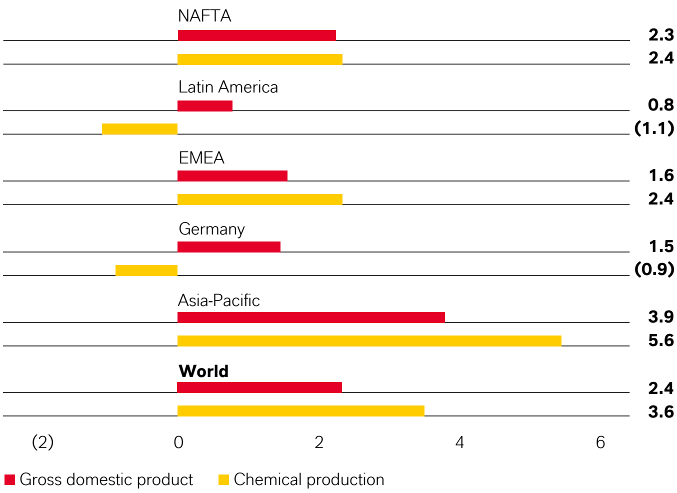
## Legal environment

There were no changes in the legal environment in 2014 that would have had a material impact on the earnings, asset and financial position of the LANXESS Group or LANXESS AG.

## Business conditions

**GDP and Chemical Production in 2014**

Change vs. prior year in real terms (%)

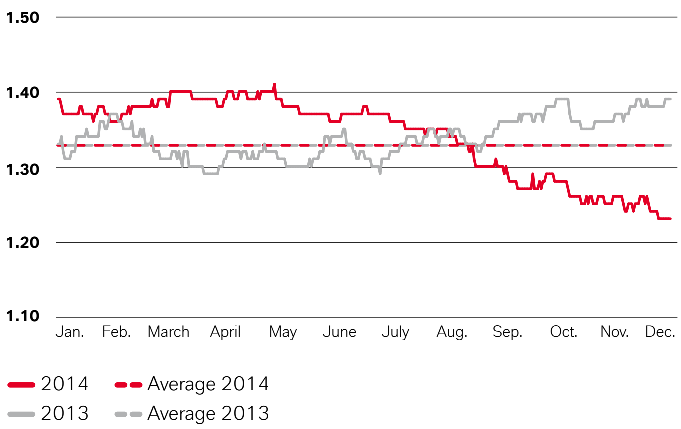



### The economic environment

Global economic growth weakened slightly during the course of 2014 yet showed an increase of 2.4%, which was just above the prior-year level of 2.1%. Economic development in the Asia-Pacific region resulted in growth of 3.9% on the prior year and was driven by the momentum in the Chinese economic region, which nonetheless lost pace as the year progressed. Gross domestic product in the NAFTA region increased by 2.3% in the reporting year, although development in the first quarter was hampered by the long winter period. The economy of the EMEA region grew by 1.6%. It was impacted by the need for structural reform in the eurozone and the associated debate concerning the financing of sovereign debt. Economic development was held back by the crisis in Ukraine and the resulting economic sanctions against Russia as well as by the renewed escalation of the conflicts in the Middle East. The German economy started 2014 in robust mood but lost momentum as the year progressed in light of the aforementioned developments. At year end, it had grown by 1.5%. In Latin America, the weak growth of the region's two major economies – Brazil and Argentina – saw gross domestic product increase by only a slim 0.8%.

In 2014, the exchange rate between the euro and the U.S. dollar developed counter to the prior-year trend. Monetary policy in both currency areas remained largely unchanged compared with a year earlier and was again characterized by very low interest rates. While the U.S. Federal Reserve ended its bond-buying program toward the end of the year, the European Central Bank agreed to buy potentially unlimited numbers of certain government bonds. Against this background, the euro started 2014 at US$1.38, with the U.S. currency mostly remaining at this level on average throughout the first half of the year. A substantial devaluation of the euro began in July and continued into October, interrupted by only slight upturns. Although the exchange rate subsequently displayed more substantial upturns, the downward slide of the euro continued unabated. At year end, the euro cost US$1.21 – an increase of 11.6% in the value of the U.S. dollar in 2014. The euro's average rate for the year was unchanged year on year at US$1.33. Due to the regional positioning of our business, a stronger U.S. dollar generally has a positive effect on our earnings. Centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

**Value of the U.S. Dollar against the Euro**



On the raw material markets, prices declined over the course of the reporting 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 over the course of the year – especially from the beginning of the second half. Reflecting the development of the oil price, the prices of feedstocks such as benzene and toluene also decreased.

## The chemical industry

The general economic trends had an impact on the chemical industry as well, where production worldwide grew by 3.6 %. The Asia-Pacific region posted the strongest growth at 5.6%, supported above all by the development of the Chinese economic region. In the reporting year, chemical production in the NAFTA region increased by 2.4%. In the Latin America region, chemical industry production declined by 1.1% after expanding by a slim 0.3% in 2013. The chemical sector in the EMEA region posted growth of 2.4% whereas the industry's business in Germany receded by 0.9%.

## Evolution of major user industries

Global tire production increased by 3.2% in 2014, which was on a par with the prior year. This growth was centered on the Asia-Pacific region, which expanded by 4.5%. However, the region's performance was dampened by development in the Chinese economic region, which was held back by the debate in the United States concerning punitive tariffs on tire imports from China. Despite the Ukraine crisis and the resurgent conflicts in the Middle East, the EMEA region posted growth of 2.1%. In Germany, the tire industry expanded production by 5.6%. Compared with other regions, growth in the NAFTA region was more restrained, reaching just 1.9% despite a recovery in both the original equipment and replacement tire businesses. In the Latin America region, where the original equipment business in particular displayed weakness, tire production saw a substantial decline of 4.5%.

The pace of growth in global automotive production slowed slightly to 2.0% in 2014, compared with 2.7% in 2013. In percentage terms, the growth driver was the NAFTA region, which posted a robust increase of 4.6%. Despite the crisis in Ukraine and the associated decline in automotive production in Eastern Europe, production in the EMEA region expanded by 3.7%. Stronger local demand and sustained high exports supported automotive production in Germany and resulted in growth of 2.2%. On account of weaker development in the Chinese economic region and other Asian countries, automobile production in the Asia-Pacific region increased by only 2.2% on the prior year. Business development in the Latin America region in 2014 was disappointing. On account of the economic crisis in Argentina and slow development in Brazil, production contracted by 17.2%.

Global production of chemicals for the agricultural industry posted only modest growth of 1.8% in the reporting year. Development was positive especially in the Asia-Pacific region, where growth was 2.7%. In the EMEA region, production increased by 2.2%. By contrast, a decrease of 0.3% saw production in Germany stay just below the prior-year level. On account of the long winter period at the beginning of the year, an effect that was reinforced by high inventory levels at the end of the previous year, business in the NAFTA region contracted by 1.1%. Production volumes in the Latin America region decreased by the same extent.

The construction industry worldwide posted growth of 3.3%. The Asia-Pacific region saw expansion of 5.6% and thus continued on the previous year's growth course. This trend was buoyed by infrastructure investments in the Chinese economic region. In Germany, momentum remained positive at 2.8%, setting the country slightly apart from the EMEA region where, despite the critical developments in Ukraine and the Middle East, growth of 1.7% was recorded. The industry's expansion was slightly stronger in the NAFTA region, closing out the reporting year with growth of 2.4%. By contrast, construction industry production in the Latin America region barely improved, remaining below the prior-year level for growth of 0.6%.

**Evolution of Major User Industries in 2014**

| Change vs. prior year in real terms (%) | Chemicals | Tires | Automotive | Agrochemicals | Construction |
|---|---|---|---|---|---|
| NAFTA | 2.4 | 1.9 | 4.6 | (1.1) | 2.4 |
| Latin America | (1.1) | (4.5) | (17.2) | (1.1) | 0.6 |
| EMEA | 2.4 | 2.1 | 3.7 | 2.2 | 1.7 |
| Germany | (0.9) | 5.6 | 2.2 | (0.3) | 2.8 |
| Asia-Pacific | 5.6 | 4.5 | 2.2 | 2.7 | 5.6 |
| **World** | **3.6** | **3.2** | **2.0** | **1.8** | **3.3** |

## Key events influencing the company's business

Fiscal 2014 was characterized by the persistently difficult competitive situation in our synthetic rubber businesses. In principle, the decline in procurement costs for key raw materials, especially butadiene, resulted in corresponding adjustments to selling prices. Additional price pressure was caused by an increase in production capacities as new suppliers entered the market and established providers expanded their existing capacities. Exchange rate developments had a positive effect, as did reduced energy costs due also to the lower oil price.

In March and April 2014, a strike at our site in Zwijndrecht, Belgium, resulted in a nine-week production stoppage with a negative impact on the earnings of our Performance Polymers segment.

In the year under review, we initiated an extensive corporate realignment program. Against this background, a decision was taken in the second quarter to increase the capital stock of LANXESS AG and immediately implemented. This yielded gross proceeds of €433 million, some of which was used to finance our "Let's LANXESS again" global realignment program. This program comprises three phases: competitiveness of the business and administrative structure, operational competitiveness, and competitiveness of the business portfolio. Further information about "Let's LANXESS again" can be found in the "Strategy" section of this combined management report.

## Comparison of forecast and actual business

In the combined management report for fiscal 2013, we had predicted a slight year-on-year increase in EBITDA pre exceptionals in 2014. We narrowed this guidance in our interim reports for 2014. The actual result of €808 million was 9.9% above the prior-year result of €735 million and roughly in the middle of the guidance range given in our interim reports for 2014.

In line with our forecast for the LANXESS Group, the Performance Polymers and Advanced Intermediates segments slightly increased EBITDA pre exceptionals on the prior year by 0.8% and 5.9% to €392 million and €303 million, respectively. By contrast, our Performance Chemicals segment posted earnings of €274 million, which were substantially higher than the prior-year earnings of €231 million.

For LANXESS AG, we had assumed net income in 2014 slightly above the level of the previous year. However, due mainly to the reduction in income from investments in affiliated companies, net income of minus €85 million was substantially below the prior-year value of €35 million.

**Comparison of Forecast and Actual Business 2014**

| | Forecast for 2014 in Annual Report 2013 | Actual 2014 |
|---|---|---|
| **Business development: Group** | | |
| EBITDA pre exceptionals | Slight year-on-year increase (2013: €735 million) | €808 million |
| **Business development: segments** | | |
| Performance Polymers | Slight improvement in demand from the main customer industries – automotive and tires; most dynamic growth in the Asian growth markets; continued strong competition for synthetic rubber products | Persistently difficult competitive situation for synthetic rubbers; 1.4% decrease in volumes (EBITDA pre exceptionals: €392 million) |
| Advanced Intermediates | Good customer demand for agrochemical products; more scheduled plant shutdowns in 2014 | Good demand for agrochemicals; 2.1% increase in volumes (EBITDA pre exceptionals: €303 million) |
| Performance Chemicals | Slight improvement in demand; more dynamic growth in the construction industry | 2.8% increase in volumes (EBITDA pre exceptionals: €274 million) |
| **Raw material prices** | Varying price trends for individual strategic raw materials; overall trend toward higher procurement costs with continuing volatility | Lower raw material prices with continued volatility |
| **Financial condition: Group** | | |
| Cash outflows for capital expenditures | At prior-year level (€624 million) | €614 million |

## Business performance of the LANXESS Group

- Group-wide realignment initiated
- Price-driven sales decline of 3.5% at Group level largely due to raw materials
- Persistently difficult competitive situation for synthetic rubbers; good demand for agrochemicals
- EBITDA pre exceptionals up 9.9% to €808 million
- EBITDA margin pre exceptionals at 10.1%, after 8.9% in 2013
- Net income and earnings per share improved to €47 million and €0.53, respectively, against a net loss of €159 million and minus €1.91 in the prior year
- Debt reduced by almost €400 million compared with the prior year

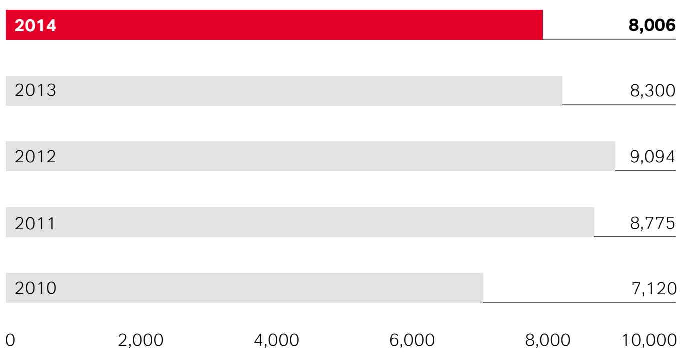
**Key Financial Data**

| € million | 2013 | 2014 | Change % |
|---|---|---|---|
| Sales | 8,300 | 8,006 | (3.5) |
| Gross profit | 1,548 | 1,588 | 2.6 |
| EBITDA pre exceptionals | 735 | 808 | 9.9 |
| EBITDA margin pre exceptionals | 8.9% | 10.1% | – |
| EBITDA | 624 | 644 | 3.2 |
| Operating result (EBIT) pre exceptionals | 288 | 402 | 39.6 |
| Operating result (EBIT) | (93) | 218 | > 100 |
| EBIT margin | (1.1)% | 2.7% | – |
| Financial result | (146) | (138) | 5.5 |
| Income before income taxes | (239) | 80 | > 100 |
| Net income (loss) | (159) | 47 | > 100 |
| Earnings per share (€) | (1.91) | 0.53 | > 100 |

### Sales and earnings

**Group Sales**

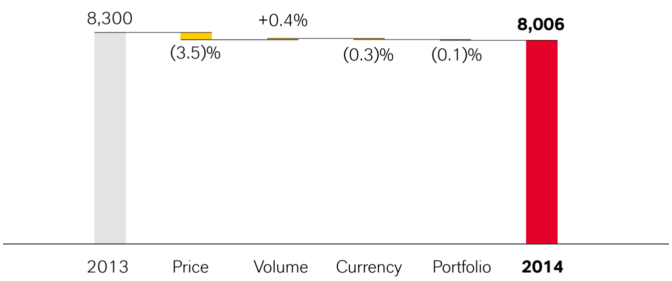
€ million




In 2014, LANXESS Group sales declined by 3.5% from €8,300 million in the prior year to €8,006 million. The small increase in volumes raised sales by 0.4%. The effect of lower selling prices, which caused sales to decline by 3.5% percent, was compounded by mildly unfavorable exchange rate developments and slightly negative portfolio effects. After adjustment for currency and portfolio effects, operational sales decreased by 3.1%.

**Effects on Sales**

€ million/%




Sales in our Performance Polymers segment decreased by a significant 8.0% in 2014 and thus substantially impacted LANXESS's business performance. The development of selling prices was due especially to lower procurement prices for raw materials and to the persistently challenging competitive situation. Volumes were also down year on year. Negative currency effects and an unfavorable portfolio effect resulting from the sale of the shares of Perlon-Monofil GmbH, Dormagen, Germany, had a minor impact.

The Advanced Intermediates segment posted a slim sales decrease of 0.2 %. Here, the positive development of volumes compensated for a negative effect arising from the decline in selling prices. Exchange rate developments had a slightly negative effect.

Sales in our Performance Chemicals segment advanced by 2.9% due to higher volumes and a slight year-on-year increase in selling prices. A net negative impact was caused by minor portfolio effects from acquisitions made in the previous year, which were assigned to the Material Protection Products and Functional Chemicals business units, as well as from unfavorable exchange rate developments.

**Sales by Segment**

| € million | 2013 | 2014 | Change % | Proportion of Group sales % |
|---|---|---|---|---|
| Performance Polymers | 4,486 | 4,128 | (8.0) | 51.6 |
| Advanced Intermediates | 1,647 | 1,643 | (0.2) | 20.5 |
| Performance Chemicals | 2,132 | 2,193 | 2.9 | 27.4 |
| Reconciliation | 35 | 42 | 20.0 | 0.5 |
| | **8,300** | **8,006** | **(3.5)** | **100.0** |

LANXESS slightly raised sales in North America, but registered declines in the other regions. Latin America and EMEA (excluding Germany) were particularly affected, posting sales decreases of 11.1% and 4.5%, respectively. The Asia-Pacific and Germany regions proved comparatively robust with declines of 3.1% and 1.2%, respectively. Sales performance across the regions was largely dependent on the development of the Performance Polymers segment.

## 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. The 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

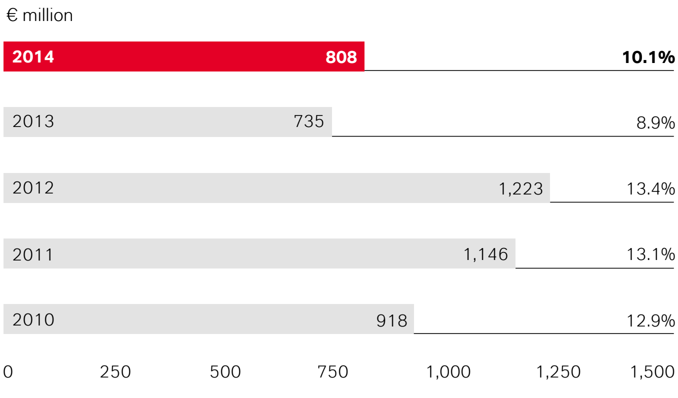
The cost of sales showed a disproportionately large decline of 4.9% compared with sales, to €6,418 million. Declining procurement prices for raw materials and energies as well as higher capacity utilization coupled with lower idle capacity costs had a positive impact and more than offset the opposing effect on costs caused by higher sales volumes. Moreover, the start-up of a new facility had a stronger impact in the previous year. Exchange rate movements had a positive effect. Capacity utilization, at around 79%, was one percentage point above the prior-year level.

Gross profit was €1,588 million, up by €40 million or 2.6% against the prior year. The gross profit margin rose from 18.7% to 19.8%. Volume expansion and lower manufacturing costs contributed to the positive development, This effect was opposed by the decline in selling prices, which slightly outweighed the positive impact of lower raw material costs. Exchange rate developments had a positive effect on the gross profit of the LANXESS Group.

## EBITDA and operating result (EBIT)

Our operating result before depreciation and amortization (EBITDA) pre exceptionals increased by €73 million, or 9.9%, to €808 million in 2014, from €735 million the year before. This was due especially to the decline in manufacturing costs and to the increase in volumes. Favorable exchange rate effects were a further positive factor and more than compensated for a slightly negative portfolio effect. Earnings were held back by selling price adjustments, which exceeded the benefit from the decline in raw material costs especially because of the challenging competitive situation in the rubber market. Selling expenses declined by €13 million to €742 million in 2014. Research and development costs were down 14.0%, to €160 million. General administrative expenses declined from €301 million to €278 million. The development of functional costs already reflected cost savings from the "Advance" and "Let's LANXESS again" programs. The Group's EBITDA margin pre exceptionals improved from 8.9% to 10.1%.

**EBITDA and EBITDA Margin Pre Exceptionals**




EBITDA pre exceptionals in the Performance Polymers segment advanced by €3 million from the prior-year level of €389 million, to €392 million. This was mainly the result of considerably lower manufacturing costs due in part to lower energy and idle capacity costs, as well as to lower research and development expenses. In addition, the prior year was impacted by the start-up of a new facility. Lower selling prices resulting from the persistently difficult competitive situation for synthetic rubber and a decline in purchase prices for some raw materials had the opposite effect. The net influence of currency and portfolio effects was positive.

In the Advanced Intermediates segment, EBITDA pre exceptionals advanced by €17 million to €303 million. Continued good demand for agrochemicals led to positive volume effects. The decline in selling prices was in line with the development of raw material costs. Shifts in currency parities did not have a significant impact.

The Performance Chemicals segment generated EBITDA pre exceptionals of €274 million, up €43 million or 18.6% on the prior year. At the segment level, the increase in sales volumes, favorable exchange rate developments and a positive price effect led to improved earnings. Higher manufacturing costs had an opposing effect.

**EBITDA Pre Exceptionals by Segment**

| € million | 2013 | 2014 | Change % |
|---|---|---|---|
| Performance Polymers | 389 | 392 | 0.8 |
| Advanced Intermediates | 286 | 303 | 5.9 |
| Performance Chemicals | 231 | 274 | 18.6 |
| Reconciliation | (171) | (161) | 5.8 |
| | **735** | **808** | **9.9** |

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

**Reconciliation of EBITDA Pre Exceptionals to Operating Result (EBIT)**

| € million | 2013 | 2014 | Change % |
|---|---|---|---|
| **EBITDA pre exceptionals** | **735** | **808** | **9.9** |
| Depreciation and amortization | (717) | (426) | 40.6 |
| Exceptional items in EBITDA | (111) | (164) | (47.7) |
| **Operating result (EBIT)** | **(93)** | **218** | **> 100** |

The operating result (EBIT) increased very substantially from minus €93 million to €218 million in fiscal 2014. Depreciation and amortization, at €426 million, was €291 million or 40.6% below the prior-year period, even after additions from capital expenditures. Write-downs on intangible assets and property, plant and equipment came to €32 million, after €279 million in 2013. The write-downs recognized at year end 2013 reduced the depreciation and amortization base for the reporting year.

The other operating result, which is the balance between other operating income and expenses, improved substantially by €209 million to minus €190 million. Adjusted for exceptional items, the other operating result came to minus €6 million, which was €12 million higher than in 2013. Net exceptional charges of €184 million were incurred in the reporting year, €164 million of which impacted EBITDA and mainly related to the "Let's LANXESS again" and "Advance" programs as well as to expenses associated with the design and implementation of IT projects. The exceptional charges of €20 million that had no impact on EBITDA were due above all to write-downs recognized on a pilot plant of the Butyl Rubber business unit. In 2013, net exceptional charges of €381 million were incurred, €270 million of which had no impact on EBITDA and were due to impairment charges recognized for the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals business units. The exceptional charges of €111 million which impacted EBITDA in 2013 were 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.

**Reconciliation of EBIT to Net Income (Loss)**

| € million | 2013 | 2014 | Change % |
|---|---|---|---|
| **Operating result (EBIT)** | **(93)** | **218** | **> 100** |
| Income from investments accounted for using the equity method | 0 | 2 | – |
| Net interest expense | (106) | (69) | 34.9 |
| Other financial income and expense | (40) | (71) | (77.5) |
| **Financial result** | **(146)** | **(138)** | **5.5** |
| **Income (loss) before income taxes** | **(239)** | **80** | **> 100** |
| Income taxes | 71 | (36) | < (100) |
| **Income (loss) after income taxes** | **(168)** | **44** | **> 100** |
| of which: | | | |
| attributable to non-controlling interests | (9) | (3) | 66.7 |
| attributable to LANXESS AG stockholders [net income (loss)] | (159) | 47 | > 100 |

## Financial result

The financial result came in at minus €138 million in fiscal 2014, compared with minus €146 million for the prior year. The prorated income from the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, came to €2 million, against €0 million the previous year. Interest expense declined by €36 million year on year, mainly due to the repayment of the €500 million Eurobond issued in 2009, which matured in the reporting period. As in 2013, the capitalization of a portion of borrowing costs, some of which related to the construction of the new plants in Singapore and in China, had a positive effect on the financial result. At €69 million, net interest expense was €37 million lower than in the previous year. The decline in other financial income and expense items resulted mainly from the substantially higher net exchange loss. In addition, interest costs for interest-bearing provisions were slightly higher than in 2013.

## Income before income taxes

Due to the improved EBIT, income before income taxes increased by €319 million to €80 million.

## Income taxes

In fiscal 2014, the Group had tax expense of €36 million, compared with tax income of €71 million the year before. The Group's tax rate was 45.0%, after 29.7% in the previous year.

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

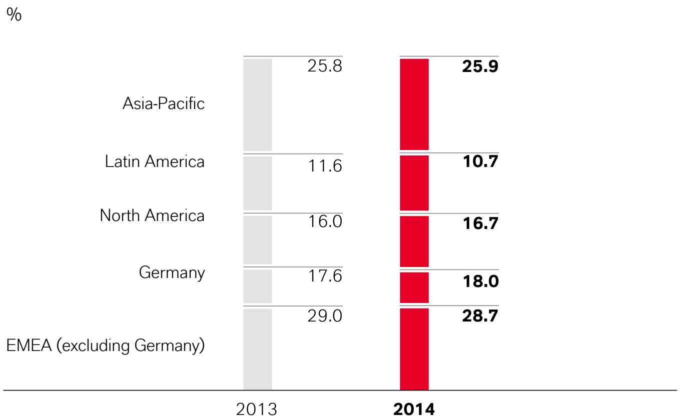
The LANXESS Group posted net earnings of €47 million, an increase of €206 million year on year. A loss of €3 million was attributable to non-controlling interests, compared with a loss of €9 million in the previous year.

Earnings per share are calculated by dividing net income by the weighted average number of LANXESS shares in circulation during the reporting year. The number of shares in circulation rose by the shares issued for the capital increase. This increase was accounted for pro rata temporis. Earnings per share were €0.53, ahead of the minus €1.91 recorded for the prior year.

Earnings per share pre exceptionals were €1.98, against €1.37 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 €184 million after €381 million in 2013.

# Business trends by region

**Sales by Market**




**Sales by Market**

| | 2013 | | 2014 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| EMEA (excluding Germany) | 2,404 | 29.0 | 2,296 | 28.7 | (4.5) |
| Germany | 1,458 | 17.6 | 1,440 | 18.0 | (1.2) |
| North America | 1,332 | 16.0 | 1,338 | 16.7 | 0.5 |
| Latin America | 966 | 11.6 | 859 | 10.7 | (11.1) |
| Asia-Pacific | 2,140 | 25.8 | 2,073 | 25.9 | (3.1) |
| | **8,300** | **100.0** | **8,006** | **100.0** | **(3.5)** |

## EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) receded by €108 million, or 4.5%, to €2,296 million in 2014. Adjusted for currency changes and for portfolio effects from the acquisition of the phosphorus chemicals business of Thermphos France S.A.R.L., Epierre, France, and the sale of the shares of Perlon-Monofil GmbH, Dormagen, Germany, sales receded by 4.2%. The Performance Polymers segment posted a sales decline in the low-double-digit percentage range. In our Advanced Intermediates and Performance Chemicals segments, sales increased by medium- and low-single-digit percentages, respectively. The overall negative trend in the region affected Belgium, Italy, France, Spain and Turkey in particular. However, sales were bolstered by positive growth in demand in other countries such as the Netherlands, the Czech Republic and South Africa.

With a 28.7% share of total sales, after 29.0% in the prior year, EMEA (excluding Germany) remained the largest of the LANXESS Group's regions in terms of sales.

## Germany

In Germany, our sales came to €1,440 million in 2014, down €18 million, or 1.2%, on the previous year. There were no material portfolio effects to consider. Our Performance Chemicals segment posted sales growth in the low-single-digit percentage range, whereas sales of the Performance Polymers segment remained level with the prior year. In the Advanced Intermediates segment, sales declined by a mid-single-digit percentage.

Germany's share of Group sales rose slightly from 17.6% to 18.0%.

## North America

Sales in this region came to €1,338 million, up €6 million, or 0.5%, from the previous year. Adjusted for slight currency and portfolio effects, sales were up by 0.9%. Business performance was characterized by the positive development of the Advanced Intermediates and Performance Chemicals segments, which posted sales increases in the low- to mid-single-digit percentage range. These more than offset a low-single-digit percentage decline in the Performance Polymers segment. The United States had the primary role in the region's development.

At 16.7%, North America's share of Group sales was 0.7 percentage points higher than in the prior year.

## Latin America

Sales in Latin America receded by a substantial €107 million, or 11.1%, to €859 million. Adjusted for slight currency and portfolio effects, sales were down by 10.5%. The crucial factor in business performance here was the development of the Performance Polymers segment, where sales declined by a low-double-digit percentage. Sales also fell in the Advanced Intermediates and Performance Chemicals segments, but by low-single-digit percentages. Business development in the region was mainly attributable to the sales performance in Brazil.

LANXESS generated 10.7% of Group sales in Latin America, compared with 11.6% in the prior-year period.

## Asia-Pacific

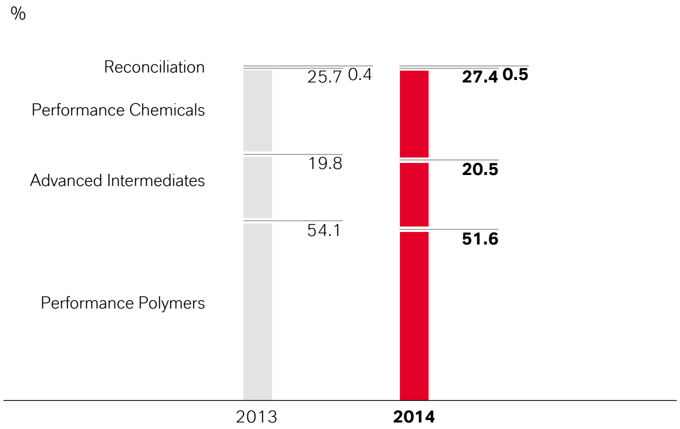
Sales in the Asia-Pacific region declined by €67 million, or 3.1%, to €2,073 million in 2014. Adjusted for negative currency effects and slight portfolio effects, sales were down by 2.4%. This development was primarily due to the business performance in our Performance Polymers and Advanced Intermediates segments, where sales declined by a high- and mid-single-digit percentage, respectively. The Performance Chemicals segment recorded very positive development, expanding sales by a high-single-digit percentage. The main contributors to operational development in the region were Hong Kong, China, Taiwan and Thailand. Increasing sales were posted in India, Singapore and Indonesia, although the trend in the latter was far more restrained.

Asia-Pacific's share of Group sales was more or less unchanged at 25.9%, following 25.8% the previous year. Thus, it confirmed its position as the second-strongest region behind EMEA (excluding Germany) in terms of sales.

## Segment information

- Performance Polymers: challenging competitive situation for synthetic rubbers; lower selling prices impact sales and earnings
- Advanced Intermediates: earnings increase with sales at prior-year level; agrochemicals business remains good
- Performance Chemicals: sales and earnings improved especially by higher volumes at stable prices

**Sales by Segment**




## Performance Polymers

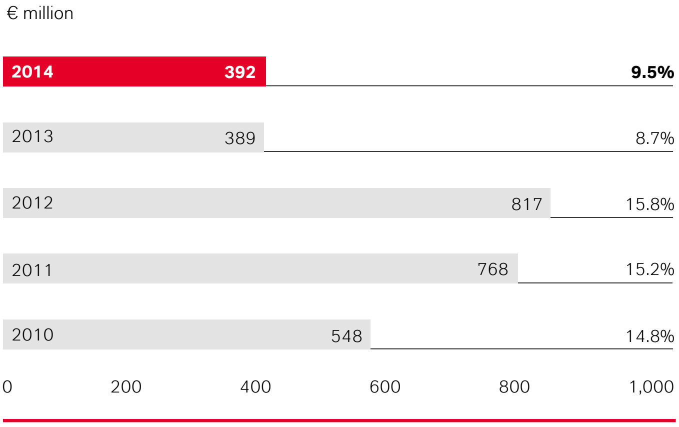
**Overview of Key Data**

| | 2013 | | 2014 | | Change |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | % |
| Sales | 4,486 | | 4,128 | | (8.0) |
| EBITDA pre exceptionals | 389 | 8.7 | 392 | 9.5 | 0.8 |
| EBITDA | 372 | 8.3 | 351 | 8.5 | (5.6) |
| Operating result (EBIT) pre exceptionals | 135 | 3.0 | 181 | 4.4 | 34.1 |
| Operating result (EBIT) | (117) | (2.6) | 120 | 2.9 | > 100 |
| Cash outflows for capital expenditures | 385 | | 428 | | 11.2 |
| Depreciation and amortization | 489 | | 231 | | (52.8) |
| Employees as of Dec. 31 | 5,379 | | 5,176 | | (3.8) |

Business in our Performance Polymers segment declined year on year in 2014. Sales decreased by 8.0% to €4,128 million. This development was primarily impacted by a negative price effect of 5.9% and by a 1.4% decline in volumes. A slightly unfavorable currency effect and a minor negative portfolio effect from the sale of the shares of Perlon-Monofil GmbH, Dormagen, Germany, accounted for 0.7% of this decrease.

All business units in this segment were impacted by declining market prices. Negative effects resulted especially from lower raw material costs and the persistently difficult market environment for our synthetic rubber businesses. While the Keltan Elastomers, High Performance Materials and High Performance Elastomers business units increased volumes, the Butyl Rubber and Performance Butadiene Rubbers business units posted negative volume development. All business units were held back to a small extent by exchange rate developments. In addition, the High Performance Materials business unit registered a slightly negative portfolio effect. While the segment's sales in Germany and North America were slightly below the prior-year level, business in the other regions declined substantially.

**EBITDA and EBITDA Margin Pre Exceptionals**




EBITDA pre exceptionals in the Performance Polymers segment advanced slightly from the prior-year level of €389 million to €392 million. Here, the Performance Butadiene Rubbers, High Performance Elastomers and High Performance Materials business units showed a positive development. A positive impact on earnings resulted especially from considerably lower manufacturing costs that were attributable in part to lower energy and idle capacity costs. Moreover, in the previous year, the start-up of a new facility proved to be a stronger burden. Decreased expenses for research and development and general administration also contributed positively to this development. Earnings were held back by lower selling prices resulting from reduced procurement prices for raw materials and by the persistently difficult competitive situation for synthetic rubbers. Moreover, a strike at our butyl rubber plant in Belgium resulted in a production stoppage of nine weeks and reduced earnings in our Butyl Rubber business unit. At the segment level, the development of volumes had an additional effect. Exchange rate development was positive and more than compensated for slightly negative portfolio effects. The segment's EBITDA margin pre exceptionals improved from 8.7% to 9.5%.

Exceptional items amounted to €61 million, €41 million of which impacted EBITDA. Most of the exceptional charges with no impact on EBITDA were due to write-downs recognized on a pilot plant of the Butyl Rubber business unit. The exceptional charges which impacted EBITDA were largely related to measures associated with the "Let's LANXESS again" and "Advance" programs. Exceptional items in 2013 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.

## Advanced Intermediates

**Overview of Key Data**

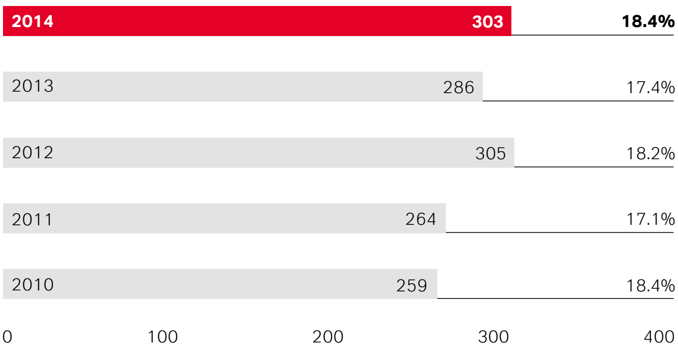
| | 2013 | | 2014 | | Change |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | % |
| Sales | 1,647 | | 1,643 | | (0.2) |
| EBITDA pre exceptionals | 286 | 17.4 | 303 | 18.4 | 5.9 |
| EBITDA | 287 | 17.4 | 293 | 17.8 | 2.1 |
| Operating result (EBIT) pre exceptionals | 209 | 12.7 | 214 | 13.0 | 2.4 |
| Operating result (EBIT) | 210 | 12.8 | 204 | 12.4 | (2.9) |
| Cash outflows for capital expenditures | 96 | | 84 | | (12.5) |
| Depreciation and amortization | 77 | | 89 | | 15.6 |
| Employees as of Dec. 31 | 2,854 | | 2,809 | | (1.6) |

Our Advanced Intermediates segment recorded sales of €1,643 million in 2014, more or less level with the prior year. While selling price adjustments necessitated by a decline in raw material prices resulted in a negative effect of 2.1%, volumes were up by 2.1% against the prior year. Exchange rate movements had no tangible effect.

Both of the segment's business units were able to grow volumes, in part substantially. In particular, demand for agrochemicals showed pleasing development. Selling price adjustments, especially in the Advanced Industrial Intermediates business unit, had an offsetting effect. In North America and EMEA (excluding Germany), the segment delivered a positive business performance. In the other regions, sales were below the prior-year level.

**EBITDA and EBITDA Margin Pre Exceptionals**

€ million




EBITDA pre exceptionals in the Advanced Intermediates segment increased by €17 million, or 5.9%, to €303 million. Earnings were improved particularly by higher volumes and relief from raw material costs but held back by selling price adjustments. Changes in exchange rates had only a slight impact on earnings. The EBITDA margin pre exceptionals improved from 17.4% to 18.4%.

Exceptional items in the reporting year amounted to €10 million which fully impacted EBITDA and were largely related to the "Let's LANXESS again" program. In the prior year, exceptional income amounted to €1 million, in which the reversal of provisions for the realignment of the Saltigo business unit was partly offset by expenses for further measures relating to the "Advance" program.

## Performance Chemicals

**Overview of Key Data**

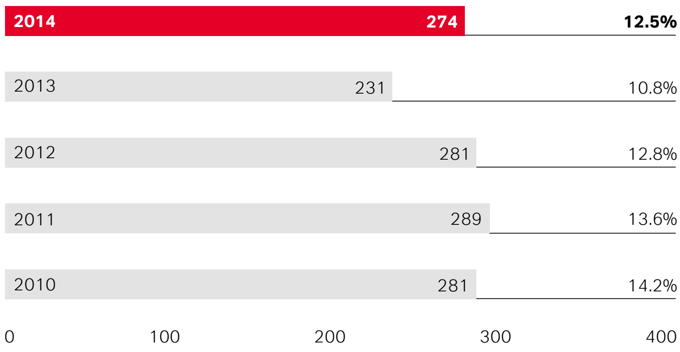
| | 2013 | | 2014 | | Change |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | % |
| Sales | 2,132 | | 2,193 | | 2.9 |
| EBITDA pre exceptionals | 231 | 10.8 | 274 | 12.5 | 18.6 |
| EBITDA | 181 | 8.5 | 240 | 10.9 | 32.6 |
| Operating result (EBIT) pre exceptionals | 139 | 6.5 | 188 | 8.6 | 35.3 |
| Operating result (EBIT) | 54 | 2.5 | 154 | 7.0 | > 100 |
| Cash outflows for capital expenditures | 111 | | 77 | | (30.6) |
| Depreciation and amortization | 127 | | 86 | | (32.3) |
| Employees as of Dec. 31 | 5,837 | | 5,613 | | (3.8) |

Sales in the Performance Chemicals segment rose by €61 million, or 2.9%, to €2,193 million. While sales were increased particularly by the 2.8% expansion of volumes, selling prices also edged up by 0.3% compared with the prior-year level. The net impact of exchange rate and portfolio effects was slightly negative.

Overall, the segment's volumes and selling prices were above the prior-year level, although the individual business units trended differently. In most of the segment's business units, the increase in volumes more than offset the slight decrease in selling prices that was due in part to lower raw material prices. The Functional Chemicals and Rubber Chemicals business units were able to largely offset declining volumes with higher selling prices. Positive portfolio effects in the Material Protection Products and Functional Chemicals business units were overcompensated by the unfavorable exchange rate developments at segment level. Business expanded in the Asia-Pacific, North America, Germany and EMEA (excluding Germany) regions.

**EBITDA and EBITDA Margin Pre Exceptionals**

€ million




EBITDA pre exceptionals for the Performance Chemicals segment advanced by €43 million, or 18.6%, against the prior year to €274 million. This increase resulted from positive volume effects and, especially, from favorable exchange rate developments, a beneficial price effect and a decline in purchasing prices for raw materials. While earnings were held back by higher manufacturing costs, portfolio effects did not have a significant impact. The EBITDA margin pre exceptionals increased from 10.8% to 12.5%.

The exceptional items of €34 million for the segment in 2014 fully impacted EBITDA and mainly related to the "Let's LANXESS again" and "Advance" programs. Exceptional items in 2013 came to €85 million, €35 million of which did not impact EBITDA. They were mostly accounted for by impairment charges recognized for the Rubber Chemicals business unit. The exceptional charges that impacted EBITDA in the prior year were related especially to measures associated with the "Advance" program.

## Reconciliation

**Overview of Key Data**

| € million | 2013 | 2014 | Change % |
|---|---|---|---|
| Sales | 35 | 42 | 20.0 |
| EBITDA pre exceptionals | (171) | (161) | 5.8 |
| EBITDA | (216) | (240) | (11.1) |
| Operating result (EBIT) pre exceptionals | (195) | (181) | 7.2 |
| Operating result (EBIT) | (240) | (260) | (8.3) |
| Cash outflows for capital expenditures | 32 | 25 | (21.9) |
| Depreciation and amortization | 24 | 20 | (16.7) |
| Employees as of Dec. 31 | 3,273 | 2,986 | (8.8) |

EBITDA pre exceptionals for the Reconciliation came to minus €161 million, compared with minus €171 million in the prior year. The development of functional costs already reflected cost savings from the "Let's LANXESS again" and "Advance" programs. The exceptional charges of €79 million, which fully impacted EBITDA, primarily related to measures associated with the "Let's LANXESS again" and "Advance" programs, expenses for the design and implementation of IT projects and expenses for portfolio adjustments, to the extent that these expenses could not be allocated to specific segments or business units. The exceptional charges of €45 million reported in the Reconciliation in 2013, all of which impacted EBITDA, primarily related to measures associated with the "Advance" program, expenses for the design and implementation of IT projects and expenses 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

- Increase in total assets, mainly due to capital expenditures
- Equity ratio improved by capital increase
- Higher pension provisions due to lower discount rates
- Net financial liabilities substantially below prior year at €1,336 million

**Structure of the Statement of Financial Position**

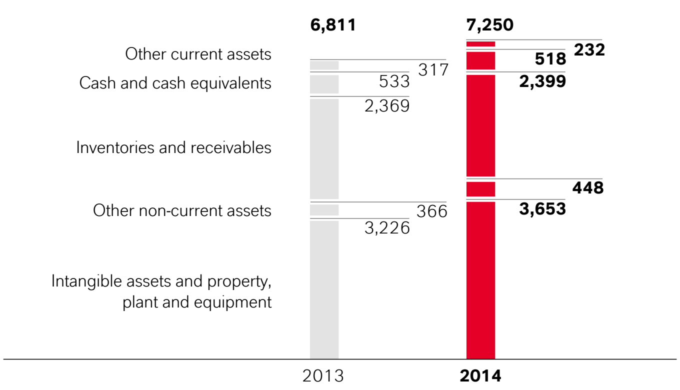
| | Dec. 31, 2013 | | Dec. 31, 2014 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| **Assets** | | | | | |
| Non-current assets | 3,592 | 52.7 | 4,101 | 56.6 | 14.2 |
| Current assets | 3,219 | 47.3 | 3,149 | 43.4 | (2.2) |
| **Total assets** | **6,811** | **100.0** | **7,250** | **100.0** | **6.4** |
| **Equity and liabilities** | | | | | |
| Equity (including non-controlling interests) | 1,900 | 27.9 | 2,161 | 29.8 | 13.7 |
| Non-current liabilities | 3,029 | 44.5 | 3,447 | 47.6 | 13.8 |
| Current liabilities | 1,882 | 27.6 | 1,642 | 22.6 | (12.8) |
| **Total equity and liabilities** | **6,811** | **100.0** | **7,250** | **100.0** | **6.4** |

## Structure of the statement of financial position

Total assets of the LANXESS Group amounted to €7,250 million as of December 31, 2014, an increase of €439 million, or 6.4%, on the prior-year figure. This was primarily due to capital expenditures for property, plant and equipment, an increase in deferred tax assets and the expansion of inventories. The decline in trade receivables had an opposing effect. The ratio of non-current assets to total assets increased from 52.7% to 56.6%. On the equity and liabilities side, equity increased particularly due to the capital increase in the second quarter. This effect was counteracted by a net comprehensive loss, primarily due to remeasurement of the net defined benefit liability from post-employment benefit plans necessitated by lower interest rates. At the end of 2014, the equity ratio was 29.8%, after 27.9% in the previous year.

**Structure of the Statement of Financial Position – Assets**

€ million



Non-current assets rose by €509 million to €4,101 million, with intangible assets and property, plant and equipment increasing by €427 million to €3,653 million. Cash outflows for purchases of property, plant and equipment and intangible assets in the reporting period were €614 million, just below the prior-year level of €624 million. Depreciation and amortization in 2014 totaled €426 million and was thus below the prior-year level, mainly because of the lower depreciation and amortization base following comparatively high write-downs of intangible assets and property, plant and equipment at year end 2013. The carrying amount of investments accounted for using the equity method decreased by €12 million to €0 million. This change resulted from the net-asset-driven adjustment to the carrying amount of the interest in Currenta GmbH & Co. OHG, Leverkusen, Germany. Deferred taxes increased by €126 million, to €380 million. The ratio of non-current assets to total assets was 56.6%, up from 52.7% on December 31, 2013.

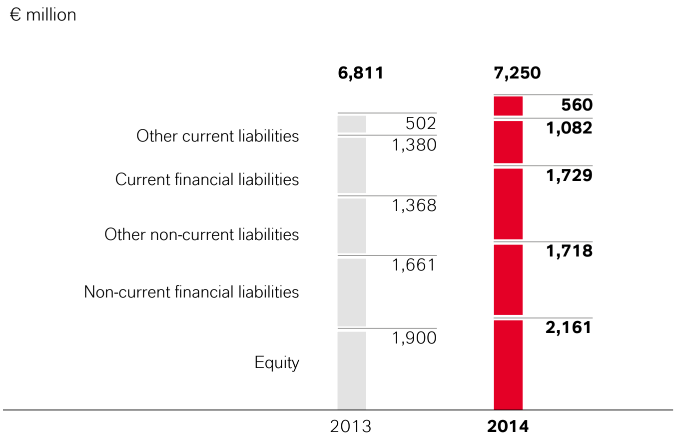
Current assets decreased by €70 million, or 2.2%, compared with December 31, 2013 to €3,149 million. The inventory growth of €85 million, or 6.5%, to €1,384 million was attributable to slightly higher volumes and the development of exchange rates, especially for the U.S. dollar. The lower prices for certain key raw materials offset inventory growth. Days of inventory outstanding (DIO) increased from 70.7 to 79.1. By contrast, trade receivables were €55 million, or 5.1%, lower at €1,015 million, despite opposing currency effects. Days of sales outstanding (DSO) were virtually unchanged at 48.0. Minimal portfolio effects from the sale of the shares of Perlon-Monofil GmbH, Dormagen, Germany, in the reporting year had no significant influence on net working capital. Cash and cash equivalents decreased by €9 million to €418 million. Near-cash assets decreased by €6 million to €100 million at year end following the sale of shares in money market funds. The ratio of current assets to total assets was 43.4%, against 47.3% as of December 31, 2013.

The LANXESS Group has significant internally generated intangible assets that are not reflected in the statement of financial position in light of 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 and help strengthen the positions our business units hold in their respective markets.

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 competence in technology and innovation, also a valuable asset, is rooted in our specific expertise in the areas of research and development and custom manufacturing. It enables us to generate significant added value for our customers.

The know-how and experience of our employees are crucial factors for 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**




Equity amounted to €2,161 million, up by €261 million or 13.7% compared with December 31, 2013, primarily due to the capital increase of 10% in the second quarter of 2014. Factors with the opposite effect were the dividend payout of €46 million to LANXESS AG stockholders in May 2014 and the net comprehensive loss recorded, which was primarily due to the remeasurement of the net defined benefit liability from post-employment benefit plans necessitated by lower interest rates. The ratio of equity to the Group's total assets was 29.8% as of December 31, 2014, after 27.9% as of December 31, 2013.

Non-current liabilities increased by €418 million to €3,447 million as of December 31, 2014. Provisions for pensions and other post-employment benefits rose by €347 million compared with the end of 2013, to €1,290 million. This increase mainly related to the change in the interest rates used in measurement, with minimal effects caused by the "Let's LANXESS again" program. Other non-current financial liabilities amounted to €1,698 million, up by €49 million against December 31, 2013. This increase resulted primarily from the partial refinancing of the €500 million Eurobond issued in 2009 that matured in the reporting period. The ratio of non-current liabilities to total assets was 47.6%, up from 44.5% as of December 31, 2013.

Current liabilities came to €1,642 million, down by €240 million, or 12.8% from December 31, 2013. This decline resulted mainly from the repayment of the aforementioned Eurobond issued in 2009. At €799 million, trade payables were €109 million above the prior-year figure, due in large part to changes in payment terms and, to a smaller extent, to shifts in exchange rates. In light of the devaluation of the euro against certain contract currencies, current derivative liabilities increased by €79 million to €101 million. Other current liabilities increased by €40 million to €166 million on account of the effects of the "Let's LANXESS again" program. By contrast, in spite of small additions also resulting from this program, other current provisions decreased by €5 million to €350 million. The ratio of current liabilities to total assets was 22.6% as of December 31, 2014, against 27.6% at the end of 2013.

At €1,336 million, net financial liabilities were substantially below the figure of €1,731 million at December 31, 2013.

The Group's key ratios developed as follows:

**Ratios**

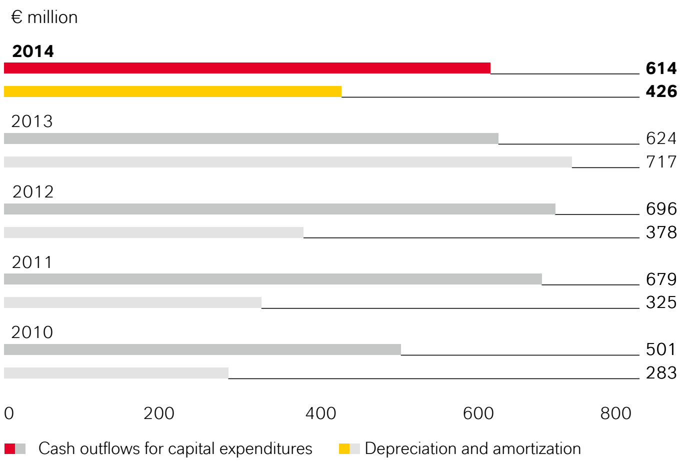
| % | | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Equity ratio | Equity[1] / Total assets | 31.1 | 30.2 | 31.0 | 27.9 | 29.8 |
| Non-current asset ratio | Non-current assets / Total assets | 48.3 | 50.7 | 49.8 | 52.7 | 56.6 |
| Asset coverage I | Equity[1] / Non-current assets | 64.3 | 59.4 | 62.2 | 52.9 | 52.7 |
| Asset coverage II | Equity[1] and non-current liabilities / Non-current assets | 153.9 | 137.3 | 157.2 | 137.2 | 136.7 |
| Funding structure | Current liabilities / Total liabilities | 37.2 | 43.5 | 31.4 | 38.3 | 32.3 |

1) Including non-controlling interests

## Capital expenditures

In 2014, capital expenditures for property, plant and equipment and intangible assets came to €692 million, compared with €676 million the year before, and led to cash outflows of €614 million (2013: €624 million). Depreciation and amortization totaled €426 million in the same period (2013: €717 million). This figure included €20 million in write-downs reported as exceptional items (2013: €270 million). Adjusted for these write-downs, capital expenditures exceeded depreciation and amortization by a substantial 70% (2013: 51%). The increase was primarily due to the reduction in the depreciation and amortization base following the recognition of write-downs in 2013.

**Cash Outflows for Capital Expenditures vs. Depreciation and Amortization**



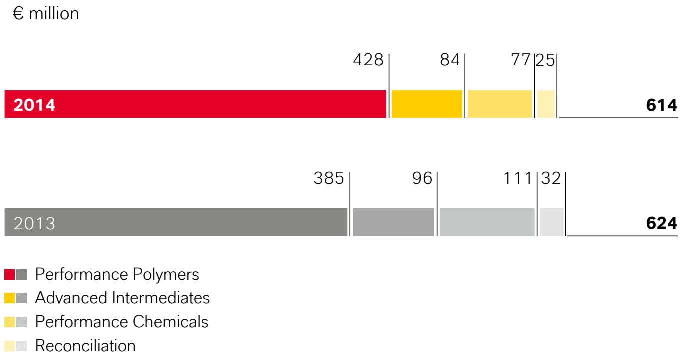
In the reporting year, capital expenditures focused on the following areas:

- 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.

Almost two-thirds of the capital expenditures in 2014 went toward expansion or efficiency improvement measures, while the rest went to maintain existing facilities.

In regional terms, 23% of our capital expenditures in the reporting period were made in Germany, 17% in the EMEA region (excluding Germany), 7% in North America, 5% in Latin America and 48% in Asia-Pacific. Capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in all segments, especially investments in expansions for the Advanced Industrial Intermediates and Saltigo business units. 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 Changzhou, China.

**Cash Outflows for Capital Expenditures by Segment**




In the Performance Polymers segment, capital expenditures amounted to €472 million (2013: €405 million), €428 million (2013: €385 million) of which were cash outflows. Depreciation and amortization amounted to €231 million (2013: €489 million). The major capital expenditures in this segment were made in the Performance Butadiene Rubbers and Keltan Elastomers business units. Capital expenditures in the Advanced Intermediates segment amounted to €94 million (2013: €113 million). Cash outflows came to €84 million (2013: €96 million), below the depreciation and amortization of €89 million (2013: €77 million). They were accounted for by a number of smaller capital expenditure projects. In the Performance Chemicals segment, capital expenditures came to €100 million (2013: €117 million), €77 million (2013: €111 million) of which were cash outflows. Depreciation and amortization stood at €86 million (2013: €127 million). A key capital expenditure is 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 2014**

| Segment | Site | Description |
|---|---|---|
| **Performance Polymers** | | |
| Performance Butadiene Rubbers | Singapore | Construction of a production plant for neodymium-based performance butadiene rubber (Nd-PBR), start-up in the first half of 2015 |
| Keltan Elastomers | Changzhou, China | Construction of a production plant for ethylene-propylene-diene (EPDM) rubber, start-up in 2015 |
| High Performance Materials | Porto Feliz, Brazil | Construction of a new compounding plant for high-tech plastics, start-up in April 2014 |
| High Performance Materials | Antwerp, Belgium | Start-up of a new polyamide plastics plant in Q3 2014 |
| High Performance Materials | Gastonia, U.S.A. | Expansion of the high-tech plastics facility by the addition of a second production line, start-up in 2016 |
| **Performance Chemicals** | | |
| Inorganic Pigments | Ningbo, China | Construction of a plant for iron oxide red pigments with the addition of a mixing and milling plant for inorganic pigments, completion in Q4 2015 and start-up in Q1 2016 |
| Liquid Purification Technologies | Leverkusen, Germany | Construction of a plant for weakly acidic cation exchange resins, completion in September 2014 |

Expansion of the Group portfolio Please see "Changes to the Group portfolio" in this combined management report for more information on the changes in fiscal 2014.

## Financial condition

- Operating cash flow above prior-year level
- Inflow from reduction in cash tied up in working capital
- Cash used for investing activities reflects extensive capital expenditures for growth projects
- Liquidity position remains solid

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

**Cash Flow Statement**

| € million | 2013 | 2014 | Change |
|---|---|---|---|
| Income before income taxes | (239) | 80 | 319 |
| Depreciation and amortization | 717 | 426 | (291) |
| Other items | 53 | 144 | 91 |
| **Net cash provided by operating activities before change in net working capital** | **531** | **650** | **119** |
| Change in net working capital | 110 | 147 | 37 |
| **Net cash provided by operating activities** | **641** | **797** | **156** |
| **Net cash used in investing activities** | **(342)** | **(587)** | **(245)** |
| **Net cash used in financing activities** | **(260)** | **(222)** | **38** |
| Change in cash and cash equivalents from business activities | 39 | (12) | (51) |
| Cash and cash equivalents as of December 31 | 427 | 418 | (9) |

Cash provided by operating activities, before changes in net working capital, increased by €119 million to €650 million in fiscal 2014. This was mainly due to the €319 million increase in income before income taxes to €80 million. Depreciation and amortization decreased to €426 million from €717 million in the previous year, primarily due to write-downs recognized on property plant and equipment and intangible assets at the end of 2013.

The decrease in net working capital compared to December 31, 2013 resulted in a cash inflow of €147 million. The cash inflow from the change in net working capital in 2013 was €110 million. The development during the reporting period was mainly attributable to the decline in trade receivables. This effect was intensified by the increase in trade payables but offset by the expansion of inventories. The net cash provided by operating activities was €797 million, against €641 million in 2013.

LANXESS's investing activities in fiscal 2014 resulted in a cash outflow of €587 million, up from €342 million in the previous year. Disbursements for intangible assets and property, plant and equipment came to €614 million, which was below the prior-year level of €624 million. The cash outflows for the acquisition of subsidiaries and other businesses, net of acquired cash and cash equivalents, amounted to €15 million in 2013. The acquisitions made in that 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 €8 million and mainly comprised the proceeds from the sale of shares in money market funds. The sale of the shares of Perlon-Monofil GmbH, Dormagen, Germany, resulted in a cash inflow of €3 million, net of divested cash and cash equivalents.

Free cash flow – the difference between the cash inflows from operating activities and the cash used in investing activities – decreased by €89 million to €210 million.

Net cash used in financing activities came to €222 million, against €260 million the year before. A major effect came from the cash inflow of €433 million resulting from the capital increase in the second quarter of 2014. However, this was more than offset by cash outflows of €478 million attributable to the net repayment of borrowings. Interest payments and other financial disbursements of €131 million were slightly higher than the previous year's amount of €119 million. An outflow of €46 million was accounted for by the dividend paid to the stockholders of LANXESS AG for fiscal 2013 (2013: €83 million).

The net change in cash and cash equivalents from business activities in fiscal 2014 was minus €12 million, against €39 million the previous year. After taking into account currency-related and other changes in cash and cash equivalents of €3 million, cash and cash equivalents at the closing date amounted to €418 million, against €427 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 €100 million, against €106 million the previous year, the Group retained a sound liquidity position of €518 million as of December 31, 2014, compared to €533 million at the end of 2013.

**Development of LANXESS Ratings and Rating Outlook Since 2010**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Standard & Poor's | BBB/stable<br>Sep. 1, 2010 | BBB/stable<br>Aug. 23, 2011 | BBB/stable<br>Aug. 31, 2012 | BBB/negative<br>June 27, 2013 | BBB–/stable<br>May 19, 2014 |
| Moody's Investors Service | Baa2/stable<br>May 19, 2010 | Baa2/stable<br>Nov. 23, 2011 | Baa2/stable<br>Sep. 26, 2012 | Baa2/negative<br>Aug. 14, 2013 | Baa3/stable<br>June 20, 2014 |
| Fitch Ratings | BBB/stable<br>Dec. 17, 2010 | BBB/stable<br>Nov. 22, 2011 | BBB/stable<br>Sep. 13, 2012 | BBB/negative<br>Aug. 15, 2013 | BBB–/stable<br>Aug. 18, 2014 |

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 with the ratio systems of the leading rating agencies for investment-grade companies and we will be seeking its further reduction in the future. 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 "Opportunity and 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 2014, the latter reduced LANXESS's creditworthiness from BBB and Baa2 to BBB– and Baa3, respectively. However, they raised the outlook to stable. Justifying this downward assessment, the rating agencies cited factors such as LANXESS's latterly weaker financial data resulting from the persistently difficult business environment for rubber. They based their stable outlook on the measures taken by LANXESS, including the capital increase made in the reporting period and the implementation of the global realignment program we initiated.

Financing analysis In fiscal 2014, LANXESS had a balanced financing structure and a very sound liquidity position.

The main change to our financial portfolio during the reporting period resulted from the redemption of the €500 million bond that matured in April. For this purpose, we drew on a credit line we have with the European Investment Bank. The proceeds of the capital increase made in May 2014 served to finance the "Let's LANXESS again" program and strengthen our financial position. In the fourth quarter of 2014, we repaid two bank loans ahead of schedule in order to reduce gross indebtedness and lower interest burden. We funded the growth program which ends in 2015 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, 2014, just under €1.5 billion of the €2.5 billion financing facility had been utilized to issue bonds and private placements. Utilization was correspondingly reduced after redemption of our €500 million bond in April 2014. Capital market financing is a central component in LANXESS's financing mix, which is subject to regular review to ensure the adequate diversification of our financing sources.

Current financial liabilities decreased from €668 million in 2013 to €182 million at December 31, 2014, largely due to the redemption of the €500 million bond.

We made only limited use of finance leases, which are reported as financial liabilities in the statement of financial position. As of December 31, 2014, the financial liabilities from finance leases amounted to €72 million, against €49 million in the previous year. The LANXESS Group uses operating leases mainly for operational reasons and not as a means of financing. Minimum non-discounted future payments relating to operating leases totaled €390 million (2013: €492 million).

As of December 31, 2014, 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 €2,264 million in 2013 to €1,854 million at December 31, 2014. Net financial liabilities – the total financial liabilities net of cash, cash equivalents and near-cash assets – declined by €395 million to €1,336 million.

Of the total financial liabilities, 86% bear a fixed interest rate over the term of the financing, which is below the prior-year level of 98%. This enabled us to improve the balance between floating-rate assets and financial liabilities and additionally benefit from the currently very low interest rates. Despite the moderate decrease in the proportion of financing items with fixed interest rates over their term in our present financing structure, interest rate changes have no material effect on LANXESS's financial condition. The proportion of loans and bonds denominated in euros averaged 79% in the reporting year, which was below the prior-year level of 96%. The weighted average interest rate for our financial liabilities was 3.8% at year end 2014, which was below the prior-year level of 4.8%. This reduction was mainly due to the redemption of the €500 million bond.

The following overview shows LANXESS's financing structure as of December 31, 2014 in detail, including its principal liquidity reserves.

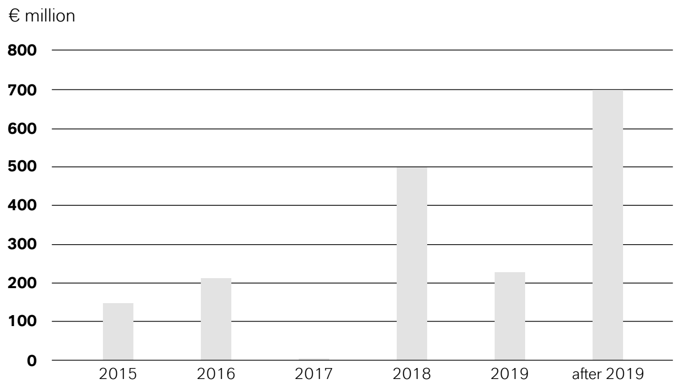
**Financing Structure**

| Instrument | Amount € million | Term | Interest rate % | Financial covenant[1] |
|---|---|---|---|---|
| Eurobond 2009/2016 (€200 million) | 199 | September 2016 | 5.500 | no |
| Eurobond 2011/2018 (€500 million) | 498 | May 2018 | 4.125 | no |
| Eurobond 2012/2022 (€500 million) | 494 | 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) | 66 | February 2015 | 3.950 | no |
| Development bank loan | 228 | April 2019 | | no |
| Other loans | 98 | n/a | | no |
| Finance lease | 72 | n/a | | no |
| **Total financial liabilities** | **1,854** | | | |
| Cash and cash equivalents | 418 | ≤ 3 months | | |
| Near-cash assets | 100 | ≤ 3 months | | |
| **Total liquidity** | **518** | | | |
| **Net financial liabilities** | **1,336** | | | |

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 2015 and are extended on a regular, e.g. annual, basis.

**Maturity Profile of LANXESS Financial Liabilities as of Dec. 31, 2014**



Liquidity analysis In addition to cash and cash equivalents of €418 million and investments in highly liquid AAA money market funds of €100 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 86% of our cash is held in Group companies in countries with no restrictions on foreign exchange and capital transfers. Only about 14% of our cash is held in companies in regulated capital markets where cash transfers are restricted.

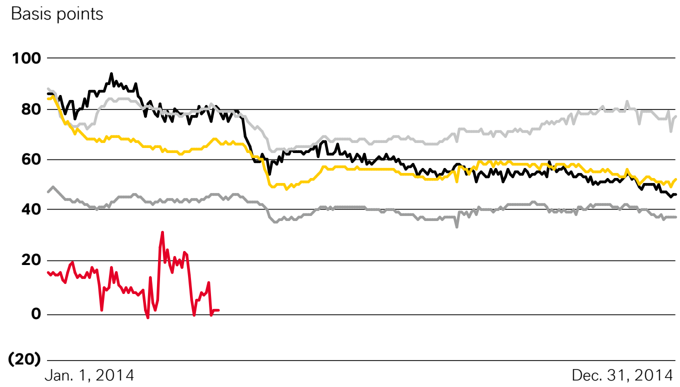
Thanks to our good liquidity position, our solvency was assured at all times in fiscal 2014. This is an aspect that was assessed positively by the rating agencies in their credit ratings in 2014.

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 2015, we extended this facility by one year until February 2020. 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 €150 million facility we agreed with the European Investment Bank in fiscal 2014. None of our major loan agreements contains a financial covenant. LANXESS had unused credit lines totaling around €1.5 billion as of December 31, 2014, 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, as in the prior year. This liquidity reserve secures our entrepreneurial flexibility and serves as back-up financing for our global realignment program; it is an expression of our conservative financial policy. Our solvency is safeguarded for the short and long term.

Bond performance – evolution of credit spread in 2014 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 following chart 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**




LANXESS Eurobond 2014
LANXESS Eurobond 2016
LANXESS Eurobond 2018
LANXESS Eurobond 2022
BBB Corporates, 5 years

The credit risk premiums on corporate bonds displayed little volatility in 2014 and declined steadily during the year. This reflected the overall positive situation on Europe's capital markets and, against the background of the further decline in interest rates, the high demand from investors for corporate bonds with investment-grade ratings.

In the first half of 2014, the credit risk premiums on LANXESS bonds moved in parallel with but were below those for bonds in the BBB-rated reference group. Following the reduction of LANXESS's ratings to BBB– and Baa3 in the second half of the year, the credit risk premium on the LANXESS bond which matures in 2018 moved on the same level as those for bonds with roughly the same maturities in the BBB-rated reference group. The development of our credit spreads underscores the fact that we retain competitive access to capital market financing.

## Management's summary of business development and the fiscal year

In 2014, the LANXESS Group's business was largely characterized by the persistently difficult competitive situation for synthetic rubbers. While business development had been unfavorable in 2013, a slightly more favorable trend was evident in the year under review.

At €8,006 million, LANXESS Group sales in 2014 declined by 3.5% from €8,300 million in the prior year. Our Performance Polymers segment posted a substantial decrease in sales, due especially to lower procurement prices for raw materials and to the persistently challenging competitive situation. In the Advanced Intermediates segment, sales were more or less flat with the previous year thanks to good demand for agrochemicals. The Performance Chemicals segment posted a positive business performance on account of higher volumes and selling prices.

EBITDA pre exceptionals in 2014 increased by almost 10% to €808 million from €735 million in the previous year. This was due especially to lower manufacturing costs and higher volumes. Additionally, cost savings were contributed by the "Advance" and "Let's LANXESS again" programs. Earnings were held back by lower selling prices due to the challenging competitive situation for synthetic rubbers, resulting in part from overcapacities. Overall, net income and earnings per share were substantially improved year on year.

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 improved from 27.9% to 29.8%, which was attributable above all to the capital increase. Total assets increased, mainly due to capital expenditures.

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, 86% bear a fixed interest rate over the term of the financing, which is below the prior-year level of 98%. This enabled us to improve the balance between floating-rate assets and financial liabilities and additionally benefit from the currently very low interest rates. Our financial liabilities are free of financial covenants.

Our net financial liabilities declined by €395 million to €1,336 million. In fiscal 2014, the rating agencies reduced LANXESS's creditworthiness from BBB and Baa2 to BBB– and Baa3, respectively. However, they raised the outlook to stable. This downward assessment was justified by factors such as LANXESS's latterly weaker financial data resulting from the persistently difficult business environment for rubber, among other factors.

In the prior year, we made appropriate corrections to our assets affected by the risks associated with the challenging competitive situation resulting from growing capacities, lower selling prices and less favorable prices for raw materials and energy. Although there has been no fundamental change to this environment, 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 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **Earnings performance** | | | | | |
| Sales | 7,120 | 8,775 | 9,094 | 8,300 | 8,006 |
| EBITDA pre exceptionals | 918 | 1,146 | 1,223 | 735 | 808 |
| EBITDA margin pre exceptionals | 12.9% | 13.1% | 13.4% | 8.9% | 10.1% |
| EBITDA | 890 | 1,101 | 1,186 | 624 | 644 |
| Operating result (EBIT) pre exceptionals | 635 | 826 | 847 | 288 | 402 |
| Operating result (EBIT) | 607 | 776 | 808 | (93) | 218 |
| EBIT margin | 8.5% | 8.8% | 8.9% | (1.1)% | 2.7% |
| Net income (loss) | 379 | 506 | 508 | (159) | 47 |
| Earnings per share (€) | 4.56 | 6.08 | 6.11 | (1.91) | 0.53 |
| | | | | | |
| **Financial position** | | | | | |
| Cash flow from operating activities | 430 | 672 | 838 | 641 | 797 |
| Depreciation and amortization | 283 | 325 | 378 | 717 | 426 |
| Cash outflows for capital expenditures | 501 | 679 | 696 | 624 | 614 |
| Net financial liabilities | 913 | 1,515 | 1,483 | 1,731 | 1,336 |
| | | | | | |
| **Assets and liabilities** | | | | | |
| Total assets | 5,666 | 6,878 | 7,519 | 6,811 | 7,250 |
| Non-current assets | 2,738 | 3,489 | 3,747 | 3,592 | 4,101 |
| Current assets | 2,928 | 3,389 | 3,772 | 3,219 | 3,149 |
| Net working capital | 1,372 | 1,766 | 1,849 | 1,679 | 1,600 |
| Equity (including non-controlling interests) | 1,761 | 2,074 | 2,330 | 1,900 | 2,161 |
| Pension provisions | 605 | 679 | 893 | 943 | 1,290 |
| | | | | | |
| **Indicators** | | | | | |
| ROCE | 17.0% | 17.2% | 15.6% | 5.8% | 7.9% |
| Equity ratio | 31.1% | 30.2% | 31.0% | 27.9% | 29.8% |
| Non-current asset ratio | 48.3 | 50.7 | 49.8 | 52.7 | 56.6 |
| Asset coverage I | 64.3 | 59.4 | 62.2 | 52.9 | 52.7 |
| Net working capital/sales | 19.3% | 20.1% | 20.3% | 20.2% | 20.0% |
| Employees (as of December 31) | 14,648 | 16,390 | 17,177 | 17,343 | 16,584 |

## 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. The Group management company is also responsible for financing and communication with LANXESS's key stakeholders. The economic performance of LANXESS AG depends principally on the operating business entities in the LANXESS Group and on the development of the chemical industry. The balance of income and losses from investments in affiliated companies resulting from profit or loss transfers and dividends from affiliated companies is of key importance for the future ability of LANXESS AG to pay a dividend. Therefore, especially the statements made in the "Opportunity and risk report" in this combined management report apply in principle to LANXESS AG as well.

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 | 2013 | 2014 | Change % |
|---|---|---|---|
| **Sales** | **4** | **5** | **25.0** |
| Cost of sales | (4) | (5) | (25.0) |
| **Gross profit** | **0** | **0** | **–** |
| General administration expenses | (39) | (43) | (10.3) |
| Other operating income | 2 | 34 | >100 |
| Other operating expenses | (2) | (14) | < (100) |
| **Operating result** | **(39)** | **(23)** | **41.0** |
| Income from investments in affiliated companies | 169 | 53 | (68.6) |
| Net interest expense | (85) | (57) | 32.9 |
| Other financial income and expenses – net | (14) | (33) | < (100) |
| **Financial result** | **70** | **(37)** | **< (100)** |
| **Income (loss) before income taxes** | **31** | **(60)** | **< (100)** |
| Income taxes | 4 | (25) | < (100) |
| **Net income (loss)** | **35** | **(85)** | **< (100)** |
| Carryforward to new account | 13 | 3 | (76.9) |
| Withdrawal from other retained earnings | 0 | 135 | – |
| **Distributable profit** | **48** | **53** | **10.4** |

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

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

General administration expenses increased against the previous year, up €4 million, or 10.3%, to €43 million. They principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The increase in other operating income was primarily due to the reversal of provisions. The operating result improved by €16 million to minus €23 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 €107 million to minus €37 million. This change was primarily due to the profit transfer of €67 million from LANXESS Deutschland GmbH, down €102 million from the previous year, and to the assumption of a loss of €13 million from LANXESS International Holding GmbH. By contrast, the €28 million decrease in net interest expense to €57 million had a positive effect and was mainly attributable to the repayment of borrowings from subsidiaries.

Income before income taxes came to minus €60 million, following €31 million in the previous year. Net expenses for income taxes of €25 million comprised tax expenses of €1 million for 2014 and €24 million for the previous years. The net loss for 2014 was €85 million after net income of €35 million in the previous year.

Taking into account the profit carryforward of €3 million and a withdrawal from other retained earnings of €135 million, the distributable profit as of December 31, 2014, increased to €53 million from €48 million at the end of 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, 2013 | | Dec. 31, 2014 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| **ASSETS** | | | | | |
| Financial assets | 757 | 23.5 | 758 | 26.3 | 0.1 |
| **Non-current assets** | **757** | **23.5** | **758** | **26.3** | **0.1** |
| Receivables from affiliated companies | 1,967 | 61.1 | 1,754 | 60.8 | (10.8) |
| Other assets | 25 | 0.7 | 20 | 0.7 | (20.0) |
| Liquid assets and securities | 467 | 14.5 | 348 | 12.1 | (25.5) |
| **Current assets** | **2,459** | **76.3** | **2,122** | **73.6** | **(13.7)** |
| **Prepaid expenses** | **5** | **0.2** | **4** | **0.1** | **(20.0)** |
| **Total assets** | **3,221** | **100.0** | **2,884** | **100.0** | **(10.5)** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | **1,171** | **36.4** | **1,473** | **51.1** | **25.8** |
| **Provisions** | **101** | **3.1** | **103** | **3.6** | **2.0** |
| Liabilities to banks | 59 | 1.8 | 1 | 0.0 | (98.3) |
| Payables to affiliated companies | 1,886 | 58.6 | 1,297 | 45.0 | (31.2) |
| Other liabilities | 4 | 0.1 | 10 | 0.3 | >100 |
| **Liabilities** | **1,949** | **60.5** | **1,308** | **45.3** | **(32.9)** |
| **Total assets** | **3,221** | **100.0** | **2,884** | **100.0** | **(10.5)** |

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 €2,884 million as of December 31, 2014, which was €337 million, or 10.5%, below the prior-year figure. Non-current assets were €758 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 23.5% to 26.3%. Current assets declined by €337 million, or 13.7%, to €2,122 million and accounted for 73.6% of total assets, compared with 76.3% in 2013. Receivables from subsidiaries accounted for 60.8% 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 14.5% to 12.1%.

Equity increased by €302 million to €1,473 million, largely due to the 10% increase in the capital stock. This was partly offset by the dividend payout for 2013 and the net loss for the reporting period. The equity ratio was 51.1%, after 36.4% at the end of 2013.

Liabilities decreased by €641 million to €1,308 million, largely on account of payables to subsidiaries, which were €589 million lower than the previous year at €1,297 million. The provisions increased by €2 million to €103 million and related mainly to commitments to employees and statutory obligations.

## Employees

As of December 31, 2014, the LANXESS Group had a total of 16,584 employees, against 17,343 at the closing date of the prior year. Our global headcount reflected the measures taken to realign the company. Some 1,000 positions in administration and service units, marketing, and research and development worldwide were identified for reduction by 2016 as part of the first phase of our realignment (competitiveness of the business and administrative structure).

In the EMEA region (excluding Germany), the number of employees as of December 31, 2014 was 3,267, down from 3,444 in the previous year. In Germany, the headcount declined from 8,117 to 7,747. The number of employees in the North America region fell to 1,371, from 1,526 as of December 31, 2013, while Latin America saw its workforce shrink from 1,560 at the end of last year, to 1,467. At the reporting date, we employed 2,732 people in the Asia-Pacific region, which is 36 more than a year ago.

13,598, or 82%, of our employees were men and 2,986, or 18%, were women. The number of employees who were non-German nationals was 9,270. In addition, we had 957 employees worldwide working on temporary employment contracts. LANXESS AG had 139 employees as of the reporting date, versus 144 the year before.

With a total of 496 trainees in 19 different career paths and seven combined vocational training and study programs at the end of 2014, LANXESS continues to train more young people than it needs to meet its own requirements. In 2014, despite our realignment program, we hired around 75% of those who completed their vocational training with us in Germany.

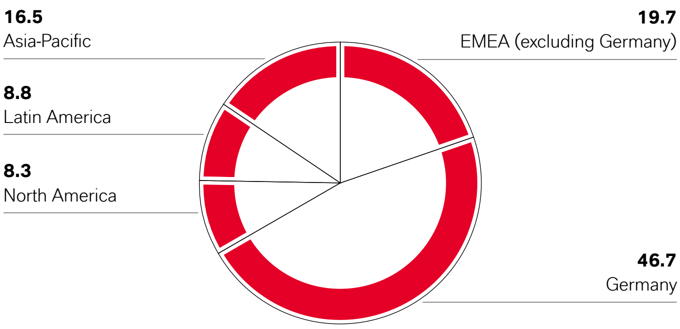
Part-time employees accounted for 7.0% of the workforce at our German core companies as of the reporting date. Individuals with severe disabilities made up 5.4% of the workforce at our German companies. In addition, we routinely award contracts to work centers for the disabled.

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 2014, the LTIFR was 2.3, compared with 3.2 in 2013.

Personnel expenses totaled €1,457 million in fiscal 2014 (2013: €1,339 million). Wages and salaries, at €1,106 million (2013: €1,006 million), accounted for the greater part of this figure. Social security contributions were €202 million (2013: €194 million), while pension plan expenses totaled €136 million (2013: €128 million), and social assistance benefits came to €13 million (2013: €11 million).

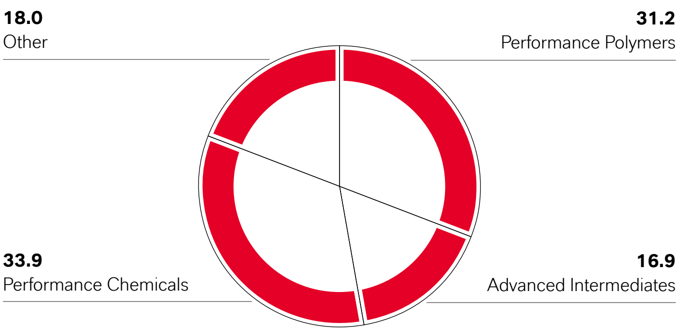
**Employees by Region**

%



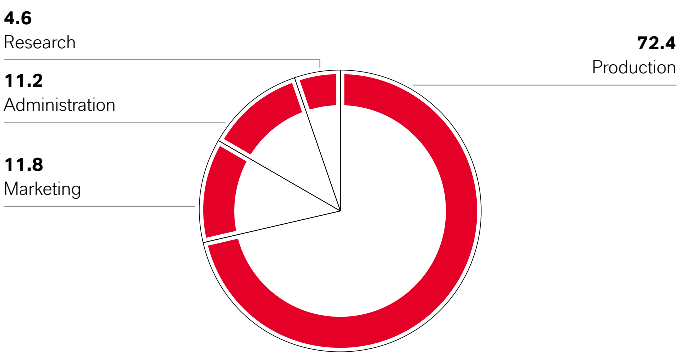

**Employees by Segment**

%




**Employees by Functional Area (Annual Average)**

%




## HR strategy

Our entrepreneurial success is fundamentally based on our employees' professionalism, implementation skills and sense of responsibility. Only through their ongoing training and development – especially aimed at strengthening their willingness to learn and change – can we safeguard our company's ability to continuously adapt to complex market challenges and sustainably improve LANXESS's competitiveness.

The strategic development initiative in the HR function, which was started in 2013, was integrated into the "Let's LANXESS again" program in 2014. Within the context of our realignment, leadership, dialogue, organizational consulting and change management were special areas of focus for the HR organization.

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. As part of our Diversity & Inclusion initiative, we have set a goal for the company: to voluntarily increase the proportion of women in middle and upper management to around 20% by 2020. The figure currently stands at around 15.3%.

# 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 average compensation mix of 30% annual base salary and 70% 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 an additional 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 | 30 |
| Annual Performance Payment | 36 |
| 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.

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. In the case of 100% target attainment, the individual APP budget for 2014 for Mr. Zachert is 125% and for the other members of the Board of Management 115% of their respective annual base salaries. The maximum payment is defined on an annual basis by the Supervisory Board. For fiscal 2014, it has been capped at 100% and for fiscal 2015 at 150% of the individual budgets for the members of the Board of Management – assuming 100% target attainment. Actual payments may differ from the amount 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 were subject to a five-year lock-up period. The last payments from the LTIP were made in 2013. 100% target attainment brought 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. The 2010–2013 tranche 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. The LTSP 2014–2017 offered since 2014 uses the MSCI World Chemicals Index as the new reference index but is otherwise largely unchanged from the 2010–2013 tranche.

**Compensation of the Board of Management**

| € '000 | | Fixed compensation | | Variable compensation | | | | Payments from LTSP rights | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Annual base salery | Compen-sation in kind | Perfor-mance bonus[1] | Pay-ment for previous years[4] | LTPB (multi-year) | Total cash compen-sation | Number of rights | Fair values | Total |
| **Serving members of the Board of Management as of December 31, 2014** | | | | | | | | | | |
| Matthias Zachert (as of April 1, 2014) | **2014** | **900** | **54** | **1,125** | **–** | **406**[5] | **2,485** | **810,000** | **689** | **3,174** |
| | 2013 | – | – | – | – | – | – | – | – | – |
| Dr. Bernhard Düttmann | **2014** | **650** | **60** | **673** | **–** | **263**[7] | **1,646** | **419,250** | **356** | **2,002** |
| | 2013 | 613 | 57 | 346[2] | – | 218[6] | 1,234 | 322,500 | 177 | 1,411 |
| Dr. Rainier van Roessel | **2014** | **650** | **49** | **673** | **–** | **263**[7] | **1,635** | **419,250** | **356** | **1,991** |
| | 2013 | 613 | 47 | 346[2] | – | 218[6] | 1,224 | 322,500 | 177 | 1,401 |
| **Former members of the Board of Management as of December 31, 2014** | | | | | | | | | | |
| Dr. Axel C. Heitmann (until February 21, 2014) | **2014** | **157** | **(1)** | **–** | **–** | **–** | **156** | **–** | **–** | **156** |
| | 2013 | 1,000 | 130 | 615[3] | 34 | 323[6] | 2,102 | 596,625 | 328 | 2,430 |
| Dr. Werner Breuers (until August 5, 2014) | **2014** | **387** | **34** | **238** | **–** | **–** | **659** | **–** | **–** | **659** |
| | 2013 | 613 | 51 | 346[2] | – | 218[6] | 1,228 | 322,500 | 177 | 1,405 |
| **Total** | **2014** | **2,744** | **196** | **2,709** | **–** | **932** | **6,581** | **1,648,500** | **1,401** | **7,982** |
| | 2013 | 2,839 | 285 | 1,653 | 34 | 977 | 5,788 | 1,564,125 | 859 | 6,647 |

1) Payment in 2014 and 2015, respectively
2) The performance bonus was voluntarily reduced by 10% of the annual base salary.
3) The performance bonus was voluntarily reduced by 6% of the annual base salary.
4) Payment in 2013
5) Payment in 2014
6) Payment of 50% each in 2014 and 2015
7) Payment of 50% each in 2015 and 2016

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

The personnel expenses for (2013: gain from) share-based compensation in fiscal 2014 amounted to €100 thousand for Mr. Zachert, €20 thousand (2013: €56 thousand) for Dr. Düttmann, €428 thousand (2013: €223 thousand) for Dr. van Roessel, €564 thousand (2013: €385 thousand) for Dr. Heitmann and €1,056 thousand (2013: €223 thousand) for Dr. Breuers.

The LTPB, which is the third variable compensation component, is likewise aligned with 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. Actual payments in 2015 and 2016 may differ from the amounts calculated in advance.

In 2014, Mr. Zachert received a one-time payment of €2,000 thousand in partial recompense for the multi-year variable compensation originally agreed under his previous employment contract but not paid out because of his move to LANXESS AG. His total compensation therefore amounts to €5,174 thousand. The table shows the total compensation of the other members of the Board of Management. The aggregate compensation of the entire Board of Management totaled €9,982 thousand (2013: €6,647 thousand), comprising €4,940 thousand (2013: €3,124 thousand) in non-performance-related components, €3,641 thousand (2103: €2,664 thousand) in performance-related components and €1,401 thousand (2013: €859 thousand) in components with a long-term incentive effect.

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

The pension plan for the members of the Board of Management is a defined contribution plan stipulating a basic contribution to be made by the company equal to 25% of the annual base salary and APP. The maximum amount taken into account for calculating the APP contribution is 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 2014 consolidated financial statements for this purpose was €2,496 thousand (2013: €1,264 thousand). The present value of the obligations for the members of the Board of Management serving as of December 31, 2014 was €9,994 thousand (2013: €21,740 thousand). Under IFRS accounting principles, the service cost for pension entitlements earned in 2014 and the present value of the obligations, including acquired rights, as of December 31, 2014 amounted, respectively, to €1,574 thousand and €1,993 thousand for Mr. Zachert, €254 thousand and €2,095 thousand (2013: €394 thousand and €1,584 thousand) for Dr. Düttmann, and €148 thousand and €5,906 thousand (2013: €118 thousand and €5,090 thousand) for Dr. van Roessel. The service cost for Dr. Heitmann and Dr. Breuers for their service on the Board of Management in 2014 came to €366 thousand and €154 thousand, respectively.

The net expense for pension entitlements recognized under HGB accounting rules in the 2014 annual financial statements for this purpose was €109 thousand (2013: €3,470 thousand). This amount includes income in connection with pension entitlements for Dr. Heitmann and Dr. Breuers of €1,851 thousand and €2 thousand, respectively. The present value of the obligations for the members of the Board of Management serving as of December 31, 2014 was €7,787 thousand (2013: €18,565 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, 2014 amounted, respectively, to €1,287 thousand for Mr. Zachert, €1,644 thousand (2013: €1,348 thousand) for Dr. Düttmann, and €4,856 thousand (2013: €4,477 thousand) for Dr. van Roessel.

As of December 31, 2014, obligations to former members of the Board of Management totaled €27,921 thousand (2013: €11,578 thousand) under IFRS accounting rules and €21,215 thousand (2013: €9,734 thousand) under HGB accounting rules. In 2014, this total contained obligations to Dr. Heitmann and Dr. Breuers for the first time.

**Benefits associated with and following termination of service on the Board of Management** The members of the Board of Management have 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 depend on the respective circumstances and, regardless of the remaining term of the service contract, include 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 and compensation pro rata temporis of LTSP rights.

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

Dr. Heitmann resigned from the Board of Management by mutual agreement effective February 21, 2014, and left the company. Up to this time, the contractually agreed benefits were granted and paid, including the variable compensation for fiscal 2013 that had already been earned. Dr. Heitmann waived further claims, i.e. to variable compensation (APP and LTPB) pro rata, compensation for existing LTSP rights or other severance payments.

Dr. Breuers will be leaving the company on expiration of his service contract on May 31, 2015. He already resigned from the Board of Management effective August 5, 2014. The contractually agreed terms of his compensation shall remain applicable until he leaves the company. At that time, existing LTSP rights shall be evaluated at €1.00 per right and compensation paid pro rata, depending on the length of the retention period that has already elapsed. This results in an entitlement of €729 thousand. In addition, Dr. Breuers has been granted a severance payment of €1,690 thousand comprising a target income, which is the annual base salary plus the APP and LTPB assuming 100% target attainment.

In 2014, compensation of former members of the Board of Management totaled €1,983 thousand (2013: €308 thousand).

**Other benefits** In 2014, 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 2014.

### Individual compensation in line with the recommendations of the German Corporate Governance Code

The following tables list the compensation, additional benefits and allocations (payments) for 2013 and 2014, in line with the recommendations of the German Corporate Governance Code. The variable compensation components differ depending on the reference period. The amounts of compensation shown also include the maximum and minimum attainable compensation.

### Compensation Granted (Serving Members of the Board of Management as of December 31, 2014)

| € '000 | Matthias Zachert Chairman of the Board of Management Appointed April 1, 2014 | | | | Dr. Bernhard Düttmann Chief Financial Officer Appointed April 1, 2011 | | | | Dr. Rainier van Roessel Member of the Board of Management Appointed January 1, 2007 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Target value 2013 | Target value 2014 | 2014 (min.) | 2014 (max.) | Target value 2013 | Target value 2014 | 2014 (min.) | 2014 (max.) | Target value 2013 | Target value 2014 | 2014 (min.) | 2014 (max.) |
| Annual base salary | – | 900 | 900 | 900 | 613 | 650 | 650 | 650 | 613 | 650 | 650 | 650 |
| Compensation in kind | – | 54 | 54 | 54 | 57 | 60 | 60 | 60 | 47 | 49 | 49 | 49 |
| **Total** | **–** | **954** | **954** | **954** | **670** | **710** | **710** | **710** | **660** | **699** | **699** | **699** |
| **Annual Performance Payment (APP) 2)** | **–** | **1,125** | **1,125** | **1,125** | **748** | **748** | **0** | **748** | **748** | **748** | **0** | **748** |
| **Multi-year variable compensation** | **–** | **1,365** | **406** | **2,431** | **538** | **649** | **0** | **1,059** | **538** | **649** | **0** | **1,059** |
| LTPB (tranche 2012–2013) | – | – | – | – | 68 | – | – | – | 68 | – | – | – |
| LTPB (tranche 2013–2014) | – | 203 | 203 | 203 | 293 | 0 | 0 | (146) 3) | 293 | 0 | 0 | (146) 3) |
| LTPB (tranche 2014–2015) 2) | – | 473 | 203 | 608 | 0 | 293 | 0 | 366 | 0 | 293 | 0 | 366 |
| LTSP 2010–2013 (tranche 2013) | – | – | – | – | 177 | – | – | – | 177 | – | – | – |
| LTSP 2014–2017 (tranche 2014) | – | 689 | 0 | 1,620 | 0 | 356 | 0 | 839 | 0 | 356 | 0 | 839 |
| **Total** | **–** | **3,444** | **2,485** | **4,510** | **1,956** | **2,107** | **710** | **2,517** | **1,946** | **2,096** | **699** | **2,506** |
| Service cost | – | 1,574 | 1,574 | 1,574 | 394 | 254 | 254 | 254 | 118 | 148 | 148 | 148 |
| **Total compensation 1)** | **–** | **5,018** | **4,059** | **6,084** | **2,350** | **2,361** | **964** | **2,771** | **2,064** | **2,244** | **847** | **2,654** |

1) In 2014, Mr. Zachert also received a one-time payment of €2,000 thousand in partial recompense for the multi-year variable compensation originally agreed under his previous employment contract but not paid out because of his move to LANXESS AG.
2) Maximum target attainment for 2014 reduced from 200% to 100%
3) 2013 grant adjusted retrospectively to 100% for 2014

### Allocations (Serving Members of the Board of Management as of December 31, 2014)

| € '000 | Matthias Zachert Chairman of the Board of Management Appointed April 1, 2014 | | Dr. Bernhard Düttmann Chief Financial Officer Appointed April 1, 2011 | | Dr. Rainier van Roessel Member of the Board of Management Appointed January 1, 2007 | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Annual base salary | – | 900 | 613 | 650 | 613 | 650 |
| Compensation in kind | – | 54 | 57 | 60 | 47 | 49 |
| **Total** | **–** | **954** | **670** | **710** | **660** | **699** |
| **Annual Performance Payment (APP) 2)** | **–** | **1,125** | **346 2)** | **673** | **346 2)** | **673** |
| **Multi-year variable compensation** | **–** | **406** | **328** | **212** | **1,349** | **825** |
| LTPB (tranche 2012–2013) | – | – | 328 | – | 328 | – |
| LTPB (tranche 2013–2014) | – | 203 | – | 212 | – | 212 |
| LTPB (tranche 2014–2015) | – | 203 | – | – | – | – |
| LTIP 2008–2010 (tranche 2010) | – | – | – | – | 1,021 | – |
| LTSP 2010–2013 (tranche 2010) | – | – | – | – | – | 613 |
| **Total** | **–** | **2,485** | **1,344** | **1,595** | **2,355** | **2,197** |
| Service cost | – | 1,574 | 394 | 254 | 118 | 148 |
| **Total compensation 1)** | **–** | **4,059** | **1,738** | **1,849** | **2,473** | **2,345** |

1) In 2014, Mr. Zachert also received a one-time payment of €2,000 thousand in partial recompense for the multi-year variable compensation originally agreed under his previous employment contract but not paid out because of his move to LANXESS AG.
2) The performance bonus (APP) was voluntarily reduced by 10% of the annual base salary.

**Compensation Granted (Former Members of the Board of Management as of December 31, 2014)**

| € '000 | Dr. Axel C. Heitmann<br>Chairman of the Board of Management<br>Resigned February 21, 2014 | | | | Dr. Werner Breuers<br>Member of the Board of Management<br>Resigned August 5, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Target value 2013 | Target value 2014 | 2014 (min.) | 2014 (max.) | Target value 2013 | Target value 2014 | 2014 (min.) | 2014 (max.) |
| Annual base salary | 1,000 | 157 | 157 | 157 | 613 | 387 | 387 | 387 |
| Compensation in kind | 130 | (1) [3] | (1) [3] | (1) [3] | 51 | 34 | 34 | 34 |
| **Total** | **1,130** | **156** | **156** | **156** | **664** | **421** | **421** | **421** |
| **Annual Performance Payment (APP) [1]** | **1,236** | **–** | **–** | **–** | **748** | **445** | **0** | **445** |
| **Multi-year variable compensation** | **880** | **–** | **–** | **–** | **538** | **87** | **0** | **(59)** |
| LTPB (tranche 2012–2013) | 68 | – | – | – | 68 | – | – | – |
| LTPB (tranche 2013–2014) | 484 | – | – | – | 293 | 0 | 0 | (146) [2] |
| LTPB (tranche 2014–2015) [1] | 0 | – | – | – | 0 | 87 | 0 | 87 |
| LTSP 2010–2013 (tranche 2013) | 328 | – | – | – | 177 | – | – | – |
| LTSP 2014–2017 (tranche 2014) | 0 | – | – | – | 0 | – | – | – |
| **Total** | **3,246** | **156** | **156** | **156** | **1,950** | **953** | **421** | **807** |
| Service cost | 376 | 366 | 366 | 366 | 376 | 154 | 154 | 154 |
| **Total compensation** | **3,622** | **522** | **522** | **522** | **2,326** | **1,107** | **575** | **961** |

1) Maximum target attainment for 2014 reduced from 200% to 100%
2) 2013 grant adjusted retrospectively to 100% for 2014
3) Including correction for prior year

**Allocations (Former Members of the Board of Management as of December 31, 2014)**

| € '000 | Dr. Axel C. Heitmann<br>Chairman of the Board of Management<br>Resigned February 21, 2014 | | Dr. Werner Breuers<br>Member of the Board of Management<br>Resigned August 5, 2014 | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| Annual base salary | 1,000 | 157 | 613 | 387 |
| Compensation in kind | 130 | (1) | 51 | 34 |
| **Total** | **1,130** | **156** | **664** | **421** |
| **Annual Performance Payment (APP) [1]** | **615 [2]** | **–** | **346 [1]** | **238** |
| **Multi-year variable compensation** | **2,316** | **1,064** | **1,349** | **693** |
| LTPB (tranche 2012–2013) | 542 | – | 328 | – |
| LTPB (tranche 2013–2014) | – | – | – | 80 |
| LTPB (tranche 2014–2015) | – | – | – | – |
| LTIP 2008–2010 (tranche 2010) | 1,774 | – | 1,021 | – |
| LTSP 2010–2013 (tranche 2010) | – | 1,064 | – | 613 |
| **Total** | **4,061** | **1,220** | **2,359** | **1,352** |
| Service cost | 376 | 366 | 376 | 154 |
| **Total compensation** | **4,437** | **1,586** | **2,735** | **1,506** |

1) The performance bonus (APP) was voluntarily reduced by 10% of the annual base salary.
2) The performance bonus (APP) was voluntarily reduced by 6% of the annual base salary.

## 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 are 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$^{SM}$ index during a member's five-year term. The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected are each compared with the respective average for the 90 trading days prior to the Annual Stockholders' Meeting at the conclusion of which the members' terms end. The variable compensation is only payable if the stock has outperformed the benchmark index. The exact amount of the variable compensation depends on the extent to which the stock price outperformed the benchmark index in the preceding five years. If LANXESS stock has outperformed the Dow Jones STOXX 600 Chemicals$^{SM}$ by up to ten percentage points, the variable compensation amounts to €50 thousand for this five-year period; if it has outperformed the index by between ten 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 2014.

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 €0 thousand (2013: €1,800 thousand) at December 31, 2014.

None of the members of the Supervisory Board received benefits for services provided personally 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 2014.

**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 | **2014** | **240,000** | **0** | **22,500** | **5,000** | **267,500** |
| | 2013 | 240,000 | 0 | 16,500 | 5,000 | 261,500 |
| Ulrich Freese, Vice Chairman | **2014** | **120,000** | **40,000** | **21,000** | **5,000** | **186,000** |
| | 2013 | 120,000 | 40,000 | 16,500 | 5,000 | 181,500 |
| Axel Berndt | **2014** | **80,000** | **40,000** | **18,000** | **5,000** | **143,000** |
| | 2013 | 80,000 | 40,000 | 15,000 | 5,000 | 140,000 |
| Dr. Rudolf Fauss (pro rata temporis until June 30, 2014) | **2014** | **40,000** | **20,000** | **10,500** | **2,500** | **73,000** |
| | 2013 | 80,000 | 40,000 | 15,000 | 5,000 | 140,000 |
| Dr. Hans-Dieter Gerriets (pro rata temporis from July 1, 2014) | **2014** | **40,000** | **20,000** | **7,500** | **2,500** | **70,000** |
| | 2013 | 0 | 0 | 0 | 0 | 0 |
| Dr. Friedrich Janssen | **2014** | **80,000** | **120,000** | **27,000** | **5,000** | **232,000** |
| | 2013 | 80,000 | 96,548 | 18,000 | 5,000 | 199,548 |
| Robert J. Koehler | **2014** | **80,000** | **40,000** | **21,000** | **5,000** | **146,000** |
| | 2013 | 80,000 | 40,000 | 13,500 | 5,000 | 138,500 |
| Rainer Laufs | **2014** | **80,000** | **40,000** | **18,000** | **5,000** | **143,000** |
| | 2013 | 80,000 | 40,000 | 15,000 | 5,000 | 140,000 |
| Thomas Meiers | **2014** | **80,000** | **40,000** | **18,000** | **5,000** | **143,000** |
| | 2013 | 80,000 | 40,000 | 15,000 | 5,000 | 140,000 |
| Dr. Ulrich Middelmann (deceased July 2, 2013) | **2014** | **0** | **0** | **0** | **0** | **0** |
| | 2013 | 40,110 | 20,055 | 7,500 | 2,507 | 70,172 |
| Claudia Nemat (effective July 25, 2013) | **2014** | **80,000** | **0** | **9,000** | **5,000** | **94,000** |
| | 2013 | 35,068 | 0 | 3,000 | 2,192 | 40,260 |
| Hans-Jürgen Schicker | **2014** | **80,000** | **40,000** | **22,500** | **5,000** | **147,500** |
| | 2013 | 80,000 | 40,000 | 16,500 | 5,000 | 141,500 |
| Gisela Seidel | **2014** | **80,000** | **40,000** | **22,500** | **5,000** | **147,500** |
| | 2013 | 80,000 | 40,000 | 16,500 | 5,000 | 141,500 |
| Theo H. Walthie | **2014** | **80,000** | **40,000** | **18,000** | **5,000** | **143,000** |
| | 2013 | 80,000 | 40,000 | 15,000 | 5,000 | 140,000 |
| **Total** | **2014** | **1,160,000** | **480,000** | **235,500** | **60,000** | **1,935,500** |
| | 2013 | 1,155,178 | 476,603 | 183,000 | 59,699 | 1,874,480 |

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 €91,522,936 as of December 31, 2014, and is composed of 91,522,936 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. 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. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock which is attributable to those shares issued or sold during the term of this authorization while excluding stockholders' rights in direct or analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. 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 €8,320,268 (Authorized Capital II). In fiscal 2014, €8,320,266 of the original Authorized Capital II of €16,640,534 was used to increase the share capital. 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. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock which is attributable to those shares issued or sold during the term of this authorization while excluding stockholders' rights in direct or analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. 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 level 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 €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, and the €500 million Eurobond issued by LANXESS Finance B.V. in November 2012. At the end of fiscal 2014, it also applied to the CNH 500 million bond issued by LANXESS Finance B.V. in February 2012 and redeemed in February 2015. All of these bonds are 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. In fiscal 2011 and 2014, LANXESS Finance B.V. and LANXESS AG signed agreements with an investment bank for loans of €200 million and €150 million, respectively. The loan agreement signed by LANXESS Finance B.V. was transferred to LANXESS AG in January 2015. These agreements may be terminated without notice or repayment of the outstanding loans may be required if another company or person gains control of more than 50% of LANXESS AG. 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 declaration 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, 2014, that could be expected to have a material effect on the earnings, asset and financial position of the LANXESS Group or LANXESS AG.

## Report on risks, opportunities and future perspectives

The economic outlook below describes our expectations for economic development. Following the report on future perspectives, we discuss the opportunities and risks which may result in deviations from our predictions. To give the informed reader a clearer view of the LANXESS Group's expected development, opportunities and risks, the opportunities and risks will be described in a combined report starting in the year under review. In addition, there have been changes to the form and content of the reporting.

### Economic outlook

General business conditions We expect global economic growth of 3.0% in 2015. This forecast is based on the assumption that there will be no further escalation in the crises in Ukraine and the Middle East. A sustained low oil price could result in slight additional stimulation of the economy. In the NAFTA region, we are anticipating growth of 3.0%, which will likely be driven by private consumption. Especially due to a slightly improved economic environment in Europe, we are assuming expansion of 2.5% in the EMEA region. A lower oil price and a stronger U.S. dollar are expected to have a positive effect, while the crisis in Ukraine will likely continue to dampen development. We are forecasting growth of 2.0% in Germany, facilitated by low unemployment and an associated improvement in consumer sentiment. In the Asia-Pacific region, we predict a gain of 4.5%. Growth in China is expected to weaken somewhat because the country's exports will possibly no longer increase at the same pace as in the past.

**Expected Growth 2015**

| Change vs. prior year in real terms (%)[1] | Gross domestic product | Chemical production |
|---|---|---|
| NAFTA | 3.0 | 2.5 |
| Latin America | 2.5 | 3.0 |
| EMEA | 2.5 | 2.0 |
| Germany | 2.0 | 1.0 |
| Asia-Pacific | 4.5 | 6.0 |
| **World** | **3.0** | **4.0** |

1) Rounded to the nearest 0.5%
Source: LANXESS estimates and IHS Global Insight

Future performance of the chemical industry We believe that the chemical industry will continue to expand in 2015, with production growing by 4.0%. The emerging economies are expected to again be the focus of this growth. Driven by development in China, we expect production expansion in the Asia-Pacific region to be 6.0% above the prior year. In the NAFTA region, we forecast a gain of 2.5%. We anticipate growth of 3.0% in Latin America and gains of 2.0% and 1.0% in the EMEA and Germany regions, respectively.

Future evolution of selling markets We expect the global tire industry to increase production by 2.5% in 2015. In the Asia-Pacific region, a gain of 4.5% is anticipated. China is likely to remain the driver for growth, albeit at a slower pace. In our predictions for the industrial nations, we expect rising imports to result in a production decline of 1.5% in the EMEA region. The NAFTA region is predicted to see positive development of 1.0%. Latin America may see growth of 3.5% in the current year, while we expect Germany to post a gain of 1.0%.

We are assuming growth of 4.5% in automotive production in 2015. With anticipated expansion of 5.0%, the Asia-Pacific region is likely to remain the focus of development. We see the Chinese economic region, the ASEAN countries and India as the growth drivers here. In the NAFTA region, we predict expansion of 4.0%. The situation in Latin America should stabilize and this region is expected to turn in growth of 4.0% following the strong decline in 2014. In the EMEA region, we are anticipating a gain of 2.5%, with production in Germany expected to rise by 0.5%.

Growth of 5.0% is projected for the construction industry in 2015. In our view, the Asia-Pacific region will remain one focus of this development with a forecast increase of 5.5%. We are also anticipating an improvement in the NAFTA region and assume growth of 8.0%. Latin America is expected to post a gain of 4.0%. Due to a lack of momentum in some eurozone countries and continued tensions in Eastern Europe, we anticipate growth of 2.5% for the EMEA region. Germany should continue its positive development for expansion of 4.0%.

The market for agrochemicals should remain robust and post growth of 3.0%. The NAFTA region is expected to see an increase of 2.0%. We are also anticipating a recovery in Latin America with a gain of 3.0%. In the EMEA region, growth of 3.0% is expected. Growth in Germany is likely to weaken for an increase of 0.5%, whereas we anticipate expansion of 3.5% in the Asia-Pacific region.

**Expected Evolution of Major User Industries**

| Change vs. prior year in real terms (%)[1] | Tires | Automotive | Agrochemicals | Construction |
|---|---|---|---|---|
| | 2015 | 2015 | 2015 | 2015 |
| NAFTA | 1.0 | 4.0 | 2.0 | 8.0 |
| Latin America | 3.5 | 4.0 | 3.0 | 4.0 |
| EMEA | (1.5) | 2.5 | 3.0 | 2.5 |
| Germany | 1.0 | 0.5 | 0.5 | 4.0 |
| Asia-Pacific | 4.5 | 5.0 | 3.5 | 5.5 |
| **World** | **2.5** | **4.5** | **3.0** | **5.0** |

1) Rounded to the nearest 0.5%
Source: LANXESS estimates and IHS Global Insight

## Future perspectives

Expected earnings position of the LANXESS Group We anticipate that our earnings in fiscal 2015 will be influenced by the persistently challenging competitive environment, especially for our synthetic rubber businesses. Additional effects will likely come from the ramp-up costs for our new rubber plants and the associated idle capacity costs. We do not expect any significant momentum for our business development from the slight growth forecast for the global economy.

We assume the following development for the ten business units in our three segments. The assumptions made for each segment are based especially on the differing market and competitive situations faced by the business units and the customer industries they serve.

For the Performance Polymers segment, we expect a slight improvement in demand from the main customer industries – automotive and tires – in 2015 compared with the previous year. We believe that the tire classification and labeling regulations and initiatives in various countries will slightly support demand for this segment's rubber products. However, in those business units which produce synthetic rubbers – especially EPDM and butyl rubber – we are anticipating continued price pressure due to additional capacities. In 2015, we predict further positive development of our business with plastics for lightweight construction applications in the automotive industry. The U.S. dollar is the main currency for our rubber businesses and we expect positive effects from its continued strength. For the current year, this segment is expected to incur ramp-up costs totaling around €25 million for the new Nd-PBR rubber plant in Singapore and the EPDM rubber plant in Changzhou, China. Also for the current year, we are anticipating idle costs of some €50 million for the additional capacities of these two new plants.

In 2015, we expect continued good demand from key customer industries for the Advanced Intermediates segment. According to current market forecasts, growth for agrochemical products is likely to be rather restrained. In the Saltigo business unit, we anticipate a slight project-related decline in our fine chemicals and pharmaceutical products businesses.

We expect a slight improvement to the demand situation for the Performance Chemicals segment in 2015. Our business with inorganic pigments for the construction industry should develop well, as should our leather chemicals business although there we anticipate a burden from the continued price pressure for chrome ore products. The additives business, which has close links with the tire industry, should see stable development overall. However, we anticipate challenges for our rubber additives in the Chinese market. We anticipate ongoing strong demand for the products of our Liquid Purification Technologies business unit.

In 2014, against the background of the continuing challenges facing LANXESS, we initiated the three-phase "Let's LANXESS again" program for the realignment of our company with the aim of sustainably strengthening our competitiveness. In connection with the first phase of the program, aimed at increasing the efficiency of business and administrative structures, we have planned total exceptional charges with no impact on EBITDA of €150 million through 2016. Of these exceptional charges, around €110 million were incurred in the reporting year and some €40 million are expected in 2015. As decisions are taken, we will be giving further details of the second and third phases of the program during 2015, although we already initiated the first measures of these phases in 2014. The cost reductions expected from the realignment initiated in the reporting year are expected to have a positive effect on our operating result in 2015.

In the current year, higher costs are also to be expected as a result of the increase in wages and salaries associated with the pending negotiations on the collective bargaining agreement in Germany.

Against the background of the anticipated influences, which are expected to have a largely offsetting effect on the individual segments, we predict EBITDA pre exceptionals for the full year 2015 to be just about on a comparable level to 2014. This takes account of the expected cost savings from the realignment initiated in the reporting year.

In 2015, we are predicting the continuing volatile development of raw material costs, which were at a comparatively low level at the end of the year under review. We anticipate an increase in procurement costs against the second half of 2014, especially for the petrochemical raw materials that are crucial to the synthetic rubber products of our Performance Polymers segment. The starting point for this development is the comparatively low cost level at year end 2014.

The U.S. dollar will remain the key currency for our businesses. We expect this currency to remain volatile against the euro in 2015 and anticipate that it will be slightly stronger than in 2014.

The effective tax rate for the LANXESS Group is significantly influenced by the regional distribution of its earnings. For the medium term, after conclusion of its realignment, LANXESS is targeting a tax rate of between 22% and 25%. Given the persistently challenging business situation and our ongoing realignment program, we expect a tax rate of more than 30% for the current fiscal year.

### Expected financial position of the LANXESS Group

Liquidity situation LANXESS will continue to pursue a forward-looking and conservative financial policy in the current year. With more than €2.0 billion in cash and undrawn credit lines, unchanged at year end 2014 compared with 2013 and as described under “Financial condition,” we have a very good liquidity and financing position which will enable us, for example, to safeguard our entrepreneurial flexibility and implement our ongoing realignment program.

Capital expenditures In the future, our capital expenditures will be increasingly focused on the maintenance of existing production facilities as well as efficiency improvements and the expansion of existing plants. Following the start-up of our two large Nd-PBR and EPDM rubber plants in Asia in 2015, we have no further plans for major investments in the construction of new production facilities in the coming years. We will successively reduce our capital expenditures in the coming years and expect cash outflows for capital expenditures of around €450 million in 2015. A further reduction to between €400 million and €450 million may possibly be envisaged for 2016. In this way, we are seeking to achieve a balanced investment cycle to ensure our financial headroom.

Financing measures LANXESS is in a good position due to the long-term nature of its financing since it ensures the financing for planned capital expenditures and the realignment program it has initiated by future cash flows, available liquidity and existing lines of credit. The same also applies to the expected dividend payment. Other than for the redemption of a CNH 500 million bond in February 2015, there will be no further significant need for refinancing in fiscal 2015. 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 earnings position of LANXESS AG In the current fiscal year, we expect the earnings position of LANXESS AG to be substantially better than in 2014. It is influenced by the administration expenses the company incurs in performing its tasks as a management holding company and by the financial result, especially the net interest position and the balance of income and losses from investments in affiliated companies. 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 and expect LANXESS AG to report a distributable profit that will enable our stockholders to adequately participate in the LANXESS Group’s earnings in the coming year.

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 the Group’s projected performance LANXESS remains well positioned with its product portfolio in the relevant customer industries and key global markets and with its strategic alignment with the world’s most important trends.

In 2014, in light of the structural challenges on the supply side, which are impacting our synthetic rubber businesses in particular, we launched a comprehensive three-phase global realignment program, which we will continue to systematically implement in the current year. This program is aimed at sustainably increasing the competitiveness of the business and administrative structure, operational competitiveness and the competitiveness of the business portfolio. We view our realignment as a key element of our activities in the current fiscal year. Although our measures have already yielded cost savings in support of our business, our development in 2015 will continue to be primarily shaped by the challenging environment for our synthetic rubber businesses.

We do not expect any significant momentum for our business development from the slight forecast growth in the global economy.

Following on from the comparatively low cost levels at year end 2014, we believe that the costs of petrochemical raw materials, which are crucial to our rubber businesses, will increase compared to the second half of 2014.

We predict EBITDA pre exceptionals for the full year 2015 to be just about on a comparable level to 2014.

## Opportunity and 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 opportunity and 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. Opportunities and risks are understood as potential future trends or events that might result in either positive or negative departures from forecasts or goals.

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 opportunities and risks.

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. In other words, 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 to risk owners for the following:

- identification and assessment of opportunities and risks;
- implementation of control measures (measures taken to exploit or enhance opportunities and to avoid or minimize risks);
- monitoring the development of opportunities and risks (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 opportunities and risks 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 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 "Opportunities and 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 opportunities and risks. 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 opportunities and risks that have been identified.

The duty to report opportunities and risks to the Corporate Controlling Group Function is based on the anticipated impact on Group net income or EBITDA pre exceptionals. All opportunities and risks must be reported if their anticipated impact is more than €1 million following the implementation of countermeasures. In addition, those risks must be reported which have an anticipated impact that was reduced by more than €10 million through the implementation of countermeasures. These thresholds guarantee 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.

There is also provision for immediate internal reporting on specific risk issues such as unexpected operational events with an impact of more than €10 million after the implementation of countermeasures. In 2014, there was no cause for immediate reporting of this kind.

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 opportunities and risks 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.

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

Depending on the type of opportunity or risk, different calculation methods are applied in their assessment. Distribution-based opportunities and risks are described by scenario-based fluctuations in planning parameters such as exchange rates, raw material prices, energy prices and economic development assumptions. Changes in these variables may result in either positive or negative deviations from planned or forecast figures.

Event-based opportunities and risks (such as the failure of a supplier or the occurrence of an insured event) 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. Events with a high probability of occurrence flow directly into the planning process. 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.

**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.

**(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, opportunity 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 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, 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 & Trade Compliance and Corporate 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)** LANXESS's Internal Auditing Department within the Legal & Compliance 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 the audit methods applied 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 external auditor as part of the audit of the consolidated and 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 Department, and the status of the risk management and internal control system.

Opportunities and risks of future development Full identification of the LANXESS Group's opportunities and risks is performed on the basis of a catalog of categories, which are summarized in the table below:

| Categories |
|---|
| Procurement markets |
| Human resources |
| Plant operations and hazards |
| Corporate strategy |
| Sales markets |
| Finance |
| Legal, regulatory and political environment |

Subsequent reporting is based on a planning horizon of one year.

Procurement markets On the procurement side, the principal opportunities and risks lie in the high volatility of raw material and energy prices. An increase or decrease in the price of the materials we use directly results in higher or lower production costs. If prices decrease, write-downs may have to be recognized on inventories. In addition, changes in raw material prices result in higher or lower selling prices – either immediately or after a delay. We mitigate situations like this by following a sensible inventory and procurement policy. Most of the company's raw material and energy 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 markets"). Additionally, we are constantly looking for ways to use our resources more efficiently so that we can offset higher costs by raising productivity. The volatility of raw material prices, especially for our key raw material butadiene, impacts our Performance Polymers segment in particular.

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.

Human resources The risk of industrial actions resulting from disputes in connection with negotiations concerning future collective pay agreements or associated with restructuring measures cannot be ruled out. 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 human resources we cannot hedge the risk in futures markets or pass it on to our customers. 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 especially with regard to our "Let's LANXESS again" program. 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 the representatives of our employees, the trade unions and other interest groups 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, North America, Brazil, India and China as well as Germany. In some regions and countries, including China, we continue to go into schools in search of interesting talents we can develop. In Germany, our preschool education program aims to arouse the interest of the youngest children in scientific phenomena.

The growing lack particularly of skilled employees in our global markets is becoming tangible in individual cases. However, this effect has been mitigated by the "Let's LANXESS again" program launched in the third quarter of 2014, which in the first instance substantially reduced our specific need for skilled employees in the reporting period. However, a forward-looking and sustainable HR policy will remain important, which is evidenced by our regular HR development conferences. In line with our needs, we are expanding our cooperations with research institutes, universities, colleges and high schools in Germany, as well as with public-sector entities both in Germany and other key target markets. At many events and conferences around the world, we have positioned our company as an attractive employer and continue to seek early contact with highly talented young people. In Germany, where we have the largest headcount, we have established a LANXESS program to provide both financial and expert support for undergraduate and postgraduate students. We also have a loyalty program for particularly outstanding interns. Both these programs focus on the natural and engineering sciences. Similar programs for young talents are being established in other major regions, where they always take account of local requirements. All these measures are an expression of our differentiated employer branding approach, which we will use to sustain our positive employer image and expand this as required even during our company's realignment phase.

In preparing the "Let's LANXESS again" program, we identified mission-critical activities with a view to offering the relevant knowledge holders a perspective within the LANXESS Group or to retaining their knowledge for the company by means of succession planning and know-how transfer.

There are a number of other HR risks which, because of their long-term nature, will have virtually no impact on the planned EBITDA pre exceptionals for fiscal 2015. These risks include in particular demographic change, which we actively manage. In Germany, in order to ensure continued access to a highly skilled workforce, we have been implementing a comprehensive package of measures known as "XCare" since 2009. 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. We have also initiated comparable programs in other regions.

Plant operations and hazards  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. We also counter the risk of unplanned production stoppages by manufacturing certain products at various sites worldwide.

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'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.

Our information technology (IT) supports 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 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 particular, we are observing a growing number of threats to our IT infrastructure resulting from outside attack. All of these can cause serious business interruptions. To mitigate such risks, we invest in suitable data protection systems designed to prevent the loss of data and information. Various security and monitoring tools 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. With a view to improving the security of our IT infrastructure, we are evaluating existing security measures for their suitability in defending against current attack scenarios. Where necessary, these measures will be upgraded. Additional security systems are being established worldwide as defense against new and specific threats.

Corporate strategy  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. Further information can be found in the "Strategy" section of this combined management report.

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.

The LANXESS product portfolio is systematically aligned with 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.

When gathering information in the context of acquisitions, it is possible that certain facts required to assess an acquisition candidate's future performance or to determine the purchase price are not available or are not correctly interpreted. We address 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.

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. The anticipated effects are taken into account in our planning or are reported as opportunities. In principle, we expect investments to yield benefits but they are also coupled with risks. Thus, for example, the success of our investments in Asia has been substantially impacted by the challenging competitive situation in the synthetic rubber businesses. 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.

The fundamental risk remains that difficulties may arise in connection with the start-up of our new plants for Nd-PBR rubber in Singapore and for EPDM rubber in Changzhou, China, both of which are scheduled for 2015. From the present viewpoint, however, we do not anticipate any problems.

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 enable us to unlock new potential and improve our positioning in key markets.

Sales markets LANXESS is inherently exposed to general economic developments and political change 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 positive or negative effects on its earnings. Our global presence, which we are continuing to expand in growth markets, enables us to participate in favorable regional developments and, at the same time, reduce our dependence on certain regions. This approach is discussed in further detail in the "Strategy" section of this combined management report.

The volatility and cyclicality that are typical of the global chemical and polymer markets and their dependence on developments in customer industries harbor uncertainties for LANXESS's business. As well as the influence of general economic development, the particular dependence of the rubber business on customers in the tire and automotive industries can result in sales volatility. Additional and unplanned sales opportunities may arise through access to new markets or the acquisition of new customers. In addition to being subject to these demand-side market influences, our earning power can be impacted by structural changes in markets, such as the disappearance of existing competitors or the entry of new ones 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 with innovative customer segments which will enable us to operate successfully in the long term.

In our Performance Polymers segment, the synthetic rubber business continues to face increasing competition, partly from new manufacturers entering the market. In some business units, this may result in further 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 2014, the company additionally initiated the three-phase “Let’s LANXESS again” program for the global realignment of the LANXESS Group. Further information about this program can be found in the “Strategy” section.

Finance The Treasury Group Function has the task of centrally recording and managing financial opportunities and risks. Chief among these are:

**Financial Opportunities and Risks**

| Price changes | Liquidity and refinancing | Counterparty risks | Capital investments | Insurance |
|---|---|---|---|---|
| Currencies | Availability of cash | Customers | Investments in pension assets | Shortfall in cover |
| Interest rates | Access to multi- and bilateral capital markets | Banks | | |
| Raw materials | | | | |
| Energies | | | | |

• Price changes

*Currencies* Since the LANXESS Group undertakes transactions in various currencies, it is exposed to fluctuations in the relative value of these currencies. Fixed exchange rates were used in our planning for fiscal 2015. The development of the U.S. dollar against the euro is of particular relevance. An appreciation of the U.S. dollar compared with the exchange rate used in planning would have a positive effect on our planned EBITDA pre exceptionals. We have already entered into hedging transactions for 2015 and 2016 to mitigate the effects of currency fluctuations.

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. These risks and the currency risks arising on financial transactions, including the interest component, are generally fully hedged through forward exchange contracts. In the short term, therefore, the appreciation or depreciation of the euro against other major currencies can have no material impact on future cash flows.

The opportunities and risks relating to operating activities are systematically monitored and analyzed. To this end, both sales and costs are planned in foreign currencies. In the long term, exchange rate fluctuations could adversely affect future cash flows should the LANXESS Group not be able to counter them, for example, by pricing its products in the respective local currencies. This risk is minimized by partial hedging with derivative financial instruments. Hedging is performed in line with principles determined by the Board of Management and is subject to continuous monitoring.

*Interest rates* Market interest rate movements can cause fluctuations in the fair value of a financial instrument. They 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.

*Raw materials/energies* Where certain market-price risks for energies and raw materials cannot be passed on to customers in their entirety, they 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.

• 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 2015, its original term was extended by one year to February 2020. We have a further material credit line of €150 million with the European Investment Bank. In addition to credit facilities, the Group has short-term liquidity reserves of €518 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 respective 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 contractual 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 relationships with 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.

• Capital investments
Opportunities and 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 in Note [35], “Financial instruments,” to the consolidated financial statements.

• Insurance
The LANXESS Group carries insurance cover against material risks such as those arising from property damage, business interruption and product liability. If a loss event occurs, LANXESS must therefore pay only those damages in excess of the deductible. However, there is a residual risk of events that are not covered by the insurance or which result in damages in excess of the cover guaranteed by the insurer.

Legal, regulatory and political environment Companies in the LANXESS Group are subject to legal risks and 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 planned EBITDA pre exceptionals.

As a preventive approach to avoiding legal risks, LANXESS has established an extensive compliance management system incorporating a range of organizational measures. Among the main risks LANXESS has identified are those relating to antitrust legislation, plant safety and environmental protection, foreign trade legislation and corruption. In connection with risks relating to antitrust legislation, for example, LANXESS has developed a program that combines classroom training and e-learning to ensure compliance with competition law. In this way, our employees and managers are schooled in the particular risks pertaining to their areas of business and made aware of their significance. This training is performed and documented at regular intervals. Our employees can also contact designated experts in the Legal & Compliance Group Function if they have any specific questions. Further information about compliance can be found in the Corporate Governance Report and in the “Compliance as an integral component” section of this opportunity and risk report.

Regulatory measures may lead to the tightening of safety, quality and environmental regulations and standards. These may result in 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. Additional requirements imposed by energy and environmental policy, such as the new emission trading regulations, new environmental taxes and the redistribution of costs associated with the German Renewable Energy Act, could result in higher costs and in part substantial disadvantages in international competition. 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.

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. Additional information on our environmental provisions can be found in Note [14], “Other non-current and current provisions,” to the consolidated financial statements.

Tire-labeling initiatives can lead to stronger than anticipated demand for higher-quality tires and thus for synthetic high-performance rubbers. This would particularly benefit our Performance Polymers segment with its global production network and customer relationships spanning many years.

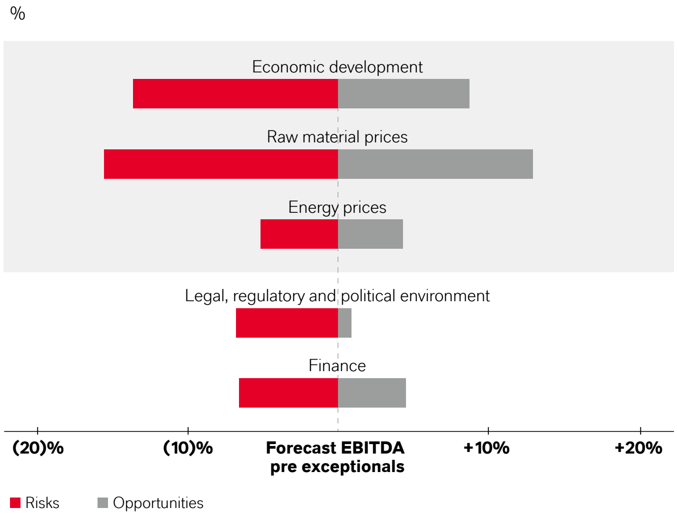
Any violations of foreign trade regulations may result in prohibitions and restrictions on LANXESS’s export activities and the loss of its privileges in respect of export procedures. In individual cases, this may also result in fines, trade sanctions and loss of reputation. The LANXESS Group ensures 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 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 opportunities and risks and result of opportunity and risk assessment** The opportunities and risks of future development that we identify are categorized and grouped. Their significance lies in their potential impact on planned EBITDA pre exceptionals. Individual categories or groups in which the opportunity or risk 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 opportunity and risk management for the planning year, the economic development, raw material prices and energy prices categories as well as the legal, regulatory and political environment and finance groups are considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, these categories and groups could produce a positive deviation of up to 13% or a negative deviation of up to 16% from our projected EBITDA pre exceptionals, which is our key controlling parameter. The aforementioned groups were influenced in particular by opportunities and risks in the environmental policy, currencies and insurance categories. Opportunities and risks in other categories – such as risks from litigations – are of very little significance.

**Opportunitiy and Risk Profile**[1)]




1) Event- and distribution-based opportunities and risks in line with assumed scenarios; addition of the opportunities and risks shown is not permissible.

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 overall opportunities and risks 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 are responding to increasing competition, especially in our synthetic rubber businesses, with our “Let’s LANXESS again” program for the global realignment of our company. 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.

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 businesses. 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 changes observed recently in our 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 existence of LANXESS.

# Consolidated Financial Statements

# Statement of Financial Position
LANXESS Group

| € million | Note | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | (1) | 323 | 320 |
| Property, plant and equipment | (2) | 2,903 | 3,333 |
| Investments accounted for using the equity method | (3) | 12 | 0 |
| Investments in other affiliated companies | (4) | 13 | 13 |
| Non-current derivative assets | (5) | 20 | 5 |
| Other non-current financial assets | (6) | 11 | 11 |
| Non-current income tax receivables | | 1 | 6 |
| Deferred taxes | (28) | 254 | 380 |
| Other non-current assets | (7) | 55 | 33 |
| **Non-current assets** | | **3,592** | **4,101** |
| Inventories | (8) | 1,299 | 1,384 |
| Trade receivables | (9) | 1,070 | 1,015 |
| Cash and cash equivalents | | 427 | 418 |
| Near-cash assets | (10) | 106 | 100 |
| Current derivative assets | (5) | 58 | 14 |
| Other current financial assets | (6) | 6 | 5 |
| Current income tax receivables | | 55 | 28 |
| Other current assets | (11) | 198 | 185 |
| **Current assets** | | **3,219** | **3,149** |
| **Total assets** | | **6,811** | **7,250** |
| **EQUITY AND LIABILITIES** | | | |
| Capital stock and capital reserves | | 889 | 1,317 |
| Other reserves | | 1,690 | 1,253 |
| Net income (loss) | | (159) | 47 |
| Other equity components | | (525) | (458) |
| Equity attributable to non-controlling interests | | 5 | 2 |
| **Equity** | (12) | **1,900** | **2,161** |
| Provisions for pensions and other post-employment benefits | (13) | 943 | 1,290 |
| Other non-current provisions | (14) | 258 | 275 |
| Non-current derivative liabilities | (5) | 12 | 20 |
| Other non-current financial liabilities | (15) | 1,649 | 1,698 |
| Non-current income tax liabilities | (16) | 49 | 25 |
| Other non-current liabilities | (17) | 89 | 118 |
| Deferred taxes | (28) | 29 | 21 |
| **Non-current liabilities** | | **3,029** | **3,447** |
| Other current provisions | (14) | 355 | 350 |
| Trade payables | (18) | 690 | 799 |
| Current derivative liabilities | (5) | 22 | 101 |
| Other current financial liabilities | (15) | 668 | 182 |
| Current income tax liabilities | (16) | 21 | 44 |
| Other current liabilities | (17) | 126 | 166 |
| **Current liabilities** | | **1,882** | **1,642** |
| **Total equity and liabilities** | | **6,811** | **7,250** |

# Income Statement
LANXESS Group

| € million | Note | 2013 | 2014 |
|---|---|---|---|
| **Sales** | (20) | **8,300** | **8,006** |
| Cost of sales | (21) | (6,752) | (6,418) |
| **Gross profit** | | **1,548** | **1,588** |
| | | | |
| Selling expenses | (22) | (755) | (742) |
| Research and development expenses | (23) | (186) | (160) |
| General administration expenses | (24) | (301) | (278) |
| Other operating income | (25) | 128 | 118 |
| Other operating expenses | (26) | (527) | (308) |
| **Operating result (EBIT)** | | **(93)** | **218** |
| | | | |
| Income from investments accounted for using the equity method | | 0 | 2 |
| Interest income | | 2 | 3 |
| Interest expense | | (108) | (72) |
| Other financial income and expense | | (40) | (71) |
| **Financial result** | (27) | **(146)** | **(138)** |
| | | | |
| **Income (loss) before income taxes** | | **(239)** | **80** |
| | | | |
| Income taxes | (28) | 71 | (36) |
| | | | |
| **Income (loss) after income taxes** | | **(168)** | **44** |
| of which attributable to non-controlling interests | | (9) | (3) |
| of which attributable to LANXESS AG stockholders [net income (loss)] | | (159) | 47 |
| **Earnings per share (undiluted/diluted) (€)** | (29) | **(1.91)** | **0.53** |

# Statement of Comprehensive Income
LANXESS Group

| € million | 2013 | 2014 |
|---|---|---|
| **Income (loss) after income taxes** | **(168)** | **44** |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Remeasurements of the net defined benefit liability for post-employment benefit plans | (4) | (308) |
| Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method | 26 | (19) |
| Income taxes | 5 | 95 |
| | **27** | **(232)** |
| **Items that may be reclassified subsequently to profit or loss if specific conditions are met** | | |
| Exchange differences on translation of operations outside the eurozone | (199) | 122 |
| Financial instruments | (7) | (75) |
| Income taxes | 3 | 20 |
| | **(203)** | **67** |
| **Other comprehensive income, net of income tax** | **(176)** | **(165)** |
| **Total comprehensive income** | **(344)** | **(121)** |
| of which attributable to non-controlling interests | (8) | (3) |
| of which attributable to LANXESS AG stockholders | (336) | (118) |

# **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 attribut-able to non-controlling interests | Equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Currency translation adjustment | Financial instruments | | | |
| **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** |
| Allocations to retained earnings | | | (159) | 159 | | | 0 | | 0 |
| Capital increase | 8 | 420 | | | | | 428 | | 428 |
| Dividend payments | | | (46) | | | | (46) | | (46) |
| Total comprehensive income | | | (232) | 47 | 122 | (55) | (118) | (3) | (121) |
| *Income after income taxes* | | | | *47* | | | *47* | *(3)* | *44* |
| *Other comprehensive income, net of income tax* | | | *(232)* | | *122* | *(55)* | *(165)* | *0* | *(165)* |
| *Remeasurements of the net defined benefit liability for post-employment benefit plans* | | | *(308)* | | | | *(308)* | | *(308)* |
| *Exchange differences on translation of operations outside the eurozone* | | | | | *122* | | *122* | *0* | *122* |
| *Financial instruments* | | | | | | *(75)* | *(75)* | | *(75)* |
| *Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method* | | | *(19)* | | | | *(19)* | | *(19)* |
| *Income taxes on other comprehensive income* | | | *95* | | | *20* | *115* | | *115* |
| **Dec. 31, 2014** | **91** | **1,226** | **1,253** | **47** | **(407)** | **(51)** | **2,159** | **2** | **2,161** |

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

# Statement of Cash Flows
## LANXESS Group

| € million | Note | 2013 | 2014 |
|---|---|---|---|
| **Income (loss) before income taxes** | | **(239)** | **80** |
| Amortization, depreciation and write-downs of intangible assets and property, plant and equipment | | 717 | 426 |
| Gains on disposals of intangible assets and property, plant and equipment | | (2) | (1) |
| Income from investments accounted for using the equity method | | 0 | (2) |
| Financial losses | | 111 | 75 |
| Income taxes paid | | (41) | (31) |
| Changes in inventories | | 186 | (39) |
| Changes in trade receivables | | 5 | 97 |
| Changes in trade payables | | (81) | 89 |
| Changes in other assets and liabilities | | (15) | 103 |
| **Net cash provided by operating activities** | | **641** | **797** |
| | | | |
| Cash outflows for purchases of intangible assets and property, plant and equipment | | (624) | (614) |
| Cash inflows from financial assets | | 290 | 8 |
| Cash inflows from the divestment (cash outflows for the acquisition) of subsidiaries and other businesses, less divested (acquired) cash and cash equivalents | | (15) | 3 |
| Cash inflows from sales of intangible assets and property, plant and equipment | | 5 | 8 |
| Interest and dividends received | | 2 | 8 |
| **Net cash used in investing activities** | (36) | **(342)** | **(587)** |
| | | | |
| Cash inflow from capital increase | | 0 | 433 |
| Proceeds from borrowings | | 105 | 324 |
| Repayments of borrowings | | (163) | (802) |
| Interest paid and other financial disbursements | | (119) | (131) |
| Dividend payments | | (83) | (46) |
| **Net cash used in financing activities** | (36) | **(260)** | **(222)** |
| | | | |
| **Change in cash and cash equivalents from business activities** | | **39** | **(12)** |
| Cash and cash equivalents as of January 1 | | 386 | 427 |
| Exchange differences and other changes in cash and cash equivalents | | 2 | 3 |
| **Cash and cash equivalents as of December 31** | (36) | **427** | **418** |

# 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 2014 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on February 27, 2015. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether or not it approves them.

## Structure and components of the consolidated financial statements

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

The consolidated financial statements 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, 2014 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).

### Accounting for participating interests in other entities

As of January 1, 2014, the LANXESS Group applied new or revised standards on accounting for participating interests in other entities. These comprise the new standards IFRS 10, IFRS 11 and IFRS 12 together with the revised standards IAS 27 and IAS 28. IFRS 10 replaces the requirements for consolidated financial statements and special purpose entities previously contained in IAS 27 and SIC 12 and largely redefines the control concept, which forms the basis for determining which companies are to be fully consolidated. This did not result in any changes for LANXESS, however. IFRS 11, which supersedes IAS 31 and SIC 13, prescribes the accounting for joint arrangements and requires a reassessment of whether a joint arrangement constitutes a joint operation or a joint venture. The interest in a joint operation is accounted for by recognizing the share of assets, liabilities, revenues and expenses according to the rights and obligations of the partners. Joint ventures, by contrast, are accounted for in the consolidated financial statements using the equity method in line with the new requirements of IAS 28. The investment in DuBay Polymer GmbH, Hamm, Germany, was previously accounted for using the proportionate consolidation method. This entity is to be regarded as a joint operation, since the partners exercise joint control over it, purchasing its entire output between them. The company is therefore accounted for according to LANXESS's shares of its assets, liabilities, revenues and expenses. The application of the new or revised standards did not affect the classification of Currenta GmbH & Co. OHG, Leverkusen, Germany, as an associate. It therefore continues to be accounted for using the equity method according to IAS 28. Finally, IFRS 12 relates only to disclosure requirements. The application of the new and revised standards as a whole had no material impact on the LANXESS Group's earnings, asset and financial position.

### Impairment of assets

Also mandatory as of the beginning of 2014 are the amendments to IAS 36 that were published in May 2013. 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. Since these amendments relate solely to disclosures in the notes to the financial statements, they had no impact on the earnings, asset and financial position.

### Further changes

The mandatory first-time application of the following financial reporting standards and interpretations in 2014 currently has no impact, or no material impact, on the LANXESS Group:

- Amendments to IAS 32: Offsetting financial assets and financial liabilities
- Amendments to IAS 39: Novation of derivatives and continuation of hedge accounting

## Financial reporting standards and interpretations issued but not yet mandatory

In 2014 the LANXESS Group did not yet apply certain further financial reporting standards and interpretations that had already been issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee but were not mandatory for that year. The application of these standards and interpretations is in some cases contingent upon their endorsement by the E.U. It is therefore possible that the dates for mandatory application may ultimately be later than indicated below.

### Financial instruments

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. In July 2014, the IASB issued the final version of IFRS 9. This contains revised regulations for classifying and measuring financial assets and, for the first time, rules on impairment charges for financial instruments. The expected loss model is now used to anticipate and recognize future losses as well as losses that have already been incurred. The new standard is to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted. It has not yet been endorsed by the E.U. The LANXESS Group is currently evaluating the impact the application of this standard will have on its earnings, asset and financial position.

### Revenue from contracts with customers

The IASB published the new standard IFRS 15 on May 28, 2014. It supersedes IAS 11 and IAS 18 and introduces a five-step model containing basic principles for revenue recognition. These basic principles relate, in particular, to the identification of the services performed and the associated revenues and rules on the timing of revenue recognition. The standard also contains further rules on specific issues and requires additional disclosures in the notes on the type, level, timing and uncertainties relating to revenues from contracts with customers. The new standard is to be applied for annual periods beginning on or after January 1, 2017. Earlier application is permitted. It has not yet been endorsed by the E.U. The LANXESS Group is currently evaluating the impact the application of this standard will have on its earnings, asset and financial position.

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. |
|---|---|---|---|---|
| IFRIC 21 | Levies | May 20, 2013 | 2015 | yes |
| IAS 19 | Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 | Nov. 21, 2013 | 2016 | yes |
| Various IAS and IFRS | Annual Improvements to the International Financial Reporting Standards, 2010–2012 Cycle | Dec. 12, 2013 | 2016 | yes |
| Various IAS and IFRS | Annual Improvements to the International Financial Reporting Standards, 2011–2013 Cycle | Dec. 12, 2013 | 2015 | yes |
| IFRS 14 | Regulatory Deferral Accounts | Jan. 30, 2014 | 2016 | no |
| IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 | May 6, 2014 | 2016 | no |
| IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 | May 12, 2014 | 2016 | no |
| IAS 16 and IAS 41 | Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 | June 30, 2014 | 2016 | no |
| IAS 27 | Equity Method in Separate Financial Statements – Amendments to IAS 27 | Aug. 12, 2014 | 2016 | no |
| IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 | Sep. 11, 2014 | 2016 | no |
| Various IAS and IFRS | Annual Improvements to the International Financial Reporting Standards, 2012–2014 Cycle | Sep. 25, 2014 | 2016 | no |
| IFRS 10, IFRS 12 and IAS 28 | Investment Entities – Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 | Dec. 18, 2014 | 2016 | no |
| IAS 1 | Disclosure Initiative – Amendments to IAS 1 | Dec. 18, 2014 | 2016 | no |

## 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 control of LANXESS AG. Control exists if LANXESS AG is exposed to variable returns from the relationship with a company and has power over the company. Power means that LANXESS AG has existing rights that give it the current ability to direct the relevant activities of the company and thus exert a significant influence over the variable returns. The ability to control another company generally derives from direct or indirect ownership of a majority of the voting rights. In the case of structured entities, control normally derives from contractual agreements. A company is consolidated as of the date from which LANXESS AG is able to exercise control and deconsolidated when this is no longer the case.

Interests in associates in which the LANXESS Group exerts a significant influence, generally through an ownership interest between 20% and 50%, and interests in joint ventures are accounted for using the equity method.

Entities that are in aggregate immaterial to the Group's earnings, asset and financial position 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 operations

Joint operations are joint arrangements in which the parties that exercise joint control have rights to the assets and obligations for the liabilities relating to the arrangement. LANXESS accounts for its share of the joint assets and joint liabilities of such joint operations and its share of the revenues and expenses, including its share of any jointly incurred expenses.

## 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 is translated at historical rates, while income, expenses and other changes during the year 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 | |
|---|---|---|---|---|---|
| | | 2013 | 2014 | 2013 | 2014 |
| Argentina | ARS | 8.99 | 10.28 | 7.28 | 10.76 |
| Brazil | BRL | 3.23 | 3.22 | 2.87 | 3.12 |
| China | CNY | 8.35 | 7.54 | 8.16 | 8.19 |
| United Kingdom | GBP | 0.83 | 0.78 | 0.85 | 0.81 |
| India | INR | 85.23 | 76.54 | 77.82 | 81.05 |
| Japan | JPY | 144.72 | 145.23 | 129.62 | 140.39 |
| Canada | CAD | 1.47 | 1.41 | 1.37 | 1.47 |
| Singapore | SGD | 1.74 | 1.61 | 1.66 | 1.68 |
| South Africa | ZAR | 14.57 | 14.04 | 12.83 | 14.41 |
| United States | USD | 1.38 | 1.21 | 1.33 | 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 2014 of new or amended financial reporting standards and interpretations. These changes are explained in the section headed "Financial reporting standards and interpretations applied."

### Intangible assets

Intangible assets comprise goodwill and other intangible assets such as software, concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets. Acquired intangible assets with a definite useful life are recognized at cost and amortized over their respective useful lives using the straight-line method. The amortization period for intangible assets other than goodwill is between 3 and 20 years. Amortization for 2014 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 include 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 significant risks and rewards. 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 forecast 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 cost of sales, 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 or 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 to sell and the carrying amount.

## Provisions

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

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

Provisions for pensions and other post-employment benefits are established for defined benefit pension plans. The provision is measured according to the actuarial present value of the obligation, calculated using the projected unit credit method. This takes into account not only the known pensions and pension entitlements as of the closing date, but also expected future salary and benefit increases. 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 stock-based compensation program for members of the Supervisory Board provides for variable cash settlement, provided that LANXESS stock has outperformed a defined index during their term of office. Provisions are established for the expected obligations on the basis of the fair value of the expected settlement amount.

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. However, litigation expenses are only included if it is assumed that they will have to be borne by LANXESS. 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 respective functional area of 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 rewards 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 development activity will generate future economic benefits which will also cover the associated development costs. 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 the respective fiscal year and any liabilities from previous years. They are assessed on the basis of the applicable legislation, taking into account present legal practice judgments and prevailing opinion.

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. The calculations are based on tax planning calculations and customary and realizable tax strategies. Deferred taxes are calculated at the rates which are expected to apply in the individual countries at the time of realization, taking into account the period for which deferred taxes may be used and any constraints on the utilization of loss carryforwards. These are based on the statutory regulations in force, or already enacted in relation to future periods, as of the closing date.

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 are 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 in certain circumstances. 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 net cash flows. This is based on the planning approved by the management of LANXESS AG, which contains estimates of expected market conditions and other factors such as future raw material prices, energy costs, functional cost items and exchange rates. The interactions which exist between these factors are reflected in the expected net cash flows. The estimates are based on management's past experience, taking account of internal and external economic and industry-specific sources of information. Capacity expansions, reorganization projects and the resulting synergies, provided these can also be used by a third party, are reflected in future net cash flows through estimates. Determination of the value in use is based on a corresponding forecast of future net cash flows. However, cash inflows and outflows relating to expansion projects that have not yet commenced, restructuring that is planned but has not yet been approved, and the associated synergies are not taken into account. The forecasts used to calculate the fair value less costs of disposal and to determine the value in use cover a five-year period. Growth rates are not reflected in the perpetual annuity calculation.

Future net cash flows are discounted using the weighted average cost of capital, which is derived according to IAS 36 from capital market models, taking into account the capital structure and business risks specific to the chemical industry, and is extrapolated from external market information.

If a decline in value is 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 and 2014 are outlined in the following section.

## Estimation uncertainties and the 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 net 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 net 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 2014 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 7.4% (2013: 7.9%), without using growth rates to determine the perpetual annuity. The calculation is based on a capital value method which is allocated to Level 3 of the fair value hierarchy in accordance with IFRS 13. The testing of the cash-generating units showed no need for the recognition or reversal of impairment charges in fiscal 2014. There has been no material change in the estimates used for the impairment charges recognized in the previous year for the cash-generating units Keltan Elastomers, High Performance Elastomers and Rubber Chemicals.

In 2013, an impairment charge of €174 million was recognized for the cash-generating unit Keltan Elastomers, the business activities of which comprise the production and marketing of ethylene-propylene-diene (EPDM) rubber. Of the impairment charge recognized, €11 million related to goodwill, €16 million to other intangible assets and €147 million to property, plant and equipment. The impairment charge was recognized in the income statement under other operating expenses. This reduced the carrying amount of the Keltan Elastomers cash-generating unit to its fair value less costs of disposal. In view of the temporary overcapacities anticipated for the coming years and the energy cost advantages enjoyed by U.S.-based producers, changes are forecasted in the market and competitive environment which will have an effect beyond the five-year planning period. To determine the fair value less costs of disposal, the terminal value according to the five-year plan was and is therefore assessed over a further five-year period and the outcome of this assessment taken into account in the valuation.

Further, in view of the challenging competitive environment and the change in the assessment of growth prospects, impairment tests were performed in 2013 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 using a discount rate after taxes of 7.8%. These tests led to the recognition of a €54 million impairment charge for the High Performance Elastomers cash-generating unit and a €29 million impairment charge for the Rubber Chemicals cash-generating unit. 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 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 was recognized in the income statement under other operating expenses. €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 2013 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 was recognized in the income statement under other operating expenses in fiscal 2013. €5 million pertained to intangible assets and €24 million to property, plant and equipment.

The annual impairment test for the principal goodwill items is performed on the basis of fair value less costs of disposal. The calculation is based on a capital value method which is allocated to Level 3 of the fair value hierarchy in accordance with IFRS 13. Impairment tests are performed on goodwill items in local currency if triggering events occur and at least once yearly on the regular impairment testing date. These items mainly comprise goodwill of €80 million (2013: €80 million) carried by the Performance Butadiene Rubbers business unit, €27 million (2013: €25 million) allocated to the Material Protection Products business unit and €18 million (2013: €18 million) pertaining to the High Performance Materials business unit. Information on calculating the net cash flows can be found in this chapter and the previous chapter. The Performance Butadiene Rubbers business unit is dependent in large part on market development in the tire and automotive industries, the Material Protection Products business unit on the performance of various industries and the High Performance Materials business unit primarily on market development in the automotive industry.

The impairment test performed on goodwill items in 2014 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 net cash flows would have led to the recognition of an impairment charge on goodwill items.

In 2013, goodwill of €2 million recognized upon the acquisition of PCTS Specialty Chemicals Pte. Ltd., Singapore, was allocated to the Material Protection business unit in the Performance Chemicals segment and was also tested for impairment as of the end of 2013. The goodwill of €11 million pertaining to the Keltan Elastomers cash-generating unit was impaired to zero in 2013.

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, 2014, 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 legal disputes. As an international chemicals company, the LANXESS Group 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 where changes in tax assessments are probable. In addition, charges from tax risks from previous years are not considered to be likely. In the event of unfavorable developments, LANXESS could be faced with additional charges in the low-double-digit millions of euros. The calculations are principally based on experience of the outcome of previous tax audits and their impact on the subsequent periods and the applicable legislation, taking into account present legal practice and prevailing opinion.

Other significant estimates and discretion are used to assess the useful lives of intangible assets and property, plant and equipment, the capitalization of development costs, 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.

## 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, 2014 | 23 | 12 | 5 | 5 | 20 | 65 |
| Additions | | | | | | 0 |
| Retirements | | (1) | | | (1) | (2) |
| Mergers | | | | | (1) | (1) |
| **Dec. 31, 2014** | **23** | **11** | **5** | **5** | **18** | **62** |
| **Consolidated associates and jointly controlled entities** | | | | | | |
| Jan. 1, 2014 | | 2 | | | | 2 |
| Additions | | | | | | 0 |
| Retirements | | | | | | 0 |
| Mergers | | | | | | 0 |
| **Dec. 31, 2014** | **0** | **2** | **0** | **0** | **0** | **2** |
| **Non-consolidated companies** | | | | | | |
| Jan. 1, 2014 | 2 | 2 | 1 | 3 | 2 | 10 |
| Additions | | | | | | 0 |
| Retirements | | | | | (1) | (1) |
| Mergers | | | | | | 0 |
| **Dec. 31, 2014** | **2** | **2** | **1** | **3** | **1** | **9** |
| **Total** | | | | | | |
| Jan. 1, 2014 | 25 | 16 | 6 | 8 | 22 | 77 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 |
| Retirements | 0 | (1) | 0 | 0 | (2) | (3) |
| Mergers | 0 | 0 | 0 | 0 | (1) | (1) |
| **Dec. 31, 2014** | **25** | **15** | **6** | **8** | **19** | **73** |

Also consolidated in the EMEA (excluding Germany) region are the structured entities Dirlem (RF) (Pty) Ltd., Modderfontein, South Africa, and Rustenburg Chrome Employees Empowerment Trust, Modderfontein, South Africa. The purpose of these structured entities is to ensure employee participation in the company in accordance with South Africa's Black Economic Empowerment legislation. LANXESS exercises control because the principal business activities were defined by LANXESS when the structured entities were established. LANXESS guarantees the value of the interests in LANXESS Chrome Mining (Pty.) Ltd., Modderfontein, South Africa, held and managed by these structured entities. This does not entail any material risks for the LANXESS Group.

DuBay Polymer GmbH, Hamm, Germany, is included in the consolidated financial statements as a joint operation on a pro rata basis in accordance with IFRS 11 because the partners exercise joint control and purchase its entire output between them. The interest held by LANXESS in this company's capital is 50%. The purpose of the company is to produce polybutylene terephthalate base resins and blends for the joint owners and their affiliated companies. This business relationship does not involve any material risks.

Further, Currenta GmbH & Co. OHG, Leverkusen, Germany, is an associate accounted for in the consolidated financial statements using the equity method (see Note [3]). LANXESS's share in its capital is 40%. Given its ability to contribute to material aspects of financial and business policy decisions, LANXESS is able to exert a significant influence. Currenta GmbH & Co. OHG principally provides site services in the areas of energy, infrastructure and logistics for LANXESS's production sites in Germany. In view of its status as a personally liable partner, LANXESS may be required to inject further capital in the future. Transactions with this company are outlined in Note [33].

LANXESS-TRSC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, is a producer of nitrile rubber. LANXESS's share in its capital is 50%. This company is fully consolidated because LANXESS can determine key aspects of its financial and business policy. The non-controlling interests in this company have a negligible influence on the activities and cash flows of the LANXESS Group.

Europigments, S.L., Barcelona, Spain, and Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China, are production companies in which LANXESS has a stake of 52% and 90%, respectively. These companies are fully consolidated because LANXESS holds the majority of the voting rights and therefore exercises control. The non-controlling interests in these companies have a negligible influence on the activities and cash flows of the LANXESS Group.

Cash transfers from companies in China, Brazil, India, South Africa, South Korea, Argentina and Russia are subject to restrictions as a result of regulated capital markets. These affect approximately 14% (2013: 10%) of the LANXESS Group's cash and cash equivalents.

Non-consolidated companies are accounted for at cost. These companies are immaterial to the LANXESS Group's earnings, asset and financial position, since together they account for less than 0.1% of Group sales and less than 0.1% of equity.

PCTS Specialty Chemicals Pte. Ltd., which is based in Singapore, was consolidated for the first time effective April 5, 2013. The provisional purchase price allocation made with respect to this transaction was not adjusted in light of any new information or knowledge within one year from the acquisition date and is therefore final.

The same applies to the purchase price allocations for the phosphorus chemicals business of Thermphos France S.A.R.L., Epierre, France, which was acquired on September 14, 2013.

Nexachem Trading (Qingdao) Co., Ltd., Qingdao, China, was liquidated in the reporting period. In addition, PCTS Specialty Chemicals Pte. Ltd., Singapore, was merged with LANXESS Butyl Pte. Ltd., Singapore. LANXESS sold all the shares of Perlon-Monofil GmbH, Dormagen, Germany, effective March 19, 2014. These changes had no material impact on the LANXESS Group's earnings, asset and financial position.

## Other information on companies consolidated

The following table lists the affiliated companies in accordance with Section 313, Paragraph 2 of the German Commercial Code:

| Company Name and Domicile | |
|---|---|
| % | Interest held |
| **Fully consolidated companies** | |
| **Germany** | |
| LANXESS AG, 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 |
| 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 |
| Rhein Chemie Japan Ltd., Tokyo, Japan | 100 |
| Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China | 90 |

| Company Name and Domicile | |
|---|---|
| % | Interest held |
| **Jointly controlled entity** | |
| **Germany** | |
| DuBay Polymer GmbH, Hamm | 50 |
| **Associate accounted for using the equity method** | |
| **Germany** | |
| Currenta GmbH & Co. OHG, Leverkusen | 40 |
| **Structured entities** | |
| **EMEA (excluding Germany)** | |
| Dirlem (RF) (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** | |
| 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 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

**Changes in Intangible Assets in 2014**

| € million | Acquired goodwill | Other intangible assets | Advance payments | **Total** |
|---|---|---|---|---|
| Cost of acquisition or generation, Dec. 31, 2013 | 159 | 342 | 20 | 521 |
| Changes in scope of consolidation/acquisitions | | (1) | | (1) |
| Capital expenditures | | 7 | 12 | 19 |
| Disposals | | 0 | (1) | (1) |
| Reclassifications | | 4 | (4) | 0 |
| Exchange differences | 5 | 9 | 1 | 15 |
| **Cost of acquisition or generation, Dec. 31, 2014** | **164** | **361** | **28** | **553** |
| Accumulated amortization and write-downs, Dec. 31, 2013 | (12) | (186) | 0 | (198) |
| Changes in scope of consolidation | | 0 | | 0 |
| Amortization and write-downs in 2014 | | (31) | 0 | (31) |
| of which write-downs | | 0 | | 0 |
| Disposals | | 0 | | 0 |
| Reclassifications | | 0 | 0 | 0 |
| Exchange differences | (1) | (3) | | (4) |
| **Accumulated amortization and write-downs, Dec. 31, 2014** | **(13)** | **(220)** | **0** | **(233)** |
| **Carrying amounts, Dec. 31, 2014** | **151** | **141** | **28** | **320** |

The write-downs of goodwill and other intangible assets 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 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

**Changes in Property, Plant and Equipment in 2014**

| € 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, 2013 | 1,495 | 6,526 | 291 | 567 | 8,879 |
| Changes in scope of consolidation/acquisitions | (5) | (28) | 0 | 0 | (33) |
| Capital expenditures | 25 | 146 | 17 | 485 | 673 |
| Disposals | (11) | (138) | (11) | (3) | (163) |
| Reclassifications | 39 | 190 | 13 | (242) | 0 |
| Exchange differences | 44 | 156 | 6 | 54 | 260 |
| **Cost of acquisition or construction, Dec. 31, 2014** | **1,587** | **6,852** | **316** | **861** | **9,616** |
| Accumulated depreciation and write-downs, Dec. 31, 2013 | (915) | (4,793) | (206) | (62) | (5,976) |
| Changes in scope of consolidation | 4 | 25 | 0 | | 29 |
| Depreciation and write-downs in 2014 | (48) | (315) | (30) | (2) | (395) |
| of which write-downs | (2) | (26) | (2) | (2) | (32) |
| Disposals | 7 | 138 | 11 | 1 | 157 |
| Reclassifications | (1) | (14) | (2) | 17 | 0 |
| Exchange differences | (12) | (82) | (4) | 0 | (98) |
| **Accumulated depreciation and write-downs, Dec. 31, 2014** | **(965)** | **(5,041)** | **(231)** | **(46)** | **(6,283)** |
| **Carrying amounts, Dec. 31, 2014** | **622** | **1,811** | **85** | **815** | **3,333** |

Write-downs were recognized on buildings and infrastructure, technical equipment and machinery and assets under construction due to reorganization or other events that gave rise to a decline in value. The write-downs in fiscal 2014 mainly related to a pilot facility in the Butyl Rubber Business Unit. In 2013, impairment charges were recognized for the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals cash-generating units, as explained in the section headed "Estimation uncertainties and exercise of discretion."

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

**Assets Held Under Finance Leases**

| € million | Dec. 31, 2013 | | Dec. 31, 2014 | |
|---|---|---|---|---|
| | Gross carrying amount | Net carrying amount | Gross carrying amount | Net carrying amount |
| Buildings | 3 | 3 | 3 | 2 |
| Technical equipment and machinery | 62 | 37 | 87 | 59 |
| Fittings and equipment | 10 | 6 | 18 | 11 |
| | **75** | **46** | **108** | **72** |

Directly attributable borrowing costs of €17 million (2013: €15 million) were capitalized. The average cost of debt for the LANXESS Group was 3.6% in 2014 (2013: 4.5%).

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

**Data from the Income Statement and Statement of Comprehensive Income**

| € million | 2013 | 2014 |
|---|---|---|
| Sales | 1,386 | 1,311 |
| Operating result (EBIT) | 50 | 43 |
| Income after income taxes | 14 | 5 |
| Other comprehensive income, net of income tax | 63 | (261) |
| Total comprehensive income | 77 | (256) |

**Data from the Statement of Financial Position**

| € million | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|
| Non-current assets | 476 | 653 |
| Current assets | 523 | 524 |
| **Total assets** | **999** | **1,177** |
| Non-current liabilities | 696 | 1,110 |
| Current liabilities | 245 | 269 |
| **Total liabilities** | **941** | **1,379** |
| **Equity** | **58** | **(202)** |
| Adjustment of LANXESS's interest and equity valuation | (46) | 116 |
| Pro rata loss not recognized in consolidated financial statements | 0 | 86 |
| **Investments accounted for using the equity method** | **12** | **0** |

The €12 million decrease (2013: €4 million increase) in the carrying amount of investments accounted for using the equity method – after taking into account income of €2 million (2013: €0 million) from Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method – arose from losses of €19 million (2013: gains of 23 million) recognized in other comprehensive income and the obligation to assume the pro rata loss of €5 million (2013: profit transfer of €2 million). In 2013, the carrying amount was further reduced by disbursements of €12 million from reserves and by €8 million relating to the first-time full consolidation of LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China. The divestment of Anhui Tongfeng Shengda Co., Ltd., Tongling, China, in 2013 had no impact on the carrying amount of the investments.

A share of the losses in fiscal 2014 and of the accumulated losses of Currenta GmbH & Co. OHG, Leverkusen, Germany, amounting to €86 million was not recognized in the consolidated financial statements (2013: €0 million).

## 4 Investments in other affiliated companies

This item contains interests in other affiliated companies totaling €13 million (2013: €13 million).

As of December 31, 2014, all the other investments classified as available-for-sale financial assets – apart from the shares in Gevo, Inc., Englewood, United States, and BioAmber Inc., Minneapolis, United States – 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 2014 at a total fair value of €19 million (2013: €78 million). Instruments with a negative fair value totaling €121 million (2013: €34 million) are recognized as liabilities.

**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)** |

**Derivative Financial Instruments**

| € million | Dec. 31, 2014 | | |
|---|---|---|---|
| | Notional amount | Positive fair values | Negative fair values |
| Current forward exchange contracts | 2,120 | 14 | (101) |
| Non-current forward exchange contracts | 383 | 5 | (20) |
| | **2,503** | **19** | **(121)** |

Cash flow hedges As of December 31, 2014, the unrealized losses recognized in other comprehensive income in 2014 or earlier periods from currency hedging contracts that qualify for hedge accounting amounted to €50 million (2013: unrealized gains of €5 million). In 2014, €1 million was reclassified from equity to profit or loss due to the realization of the hedged transactions and recognized as a loss (2013: gain of €5 million). Currency hedging contracts concluded to hedge future sales in foreign currencies had a total notional amount of €1,017 million (2013: €967 million). As of December 31, 2014, these contracts had positive fair values of €3 million (2013: €35 million) and negative fair values of €73 million (2013: €30 million). Contracts with a total notional amount of €756 million (2013: €712 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 losses on currency hedges recognized in other comprehensive income in 2014, €42 million will be reclassified from equity to profit or loss in 2015 and €8 million in 2016 (2013: €7 million of unrealized gains in 2014 and €2 million of unrealized losses in 2015).

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, 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** |

**Other Financial Assets**

| € million | Dec. 31, 2014 | | |
|---|---|---|---|
| | Non-current | Current | Total |
| Receivables under finance leases | – | – | – |
| Available-for-sale financial assets | 1 | 0 | 1 |
| Other financial receivables | 10 | 5 | 15 |
| | **11** | **5** | **16** |

As of the reporting date, there were no receivables from lease agreements (finance leases) in which the other party, as lessee, is to be regarded as the economic owner of the leased assets (2013: €2 million due within one year).

Write-downs of other financial assets amounted to €7 million (2013: €7 million) and related to other financial receivables which have been written down entirely.

## 7 Other non-current assets

Other non-current assets are carried at amortized cost less any write-downs. No write-downs were made in 2013 or 2014.

Other non-current assets comprised:

**Other Non-Current Assets**

| € million | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|
| Receivables from pension obligations | 22 | 0 |
| Other receivables | 33 | 33 |
| | **55** | **33** |

The €22 million decline in receivables from pension obligations was mainly attributable to the change in value of the plan assets held by the associated pension fund. The other receivables include periodic accruals and other reimbursement claims.

## 8 Inventories

The inventories of the LANXESS Group comprised:

**Inventories**

| € million | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|
| Raw materials and supplies | 238 | 260 |
| Work in process, finished goods and merchandise | 1,061 | 1,124 |
| | **1,299** | **1,384** |

Inventories of €227 million (2013: €246 million) are reflected at net realizable value.

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

**Write-Downs of Inventories**

| € million | 2013 | 2014 |
|---|---|---|
| Balance at beginning of year | (86) | (92) |
| Additions charged as expenses | (36) | (65) |
| Reversals/utilization | 28 | 33 |
| Changes in scope of consolidation | – | 1 |
| Exchange differences | 2 | (4) |
| **Balance at end of year** | **(92)** | **(127)** |

## 9 Trade receivables

All trade receivables – totaling €1,015 million (2013: €1,070 million) – are due within one year. Of the trade receivables, €3 million (2013: €3 million) pertained to investments accounted for using the equity method and €1,012 million (2013: €1,067 million) pertained to other customers.

Trade receivables as of December 31, 2014, are stated after write-downs of €17 million (2013: €18 million) on gross receivables of €17 million (2013: €19 million).

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

**Write-Downs of Trade Receivables**

| € million | 2013 | 2014 |
|---|---|---|
| Balance at beginning of year | (13) | (18) |
| Additions charged as expenses | (9) | (4) |
| Reversals/utilization | 3 | 6 |
| Exchange differences | 1 | (1) |
| **Balance at end of year** | **(18)** | **(17)** |

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

**Maturity Structure of Past-Due Trade Receivables**

| € million | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|
| Carrying amount | 1,070 | 1,015 |
| of which neither impaired nor past due | 939 | 896 |
| of which unimpaired but past due by | | |
| up to 30 days | 106 | 94 |
| between 31 and 60 days | 12 | 15 |
| between 61 and 90 days | 7 | 3 |
| more than 90 days | 5 | 7 |

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 €100 million (2013: €106 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 €185 million (2013: €198 million) are stated at amortized cost less any write-downs, which were €2 million in 2014. They principally comprise miscellaneous claims for tax refunds amounting to €144 million (2013: €128 million), mainly pertaining to sales taxes, and other reimbursement claims from goods and service transactions.

## 12 Equity

Capital stock The capital stock of LANXESS AG amounted to €91,522,936 as of December 31, 2014 and is composed of 91,522,936 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share.

Capital increase On May 7, 2014, the Board of Management of LANXESS AG resolved, with the approval of the Supervisory Board and pursuant to the authorization of the Annual Stockholders' Meeting of May 28, 2010, on Authorized Capital II, to increase the capital stock of LANXESS AG by a nominal amount of €8,320,266, corresponding to nearly 10% of the capital stock, by the issuance of 8,320,266 new no-par bearer shares under exclusion of stockholders' subscription rights, in order to strengthen the LANXESS Group's financial position. The new shares were placed with international investors through an accelerated bookbuilding process at a price of €52 per share. The capital increase took effect on May 9, 2014, when it was entered in the commercial register. The placement increased the company's equity by the gross proceeds of €433 million. The transaction costs of €7 million were recorded as a deduction from equity, taking tax effects of €2 million into account. Following this capital increase, the capital stock of LANXESS AG is now €91,522,936.

Authorized capital As of December 31, 2014, 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. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock attributable to those shares issued or sold during the term of this authorization while excluding stockholders' rights in direct or analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. 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 €8,320,268 (Authorized Capital II). In fiscal 2014, €8,320,266 of the Authorized Capital II of €16,640,534 was used to increase the share capital. 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. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock attributable to those shares issued or sold during the term of this authorization while excluding stockholders' rights in direct or analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Further details are given in Section 4, Paragraph 3 of the articles of association.

Conditional capital As of December 31, 2014, 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.

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 reserves The capital reserves of LANXESS AG were increased by €419,456,790 in the fiscal year and stood at €1,225,652,280 as of December 31, 2014.

Other reserves The €437 million decrease in other reserves to €1,253 million was entirely attributable to the decrease in retained earnings from €1,531 million to €1,094 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 comprise the interests held by other stockholders in the equity of Europigments, S.L., Barcelona, Spain, Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China, and LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China.

Capital management The main purpose of capital management in the LANXESS Group is to maintain the long-term viability of the 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. Details can be found in the section headed "Value management and control system" in the combined management report for fiscal 2014. 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 2014 totaled €49 million (2013: €49 million).

Multi-employer plans The pension plan in Germany financed through Bayer-Pensionskasse is also accounted for in the consolidated financial statements as a defined contribution plan. The above amounts include contributions of €28 million (2013: €28 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for the following fiscal year.

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, 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.

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 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 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. 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 underfunding or overfunding. The statutes do not provide for the sharing of any surplus or shortfall in the event that Bayer-Pensionskasse is wound up or LANXESS ceases to participate.

LANXESS's share of the total contributions to Bayer-Pensionskasse was unchanged from the previous year at approximately 17%. 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.

Contractually based defined benefit pension plans exist primarily 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 vary according to employees' individual salaries. Additional pension entitlements exist that are related to salary components set aside by employees and are payable when they reach retirement age. Alongside direct commitments, the pension adjustment obligation assumed by 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 the employee's individual salary and the actual date of retirement. 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' healthcare 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 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.

In 2014, total expenses of €120 million (2013: €106 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 | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| **Operating result** | | | | |
| Current service cost | 34 | 37 | 36 | 38 |
| Past service cost | 17 | 10 | (9) | 0 |
| Gains/losses from settlements | 0 | 0 | – | – |
| Administration expenses/taxes | 1 | 1 | 0 | 0 |
| Actuarial gains/losses from changes in financial assumptions | – | – | 0 | 2 |
| **Financial result** | | | | |
| Net interest | 22 | 27 | 5 | 5 |
| **Recognized in profit or loss** | **74** | **75** | **32** | **45** |

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. The costs of managing the 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 from compounding the defined benefit obligation, 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 2014:

**Amounts Recognized in Other Comprehensive Income**

| € million | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| Return on plan assets excluding amounts included in interest | (45) | 21 | 0 | 0 |
| Actuarial gains/losses from changes in demographic assumptions | 0 | (17) | 0 | 0 |
| Actuarial gains/losses from changes in financial assumptions | 101 | (282) | 7 | (7) |
| Actuarial gains/losses from experience adjustments | (37) | (12) | 4 | 2 |
| Changes in effects of the asset ceiling | (61) | 2 | – | – |
| Changes in effects of minimum funding requirements | (2) | (15) | – | – |
| **Amounts recognized in other comprehensive income** | **(44)** | **(303)** | **11** | **(5)** |

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 | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| **Net defined benefit liability, January 1** | **708** | **797** | **121** | **124** |
| Recognized in profit or loss | 74 | 75 | 32 | 45 |
| Recognized in other comprehensive income | 44 | 303 | (11) | 5 |
| Employer contributions | (13) | (21) | 0 | (1) |
| Benefits paid | (21) | (22) | (10) | (17) |
| Business combinations and disposals | 1 | (5) | 0 | 0 |
| Exchange differences | 4 | 3 | (8) | 4 |
| **Net defined benefit liability, December 31** | **797** | **1,130** | **124** | **160** |
| **Recognized in the statement of financial position** | | | | |
| Receivables from pension obligations | (22) | 0 | – | – |
| Provisions for pensions and other post-employment benefits | 819 | 1,130 | 124 | 160 |
| **Net defined benefit liability, December 31** | **797** | **1,130** | **124** | **160** |

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 | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| **Defined benefit obligation** | | | | |
| Defined benefit obligation, January 1 | 1,854 | 1,787 | 125 | 128 |
| Current service cost | 34 | 37 | 36 | 38 |
| Interest expense | 90 | 93 | 5 | 5 |
| Actuarial gains/losses from changes in demographic assumptions | 0 | 17 | 0 | 0 |
| Actuarial gains/losses from changes in financial assumptions | (101) | 282 | (7) | 9 |
| Actuarial gains/losses from experience adjustments | 37 | 12 | (4) | (2) |
| Past service cost | 17 | 10 | (9) | 0 |
| Gains/losses from settlements | 0 | 0 | – | – |
| Employee contributions | 1 | 2 | – | – |
| Benefits paid | (70) | (78) | (10) | (17) |
| Disbursements for settlements | – | 0 | – | – |
| Business combinations and disposals | 1 | (6) | – | 0 |
| Other additions | 33 | 0 | – | – |
| Administration expenses/taxes | 0 | 0 | 0 | 0 |
| Exchange differences | (109) | 22 | (8) | 5 |
| **Defined benefit obligation, December 31** | **1,787** | **2,178** | **128** | **166** |

Of the defined benefit obligation for pensions, Germany accounts for 58% (2013: 56%), Canada for 22% (2013: 22%) and Brazil for 15% (2013: 17%).

The other post-employment benefit obligations comprise €74 million (2013: €63 million) for the reimbursement of health care costs and €92 million (2013: €65 million) for miscellaneous other benefit commitments.

The actuarial gains and losses from changes in demographic assumptions result from the application of new mortality tables, mainly in Canada.

Remeasurements of the defined benefit liability due to changes in 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” and “Let’s LANXESS again” programs in Germany and relate to early-retirement agreements, to improvements to existing benefit entitlements for employees taking early retirement, and to severance agreements. In the previous year, the other post-employment benefit obligations included a negative change in past service cost in the United States due to the new regulatory requirements aimed at securing health care benefits.

The disposals result from the divestment of Perlon-Monofil GmbH, Dormagen, Germany.

The other additions in 2013 mainly resulted from the reclassification of existing pension plans in Belgium as defined benefit plans because the insurance companies’ guaranteed interest rates have dropped below 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 | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| **Plan assets at fair value** | | | | |
| Plan assets, January 1 | 1,146 | 1,046 | 4 | 4 |
| Interest income | 68 | 73 | 0 | 0 |
| Return on plan assets excluding amounts included in interest | (45) | 21 | 0 | 0 |
| Gains/losses from settlements | – | – | – | – |
| Employer contributions | 13 | 21 | 0 | 1 |
| Employee contributions | 1 | 2 | – | – |
| Benefits paid | (49) | (56) | 0 | 0 |
| Disbursements for settlements | – | – | – | – |
| Business combinations and disposals | – | (1) | – | – |
| Other additions | 33 | – | – | – |
| Costs of managing plan assets/taxes | (1) | (1) | 0 | 0 |
| Exchange differences | (120) | 20 | 0 | 1 |
| **Plan assets, December 31** | **1,046** | **1,125** | **4** | **6** |

Of the plan assets, Canada accounts for 40% (2013: 37%), Brazil for 34% (2013: 36%) and Germany for 19% (2013: 20%).

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 exists mainly outside Germany and totaled €21 million in 2014 (2013: €13 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 2014 or 2013.

The disposals result from the divestment of Perlon-Monofil GmbH, Dormagen, Germany.

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 | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| **January 1** | **0** | **54** | **0** | **2** |
| Interest expense | 0 | 7 | 0 | 0 |
| Additions (+) / deductions (–) | 61 | (2) | 2 | 15 |
| Exchange differences | (7) | 0 | 0 | 1 |
| **December 31** | **54** | **59** | **2** | **18** |

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 | 2013 | 2014 |
|---|---|---|
| Cash and cash equivalents | 69 | 25 |
| of which quoted in an active market | 69 | 25 |
| Equity instruments | 231 | 215 |
| of which quoted in an active market | 120 | 110 |
| Government bonds | 245 | 393 |
| of which quoted in an active market | 245 | 393 |
| Corporate bonds | 372 | 268 |
| of which quoted in an active market | 304 | 204 |
| Investment funds | 35 | 132 |
| of which quoted in an active market | 16 | 102 |
| Real estate | 27 | 23 |
| Insurance contracts | 55 | 60 |
| of which quoted in an active market | 0 | 1 |
| Other | 16 | 15 |
| of which quoted in an active market | 0 | 3 |
| | **1,050** | **1,131** |

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 weighted discount rates were used to calculate the defined benefit obligation and determine the pension expense:

**Valuation Assumptions as of December 31**

| % | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| Discount rate | 5.31 | 4.38 | 3.98 | 2.87 |
| Germany | 3.75 | 2.75 | 1.43 | 0.59 |
| Canada | 4.50 | 3.75 | 4.75 | 3.75 |
| Brazil | 12.25 | 12.50 | 12.25 | 12.50 |

The following weighted valuation assumptions were used for the other parameters:

**Valuation Assumptions as of December 31**

| % | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 |
| Expected salary increases | 3.4 | 3.3 | 3.2 | 3.1 |
| Expected benefit increases | 2.2 | 2.3 | – | – |
| Expected increases in medical costs | – | – | 7.3 | 7.0 |
| Expected long-term increases in medical costs | – | – | 5.2 | 5.1 |

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 13 years (2013: 13 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 defined benefit obligation:

**Sensitivities of Defined Benefit Obligations as of December 31, 2014**

| % | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| | **2013** | **2014** | **2013** | **2014** |
| Discount rate | | | | |
| +0.5%-pt. | (8.1) | (7.8) | (3.3) | (2.9) |
| –0.5%-pt. | 8.7 | 8.9 | 3.7 | 3.2 |
| Expected salary increases | | | | |
| +0.25%-pt. | 0.5 | 0.5 | 0.2 | 0.2 |
| –0.25%-pt. | (0.4) | (0.5) | (0.2) | (0.2) |
| Expected benefit increases | | | | |
| +0.25%-pt. | 3.6 | 3.9 | – | – |
| –0.25%-pt. | (3.2) | (3.7) | – | – |
| Mortality | | | | |
| –10% | 2.7 | 2.7 | 3.2 | 1.1 |
| Expected increases in medical costs | | | | |
| +1%-pt. | – | – | 3.7 | 3.6 |
| –1%-pt. | – | – | (3.4) | (3.3) |

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 insurees. 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 weighted average duration of defined benefit pension obligations was 17 years (2013: 16 years). This figure was based on weighted average durations of 21 years (2013: 20 years) for Germany, 13 years (2013: 11 years) for Canada and 10 years (2013: 12 years) for Brazil. The weighted average duration of the defined benefit obligations for other post-employment benefits was 7 years (2013: 9 years).

The funded status is reported in the following table as the underfunding 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 | |
|---|---|---|---|---|
| | **2013** | **2014** | **2013** | **2014** |
| **Funded status** | | | | |
| Defined benefit obligation for funded plans | 1,497 | 1,790 | 12 | 14 |
| External plan assets | (1,046) | (1,125) | (4) | (6) |
| **Underfunding of funded plans** | **451** | **665** | **8** | **8** |
| Defined benefit obligation for unfunded plans | 290 | 388 | 116 | 152 |
| **Funded status, December 31** | **741** | **1,053** | **124** | **160** |

The expected cash outflow for pension fund contributions and benefit payments in 2015 is €42 million based on year-end 2014 exchange rates.

## 14 Other non-current and current provisions

On the closing date, the LANXESS Group had other current provisions of €350 million (2013: €355 million) and other non-current provisions of €275 million (2013: €258 million). The maturity structure of other provisions is shown in the following table:

**Other Provisions**

| € million | Dec. 31, 2013 | | | | Dec. 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Up to 1 year | 1–5 years | Over 5 years | **Total** | Up to 1 year | 1–5 years | Over 5 years | **Total** |
| Personnel | 100 | 49 | 39 | 188 | 142 | 43 | 34 | 219 |
| Environmental protection | 16 | 18 | 71 | 105 | 15 | 27 | 74 | 116 |
| Trade-related commitments | 96 | 6 | – | 102 | 68 | 8 | – | 76 |
| Restructuring | 39 | 14 | 5 | 58 | 30 | 12 | 5 | 47 |
| Miscellaneous | 104 | 44 | 12 | 160 | 95 | 55 | 17 | 167 |
| | **355** | **131** | **127** | **613** | **350** | **145** | **130** | **625** |

The total of other provisions increased from €613 million to €625 million in 2014. The changes in other provisions were as follows:

**Changes in Other Provisions in 2014**

| € million | **Jan. 1, 2014** | Additions | Interest effect | Utilization | Reversals | Exchange differences | **Dec. 31, 2014** |
|---|---|---|---|---|---|---|---|
| Personnel | 188 | 138 | 3 | (99) | (14) | 3 | 219 |
| Environmental protection | 105 | 8 | 4 | (6) | 0 | 5 | 116 |
| Trade-related commitments | 102 | 35 | 1 | (49) | (14) | 1 | 76 |
| Restructuring | 58 | 15 | 0 | (21) | (6) | 1 | 47 |
| Miscellaneous | 160 | 68 | 1 | (28) | (36) | 2 | 167 |
| | **613** | **264** | **9** | **(203)** | **(70)** | **12** | **625** |

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 top-level managers. The program provides for cash settlement. Following the granting of rights under a three-year Long-Term Incentive Plan launched in 2008 (LTIP 2008–2010), a new Long-Term Stock Performance Plan (LTSP 2010–2013) was introduced in 2010 under which rights were granted for the years 2010–2013. Awards are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals℠. The Long-Term Stock Performance Plan (LTSP 2014–2017) introduced in 2014 is largely identical with the LTSP 2010–2013. The main difference is that awards are based on the performance of LANXESS stock relative to the MSCI World Chemicals Index. The base price of the stock and the benchmark index for the LTSP programs are calculated using a volume-weighted average of the closing prices on the first ten trading days in January of the year of issue of the tranche. 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.

LTIP 2008–2010 If LANXESS stock outperformed the index, a payment of at least €0.75 per right was made. For each percentage point up to 5% by which the stock outperformed the index, €0.05 was paid in addition. For each percentage point above 5%, €0.06667 was paid in addition. The maximum possible payment per right, however, was €2.00.

LTSP 2010–2013 and LTSP 2014–2017 If LANXESS stock outperforms the respective 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**

| % | 2013 | 2014 |
|---|---|---|
| Expected share price volatility | 37.0 | 34.0 |
| Expected dividend payment | 2.0 | 2.0 |
| Expected volatility of Dow Jones STOXX 600 Chemicals℠ | 20.0 | 19.0 |
| Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals℠ | 77.0 | 73.0 |
| Expected volatility of MSCI World Chemicals Index | – | 16.0 |
| Correlation between LANXESS stock and MSCI World Chemicals Index | – | 66.0 |
| Risk-free interest rate | 0.6 | 0.0 |

The relevant risk-free interest rate in 2014 was 0.01 % (2013: 0.63%).

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals℠ or the MSCI World Chemicals Index in the past four years.

At the end of 2014, there were no longer any rights outstanding from the LTIP programs. The following table provides information on the tranches of the other programs outstanding as of December 31, 2014:

**LTIP and LTSP**

| | LTIP 2008–2010 | LTSP 2010–2013 | | | | LTSP 2014–2017 |
|---|---|---|---|---|---|---|
| | Tranche 2010 | Tranche 2010 | Tranche 2011 | Tranche 2012 | Tranche 2013 | Tranche 2014 |
| Duration | 6 years | 7 years | 7 years | 7 years | 7 years | 7 years |
| Vesting period | 3 years | 4 years | 4 years | 4 years | 4 years | 4 years |
| Holding period for personal investment shares | Feb. 1, 2013 | Jan. 31, 2017 | Jan. 31, 2017 | Jan. 31, 2017 | Jan. 31, 2017 | Jan. 31, 2018 |
| Initial LANXESS share price | €27.28 | €27.28 | €55.60 | €44.54 | €63.25 | €47.41 |
| Initial Dow Jones STOXX 600 Chemicals[SM] price | 432.44 points | 432.44 points | 564.17 points | 533.45 points | 665.98 points | – |
| Initial MSCI World Chemicals Index price | – | – | – | – | – | 238.07 points |
| Fair value per right as of December 31, 2013 | €0.90 | €0.92 | €0.15 | €0.26 | €0.25 | – |
| Fair value per right as of December 31, 2014 | – | €0.25 | €0.05 | €0.10 | €0.07 | €0.54 |
| **Change in number of outstanding rights** | | | | | | |
| Outstanding rights as of January 1, 2014 | 9,888 | 9,525,520 | 10,493,544 | 11,532,576 | 12,774,998 | – |
| Rights granted | – | – | – | – | – | 13,619,349 |
| Rights exercised | 9,888 | 9,392,924 | – | – | – | – |
| Rights compensated | – | 35,883 | 2,009,082 | 2,117,354 | 2,183,824 | 1,701,484 |
| Rights forfeited | – | 85,734 | 929,130 | 998,254 | 1,065,541 | 269,070 |
| **Outstanding rights as of December 31, 2014** | **0** | **10,979** | **7,555,332** | **8,416,968** | **9,525,633** | **11,648,795** |

LANXESS shares were trading at €38.46 at year end 2014. The Dow Jones STOXX 600 Chemicals[SM] benchmark index stood at 786.36 points, while the MSCI World Chemicals Index was 256.43 points.

Due to the exercise of the rights from the 2010 tranche of the LTSP 2010–2013 at maximum value and the settlement of rights in connection with LANXESS's realignment program, net expense of €16 million was recorded in 2014 (2013: net gain of €3 million). The rights from the tranches granted in 2010 were exercised at maximum value. A provision of €3 million existed as of December 31, 2014 (2013: €12 million). Of this amount, the intrinsic value of rights exercisable as of the closing date accounted for €0 million (2013: €0 million).

LANXESS stock plan An employee stock plan was implemented in 2013 under which LANXESS staff could purchase shares in the company at a 50% discount. Employees acquired a total of 225,419 LANXESS shares under this program. These shares must be retained for at least three years. Since there are no further conditions attached to this stock plan, the discount of €5 million in the prior year was expensed immediately. Stock plans are discretionary benefits granted by LANXESS and do not confer any right to receive or claim similar benefits in the future.

Environmental provisions The Group's activities are subject to extensive legal requirements in the jurisdictions in which it does business. Compliance with environmental laws may require LANXESS to remove or mitigate the effects of the release or disposal of chemical substances at various sites. Under some of these laws, a current or previous site owner or plant operator may be held liable for the costs of removing hazardous substances from the soil or groundwater on its property or neighboring areas, or rendering them harmless, without regard to whether the owner or operator knew of or caused the presence of the contaminants, and often regardless of whether the practices that resulted in the contamination were legal at the time they occurred. As many of LANXESS's production sites have a long history of industrial use, it is not always possible to accurately predict the effects such situations may have on the LANXESS Group in the future.

Since LANXESS is a chemical company, the possibility therefore cannot be excluded that soil or groundwater contamination may have occurred at its locations in the past. Claims in this regard could be brought by government agencies, private organizations or individuals. Such claims would then relate to the remediation of sites or 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 earnings, asset and financial position.

Trade-related commitments Provisions for trade-related commitments mainly comprise those for rebates, customer discounts, product returns, impending losses and onerous contracts.

Provisions for restructuring Provisions for restructuring totaled €47 million on December 31, 2014 (2013: €58 million). Of this amount, €25 million (2013: €38 million) comprised provisions for human resources measures and €22 million (2013: €20 million) comprised provisions for other expenses and, to a small extent, for demolition.

Sundry provisions The sundry provisions contain provisions for guarantees and product liability, and provisions for other liabilities.

## 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, 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** |

**Other Financial Liabilities as of Dec. 31, 2014**

| € million | Current | Non-current | | | | | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | > 2019 | Total |
| Bonds | 66 | 199 | | 498 | | 693 | **1,390** |
| Liabilities to banks | 78 | 10 | | | 228 | | **238** |
| Liabilities under finance leases | 8 | 9 | 7 | 6 | 6 | 36 | **64** |
| Other primary financial liabilities | 30 | 2 | 2 | | | 2 | **6** |
| | **182** | **220** | **9** | **504** | **234** | **732** | **1,698** |

The following bonds were outstanding on December 31, 2014:

**Bonds**

| Issuance | Nominal amount million | Carrying amount € million | Interest rate % | Maturity |
|---|---|---|---|---|
| September 2009 | 200 EUR | 199 | 5.500 | September 2016 |
| May 2011 | 500 EUR | 498 | 4.125 | May 2018 |
| February 2012 | 500 CNH | 66 | 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 | 494 | 2.625 | November 2022 |

The weighted average interest rate for the LANXESS Group's financial liabilities denominated in euros and other currencies at year end was 3.8% (2013: 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 €94 million (2014: €60 million), including €22 million (2013: €11 million) in interest, are to be made to the respective lessors in future years.

Other primary financial liabilities include accrued interest of €26 million (2013: €53 million) on financial liabilities. Of this amount, €24 million (2013: €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, 2013 | | |
|---|---|---|---|
| | Non-current | Current | Total |
| Provisions | 49 | 20 | 69 |
| Payables | – | 1 | 1 |
| | **49** | **21** | **70** |

**Income Tax Liabilities**

| € million | Dec. 31, 2014 | | |
|---|---|---|---|
| | Non-current | Current | Total |
| Provisions | 25 | 42 | 67 |
| Payables | – | 2 | 2 |
| | **25** | **44** | **69** |

## 17 Other non-current and current liabilities

At year end the other non-current liabilities comprised:

**Other Non-Current Liabilities**

| € million | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|
| Payroll liabilities | 0 | 14 |
| Social security liabilities | 5 | 5 |
| Miscellaneous liabilities | 84 | 99 |
| | **89** | **118** |

The miscellaneous non-current liabilities mainly included asset subsidies of €97 million (2013: €83 million) granted by third parties.

The other current liabilities are recognized at settlement cost. They comprise:

**Other Current Liabilities**

| € million | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|
| Payroll liabilities | 15 | 53 |
| Other tax liabilities | 45 | 47 |
| Social security liabilities | 20 | 21 |
| Miscellaneous liabilities | 46 | 45 |
| | **126** | **166** |

The increase in payroll liabilities mainly relates to severance payments in connection with the “Let’s LANXESS again” program.

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 principally comprise accruals for outstanding invoices relating to the reporting period. As of December 31, 2014, there were liabilities of less than €1 million to Currenta GmbH & Co. OHG, Leverkusen, Germany. There were no such liabilities to other affiliated companies in 2013.

## 18 Trade payables

Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €799 million (2013: €690 million) is due within one year.

Trade payables of €109 million (2013: €40 million) related to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and its affiliated companies, while trade payables of €690 million (2013: €650 million) related to other suppliers.

## 19 Further information on liabilities

Of the total liabilities, €738 million (2013: €721 million) have maturities of more than five years. The change was mainly attributable to an increase in liabilities under finance leases.

# Notes to the income statement

## 20 Sales

Sales, which amounted to €8,006 million (2013: €8,300 million), mainly comprise goods sold less discounts and rebates.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [37]).

## 21 Cost of sales

**Cost of Sales**

| € million | 2013 | 2014 |
| --- | --- | --- |
| Expenses for raw materials and merchandise | 4,234 | 4,000 |
| Direct manufacturing and other production costs | 2,518 | 2,418 |
| | **6,752** | **6,418** |

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 | 2013 | 2014 |
| --- | --- | --- |
| Marketing costs | 471 | 459 |
| Outward freight charges and other selling expenses | 284 | 283 |
| | **755** | **742** |

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 €160 million (2013: €186 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 €278 million (2013: €301 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 | 2013 | 2014 |
| --- | --- | --- |
| Income from non-core business | 92 | 84 |
| Income from hedging with derivative financial instruments | 7 | 0 |
| Income from the reversal of provisions | 5 | 8 |
| Gains from the disposal of non-current assets | 3 | 1 |
| Income from reversals of write-downs of receivables and other assets | 1 | 1 |
| Miscellaneous operating income | 20 | 24 |
| | **128** | **118** |

## 26 Other operating expenses

**Other Operating Expenses**

| € million | 2013 | 2014 |
| --- | --- | --- |
| Expenses for non-core business | 84 | 74 |
| Write-downs of trade receivables and other current assets | 9 | 4 |
| Expenses for hedging with derivative financial instruments | 0 | 3 |
| Exceptional items | 381 | 184 |
| of which impairment charges recognized on cash-generating units | 257 | 0 |
| Losses from the disposal of non-current assets | 1 | 0 |
| Miscellaneous operating expenses | 52 | 43 |
| | **527** | **308** |

Of the exceptional items of €184 million (2013: €124 million, excluding impairment charges recognized on cash-generating units), €70 million (2013: €72 million) was allocable to the cost of sales in line with its economic relevance, while €39 million (2013: €9 million) was allocable to research and development expenses, €32 million (2013: €22 million) to administration expenses, €23 million (2013: €9 million) to selling expenses, and €20 million (2013: €12 million) to miscellaneous operating expenses.

The exceptional items mainly comprise the costs of the “Let’s LANXESS again” program for the global realignment of the Group, and the costs of the “Advance” program initiated the previous year. The research and development costs they include comprise write-downs of €19 million on a pilot facility in the Butyl Rubber business unit (Performance Polymers segment).

The impairment charges of €257 million recognized on the cash-generating units in 2013 mainly related to the Performance Polymers segment and, to a lesser extent, the Performance Chemicals segment. They 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 impairment test performed on the cash-generating units in 2014 did not show any need for the recognition or reversal of impairment charges.

## 27 Financial result

The financial result is comprised as follows:

**Financial Result**

| € million | 2013 | 2014 |
|---|---|---|
| **Income from investments accounted for using the equity method** | **0** | **2** |
| Interest income | 2 | 3 |
| Interest expense | (108) | (72) |
| **Net interest expense** | **(106)** | **(69)** |
| Interest expense from compounding interest-bearing provisious | (33) | (41) |
| Net exchange loss | (1) | (23) |
| Miscellaneous financial expenses | 0 | (7) |
| Dividends and income from other affiliated companies | (6) | 0 |
| **Other financial income and expense** | **(40)** | **(71)** |
| **Financial result** | **(146)** | **(138)** |

Interest expense mainly includes payments of bond interest. The amount recognized has been adjusted for capitalized borrowing costs of €17 million (2013: €15 million). The interest portion of the lease payments under finance leases, amounting to €3 million (2013: €3 million), is included in interest expense. In 2013, 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.

## 28 Income taxes

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

The breakdown of income taxes by origin is as follows:

**Income Taxes by Origin**

| € million | 2013 | 2014 |
|---|---|---|
| Current taxes | (17) | (59) |
| Deferred taxes resulting from | | |
| temporary differences | 62 | (1) |
| statutory changes in tax rates | 0 | 0 |
| loss carryforwards | 26 | 24 |
| **Income taxes** | **71** | **(36)** |

In 2014, deferred tax income and deferred tax expenses of roughly the same amount resulted from changes in temporary differences.

The actual tax expense for 2014 was €36 million (2013: tax income of €71 million). This is €11 million (2013: €5 million) more than the expected tax expense of €25 million (2013: expected tax income of €76 million).

In calculating the expected tax expense for the LANXESS Group, an unchanged overall tax rate of 31.8% 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 Result**

| € million | 2013 | 2014 |
|---|---|---|
| Income (loss) before income taxes | (239) | 80 |
| Aggregated income tax rate of LANXESS AG | 31.8% | 31.8% |
| Expected tax result | 76 | (25) |
| Tax difference due to differences between local tax rates and the hypothetical tax rate | (8) | (14) |
| Reduction in taxes due to | | |
| tax-free income and reduction of tax bases | 4 | 3 |
| utilization of unrecognized loss carryforwards | 0 | 3 |
| Increase in taxes due to non-tax-deductible expenses | (7) | (15) |
| Other tax effects | 6 | 12 |
| **Actual tax result** | **71** | **(36)** |
| Effective tax rate | 29.7% | 45.0% |

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

**Deferred Taxes**

| € million | Dec. 31, 2013 | | Dec. 31, 2014 | |
|---|---|---|---|---|
| | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Intangible assets | 11 | 52 | 9 | 52 |
| Property, plant and equipment | 32 | 119 | 29 | 130 |
| Inventories | 20 | 3 | 31 | 1 |
| Receivables and other assets | 8 | 24 | 8 | 29 |
| Pension provisions | 157 | 0 | 243 | – |
| Other provisions | 96 | 11 | 93 | 11 |
| Liabilities | 28 | 3 | 58 | 0 |
| Loss carryforwards | 85 | – | 111 | – |
| | **437** | **212** | **582** | **223** |
| of which non-current | 264 | 179 | 392 | 182 |
| Set-off | (183) | (183) | (202) | (202) |
| | **254** | **29** | **380** | **21** |

The change in deferred taxes is calculated as follows:

**Changes in Deferred Taxes**

| € million | 2013 | 2014 |
|---|---|---|
| **Deferred taxes as of January 1** | **129** | **225** |
| Tax income/expense recognized in the income statement | 88 | 23 |
| Changes in scope of consolidation | (5) | (1) |
| Deferred taxes recognized in other comprehensive income | 9 | 111 |
| Exchange differences | 4 | 1 |
| **Deferred taxes as of December 31** | **225** | **359** |

The deferred taxes recognized in other comprehensive income comprised €91 million (2013: €6 million) related to remeasurements of the net defined benefit liability for post-employment benefit plans and €20 million (2013: €3 million) relating to financial instruments. In addition, other comprehensive income contained current taxes of €4 million (2013: minus €1 million).

Deferred tax assets of €337 million (2013: €75 million) relate to tax jurisdictions in which losses were recorded in 2014 or 2013. The increase was mainly attributable to the fact that the corporate tax entity in Germany reported a loss, primarily due to the exceptional items in connection with the "Advance" and "Let's LANXESS again" programs. The deferred tax assets of €231 million for the German tax entity mainly related to differences in the valuations of pension provisions for tax purposes. LANXESS assumes that is will generate sufficient taxable income in the future to realize the deferred tax assets.

Based on tax planning calculations and strategies, deferred tax assets of €111 million (2013: €85 million) were recognized on the €380 million (2013: €292 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €82 million (2013: 59 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €158 million (2013: €192 million) of tax loss carryforwards. Of this amount, €100 million (2013: €147 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in 2014 for tax-deductible temporary differences of €43 million (2013: €29 million). Accordingly, deferred taxes on loss carryforwards of €39 million (2013: €52 million) and deferred tax assets on tax-deductible temporary differences of €15 million (2013: €11 million) were not recognized.

## 29 Earnings and dividend per share

The calculation of earnings per share for 2014 included only earnings from continuing operations and was based on the weighted average number of shares outstanding during the reporting period. As of December 31, 2013, 83,202,670 shares were outstanding. The capital increase in the second quarter of 2014 outlined in Note [12] resulted in the issuance of 8,320,266 new shares, so from this time 91,522,936 shares were outstanding. The capital increase was taken into account on a pro rata temporis basis when calculating the average number of shares outstanding. On this basis, the weighted average number of shares outstanding in the reporting period was 88,472,172. 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**

| | 2013 | 2014 | Change % |
|---|---|---|---|
| Net income (loss) (€ million) | (159) | 47 | > 100 |
| Number of shares outstanding | 83,202,670 | 88,472,172 | 6.3 |
| **Earnings per share (undiluted/diluted) (€)** | **(1.91)** | **0.53** | **> 100** |

LANXESS AG reported a distributable profit of €53 million for fiscal 2014 (2013: €48 million). The dividend payment made to stockholders of LANXESS AG during fiscal 2014 amounted to €0.50 per share (2013: €1.00 per share).

## 30 Personnel expenses

The breakdown of personnel expenses is as follows:

**Personnel Expenses**

| € million | 2013 | 2014 |
|---|---|---|
| Wages and salaries | 1,006 | 1,106 |
| Social security contributions | 194 | 202 |
| Retirement benefit expenses | 128 | 136 |
| Social assistance benefits | 11 | 13 |
| | **1,339** | **1,457** |

Total personnel expenses increased in 2014, mainly as a result of the expenses for the “Let’s LANXESS again” program and for performance-related remuneration. The personnel expenses shown here do not contain the interest expenses for compounding 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 2014 was 16,807 (2013: 17,430). The decline compared to the previous year was mainly due to employees who left the company as a result of the “Advance” and “Let’s LANXESS again” programs, and to changes in the scope of consolidation.

**Employees by Function**

| | 2013 | 2014 |
|---|---|---|
| Production | 12,456 | 12,163 |
| Marketing | 2,082 | 1,987 |
| Administration | 1,980 | 1,878 |
| Research | 912 | 779 |
| | **17,430** | **16,807** |

## 32 Contingent liabilities and other financial commitments

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.

Contingent liabilities as of December 31, 2014 amounted to €7 million (2013: €8 million). There are no contingent liabilities relating to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method. As a personally liable partner in Currenta GmbH & Co. OHG, 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 lease and rental payments relating to operating leases totaled €390 million (2013: €492 million).

The respective payment obligations mature as follows:

**Maturity Structure of Lease and Rental Payments**

| € million | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|
| Up to 1 year | 61 | 56 |
| 1 to 2 years | 54 | 48 |
| 2 to 3 years | 49 | 41 |
| 3 to 4 years | 41 | 36 |
| 4 to 5 years | 40 | 35 |
| More than 5 years | 247 | 174 |
| | **492** | **390** |

Payments under operating leases in 2014 amounted to €67 million (2013: €61 million). Future lease and rental payments include agreements relating to the Group's headquarters in Cologne, to which it relocated in 2013, and to the production site 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 €171 million (2013: €283 million). Of the respective payments, €130 million are due in 2015, €38 million in 2016 and €3 million in 2017.

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 Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for in the consolidated financial statements using the equity method, and its subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €423 million (2013: €455 million). As of December 31, 2014, trade payables of €109 million (2013: €40 million) and receivables of €3 million (2013: €5 million) existed as a result of these transactions. In addition, a provision of €5 million was recorded as of the reporting date in respect of the claim by Currenta GmbH & Co. OHG to offset the loss for 2014. There were also payment obligations to Currenta GmbH & Co. OHG amounting to €1 million (2013: €5 million) under operating leases and obligations of €4 million (2013: €3 million) under purchase agreements. Contingent liabilities relating to Currenta GmbH & Co. OHG are outlined in the previous section.

Information on the compensation of the Board of Management and Supervisory Board can be found in the next section.

## 34 Compensation of the Board of Management and the Supervisory Board

For fiscal 2014, total compensation of €9,982 thousand (2013: €6,647 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €7,649 thousand (2013: €4,777 thousand) in short-term compensation (fixed compensation, annual bonus, benefits in kind and other), €0 thousand (2013: €34 thousand) in compensation relating to the previous year, and other long-term compensation components totaling €932 thousand (2013: €977 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 1,648,500 share-based compensation rights were granted in 2014 (2013: 1,564,125). The fair value of these rights at the grant date was €1,401 thousand (2013: €859 thousand). Personnel expenses for the stock-based compensation programs amounted to €2,168 thousand in fiscal 2014 (2013: a gain of €887 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 2014.

In addition, service costs of €2,496 thousand (2013: €1,264 thousand) relating to defined benefit pension plans were incurred in 2014 for members of the Board of Management as part of their compensation package. The present value of the defined benefit obligation as of December 31, 2014 was €9,994 thousand (2013: €21,740 thousand).

The total net expense for the compensation of the members of the Board of Management in 2014 was €14,935 thousand (2013: €6,165 thousand). This amount includes expense of €1,690 thousand for the severance payment made to Dr. Breuers. Together with settlement of his LTSP rights amounting to €729 thousand, benefits granted to a former member of the Board of Management who stepped down during the fiscal year totaled €2,419 thousand and were granted during the fiscal year.

The balances outstanding to members of the Board of Management totaled €2,336 thousand (2013: €4,706 thousand), comprising provisions of €1,346 thousand (2013: €1,653 thousand) for annual bonuses, €687 thousand (2013: €1,899 thousand) for the LTPB and €303 thousand (2013: €1,154 thousand) for the LTSP.

Pension benefits of €293 thousand (2013: €308 thousand) were paid to former members of the Board of Management. The total obligation toward former members of the Board of Management as of December 31, 2014 was €27,921 thousand (2013: €11,578 thousand). Payments totaling €1,983 thousand were made to former members of the Board of Management in fiscal 2014 (2013: €308 thousand).

The members of the Supervisory Board received total compensation of €1,936 thousand in 2014 (2013: €1,874 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, 2014 amounted to €0 thousand (2013: €1,800 thousand).

In addition, the employee representatives on the Supervisory Board who are on LANXESS's payroll received remuneration 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 "Compensation report" section in the combined management report for fiscal 2014.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2014 or 2013.

## 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, counterparty, liquidity and raw material 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 various currencies, it is exposed to fluctuations in the relative value of these currencies. The development of the U.S. dollar against the euro is of particular relevance.

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. Such risks and the currency risks arising on financial transactions, including the interest component, are generally fully hedged using forward exchange contracts. In the short term, the appreciation or depreciation of the euro against other major currencies can have no material impact on future cash flows due to hedging.

The risks relating to operating activities are systematically monitored and analyzed. To this end, both sales and costs are planned in foreign currencies. In the long term, exchange rate fluctuations could adversely affect future cash flows should the LANXESS Group not be able to absorb them, for example, by pricing its products in the respective local currencies. This risk is minimized by partial hedging with 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 or expense from the effective portion of cash flow hedges is recognized in other operating income or expenses. Hedging is performed in line with principles determined by the Board of Management and is subject to continuous monitoring.

If the exchange rate for the euro had been 5% higher against the hedged currencies on the reporting date, this would have had a €23 million (2013: €19 million) effect, mainly on other comprehensive income, which would have improved accordingly. This effect mainly relates to the U.S. dollar. A correspondingly lower rate for the euro would have had basically the opposite effect.

Many companies in the LANXESS Group are based outside the eurozone. Since the Group prepares its consolidated financial statements in euros, the annual financial statements of these subsidiaries are translated into euros for consolidation purposes. Changes in the average exchange rate 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 Market interest rate movements can cause fluctuations in the fair value of a financial instrument. These interest rate changes 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.

The financial liabilities with variable interest rates are covered by investments with short-term fixed interest rates from available liquidity so that the LANXESS Group will incur slightly higher interest costs if interest rates increase. A general change of one percentage point in interest rates as of December 31, 2014 would have reduced Group net income by €1 million (2013: increased net income by €1 million).

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 in line with 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 respective 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 contractual 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 relationships with 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. In February 2015, this was extended by one year to February 2020. There is a further material credit line of €150 million with the European Investment Bank. In addition to credit facilities, the Group has short-term liquidity reserves of €518 million (2013: €533 million) in the form of cash and cash equivalents and highly liquid AAA-rated money market funds. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

The following table shows the contractually agreed (undiscounted) cash flows for primary financial liabilities, the interest components thereof and derivative financial instruments:

**Dec. 31, 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 | | |

| Dec. 31, 2014<br>€ million | 2015 | 2016 | 2017 | 2018 | 2019 | > 2019 |
|---|---|---|---|---|---|---|
| **Bonds** | **(96)** | **(252)** | **(41)** | **(541)** | **(21)** | **(781)** |
| of which interest | (30) | (52) | (41) | (41) | (21) | (81) |
| **Liabilities to banks** | **(79)** | **(14)** | **(2)** | **(2)** | **(229)** | **0** |
| of which interest | (1) | (4) | (2) | (2) | (1) | 0 |
| **Trade payables** | **(799)** | | | | | |
| of which interest | 0 | | | | | |
| **Liabilities under finance leases** | **(12)** | **(12)** | **(10)** | **(8)** | **(8)** | **(44)** |
| of which interest | (4) | (3) | (3) | (2) | (2) | (8) |
| **Other primary financial liabilities** | **(30)** | **(2)** | **(2)** | **0** | **0** | **(2)** |
| of which interest | (26) | 0 | 0 | 0 | 0 | 0 |
| **Derivative liabilities** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (618) | (227) | | | | |
| Receipts | 559 | 214 | | | | |
| Other hedging instruments | | | | | | |
| Disbursements | (1,086) | (32) | (4) | (1) | (13) | |
| Receipts | 1,041 | 28 | 4 | 0 | 10 | |
| **Derivative assets** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (21) | (9) | 0 | | | |
| Receipts | 23 | 9 | 0 | | | |
| Other hedging instruments | | | | | | |
| Disbursements | (191) | | | | | |
| Receipts | 203 | 4 | 0 | | | |

The contractually agreed payments for other primary financial liabilities due within one year from the reporting date included accrued interest of €26 million (2013: €53 million) that mainly related 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 by forward commodity contracts in order 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 had no forward commodity contracts at year end 2014 or 2013.

Carrying amounts, measurement and fair value of financial instruments The following 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, 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) |

**Dec. 31, 2014**

| € million | IAS 39 measurement category | Carrying amount Dec. 31, 2014 |
|---|---|---|
| **Financial assets** | | |
| Trade receivables | LaR | 1,015 |
| Receivables under finance leases | – | – |
| Other financial receivables | LaR | 15 |
| Cash and cash equivalents | LaR | 418 |
| Available-for-sale financial assets | | |
| Near-cash assets | AfS | 100 |
| Other available-for-sale financial assets | AfS | 14 |
| Derivative assets | | |
| Hedging instruments that qualify for hedge accounting | – | 3 |
| Other hedging instruments | FAHfT | 16 |
| **Financial liabilities** | | |
| Bonds | FLAC | (1,456) |
| Liabilities to banks | FLAC | (316) |
| Trade payables | FLAC | (799) |
| Liabilities under finance leases | – | (72) |
| Other primary financial liabilities | FLAC | (36) |
| Derivative liabilities | | |
| Hedging instruments that qualify for hedge accounting | – | (73) |
| Other hedging instruments | FLHfT | (48) |

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, 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) |

| | Measurement according to IAS 39 | | | | Measurement according to IAS 17 | Fair value Dec. 31, 2014 |
|---|---|---|---|---|---|---|
| | Amortized cost | Acquisition cost | Fair value (other comprehensive income) | Fair value (profit or loss) | | |
| | | | | | | |
| | 1,015 | | | | | 1,015 |
| | | | | | – | – |
| | 15 | | | | | 15 |
| | 418 | | | | | 418 |
| | | | | | | |
| | | | 100 | | | 100 |
| | | 10 | 4 | | | 4 |
| | | | | | | |
| | | | 3 | | | 3 |
| | | | | 16 | | 16 |
| | | | | | | |
| | (1,456) | | | | | (1,630) |
| | (316) | | | | | (316) |
| | (799) | | | | | (799) |
| | | | | | (72) | (78) |
| | (36) | | | | | (36) |
| | | | | | | |
| | | | (73) | | | (73) |
| | | | | (48) | | (48) |

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined in the section "Fair value measurement." However, three bonds with a fair value of €311 million are allocated to Level 2 as there is no liquid market for them. Fair value measurement of non-current liabilities to banks is also allocated to Level 2. In 2014, their carrying amounts were equal to their fair value. The fair value of liabilities allocated to Level 2 is calculated using discounted cash flows and taking account of observed market interest rates.

**Carrying Amounts by IAS 39 Category**

| € million | Dec. 31, 2013 | Dec. 31, 2014 |
|---|---|---|
| Loans and receivables | 1,511 | 1,448 |
| Available-for-sale financial assets | 120 | 114 |
| Financial assets held for trading | 43 | 16 |
| | **1,674** | **1,578** |
| Financial liabilities measured at amortized cost | (2,958) | (2,607) |
| Financial liabilities held for trading | (4) | (48) |
| | **(2,962)** | **(2,655)** |

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 on 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 2013 or 2014.

**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 | – |

**Assets and Liabilities Measured at Fair Value**

| € million | Dec. 31, 2014 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Non-current assets | | | |
| Investments in other affiliated companies | 3 | – | – |
| Non-current derivative assets | – | 5 | – |
| Other non-current financial assets | – | 1 | – |
| Current assets | | | |
| Near-cash assets | 100 | – | – |
| Current derivative assets | – | 14 | – |
| Other current financial assets | 0 | – | – |
| Non-current liabilities | | | |
| Non-current derivative liabilities | – | 20 | – |
| Current liabilities | | | |
| Current derivative liabilities | – | 101 | – |

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 €10 million in non-listed equity instruments, the fair values of which 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, 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) |

**Offsetting of Financial Assets and Financial Liabilities as of December 31, 2014**

| € 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 | 1,015 | (30) | 0 | 985 |
| Derivative assets | 19 | (9) | 0 | 10 |
| **Financial liabilities** | | | | |
| Trade payables | (799) | 30 | 0 | (769) |
| Derivative liabilities | (121) | 9 | 0 | (112) |

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 | 2013 | 2014 |
|---|---|---|
| Loans and receivables | (27) | 64 |
| Available-for-sale financial assets | (6) | 0 |
| Assets and liabilities held for trading | 41 | (120) |
| Financial liabilities measured at amortized cost | (121) | (39) |
| | **(113)** | **(95)** |

Net gains and losses principally comprise interest income and expense and remeasurement effects.

In addition, fees of €14 million were incurred in 2014 (2013: €9 million) in connection with financial instruments.

Collateralization of financial liabilities Financial liabilities amounting to €0 million (2013: €0 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 flow from operating activities is determined by deducting the financial result, depreciation, amortization and write-downs and non-cash items from income before income taxes. A further adjustment is then made for the change in other assets and liabilities. Income before income taxes, which is the starting point for the statement of cash flows, amounted to €80 million (2013: minus €239 million) after depreciation, amortization and write-downs of €426 million (2013: €717 million). Income taxes paid in 2014 amounted to €31 million (2013: €41 million). The change in net working capital resulted in a cash inflow of €147 million (2013: €110 million). Taking into account the increase in other assets and liabilities of €103 million (2013: decrease of €15 million), the cash inflow provided by operating activities amounted to €797 million in 2014 (2013: €641 million).

Net cash used in investing activities Purchases of intangible assets, property, plant and equipment led to a cash outflow of €614 million in 2014 (2013: €624 million). Cash inflows from investment subsidies reduced cash outflows for capital expenditures by €25 million (2013: €30 million). Cash inflows from financial assets mainly comprised proceeds from the sale of units in money market funds. The divestment of subsidiaries resulted in a cash inflow of €3 million (2013: €0 million) net of acquired cash and cash equivalents and retrospective purchase price adjustments. Included in interest and dividends received is a cash inflow of €2 million from a profit transfer from Currenta GmbH & Co. OHG, Leverkusen, Germany (2013: cash outflow of €17 million for loss assumption). The cash inflows comprised €4 million (2013: €2 million) in interest received and €4 million (2013: €0 million) from other affiliates. The net cash outflow for investing activities was €587 million (2013: €342 million).

Net cash used in financing activities The 10% increase in the capital stock in 2014 resulted in gross proceeds of €433 million (2013: €0 million). Outflows included €478 million (2013: €58 million) for the repayment of borrowings, €131 million (2013: €119 million) for interest paid and other financial disbursements, and €46 million (2013: €83 million) for the dividend, including €46 million (2013: €83 million) paid to the stockholders of LANXESS AG. A net cash outflow of €222 million (2013: €260 million) was recorded for financing activities. 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 €418 million (2013: €427 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| External sales | 4,486 | 4,128 | 1,647 | 1,643 | 2,132 | 2,193 | 35 | 42 | 8,300 | 8,006 |
| Inter-segment sales | 1 | 0 | 51 | 46 | 8 | 9 | (60) | (55) | 0 | 0 |
| Segment/Group sales | 4,487 | 4,128 | 1,698 | 1,689 | 2,140 | 2,202 | (25) | (13) | 8,300 | 8,006 |
| Segment result/EBITDA pre exceptionals | 389 | 392 | 286 | 303 | 231 | 274 | (171) | (161) | 735 | 808 |
| Exceptional items affecting EBITDA | (17) | (41) | 1 | (10) | (50) | (34) | (45) | (79) | (111) | (164) |
| Segment assets | 3,294 | 3,647 | 1,026 | 1,023 | 1,392 | 1,455 | 161 | 158 | 5,873 | 6,283 |
| Segment acquisitions | | | | | 18 | | | | 18 | 0 |
| Segment capital expenditures | 405 | 472 | 113 | 94 | 117 | 100 | 41 | 26 | 676 | 692 |
| Depreciation and amortization | 253 | 208 | 76 | 84 | 87 | 84 | 22 | 18 | 438 | 394 |
| Write-downs | 236 | 23 | 1 | 5 | 40 | 2 | 2 | 2 | 279 | 32 |
| Segment liabilities | 817 | 1,018 | 577 | 660 | 671 | 816 | 396 | 504 | 2,461 | 2,998 |
| Employees (December 31) | 5,379 | 5,176 | 2,854 | 2,809 | 5,837 | 5,613 | 3,273 | 2,986 | 17,343 | 16,584 |
| Employees (average for the year) | 5,419 | 5,220 | 2,857 | 2,813 | 5,928 | 5,693 | 3,226 | 3,081 | 17,430 | 16,807 |

**Key Data by Region**

| € million | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | | LANXESS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| External sales by market | 2,404 | 2,296 | 1,458 | 1,440 | 1,332 | 1,338 | 966 | 859 | 2,140 | 2,073 | 8,300 | 8,006 |
| Non-current region assets | 631 | 642 | 1,039 | 1,029 | 388 | 413 | 319 | 320 | 882 | 1,284 | 3,259 | 3,688 |
| Acquisitions | | | | | | | | | 18 | | 18 | 0 |
| Capital expenditures | 135 | 117 | 229 | 158 | 46 | 46 | 50 | 34 | 216 | 337 | 676 | 692 |
| Employees (December 31) | 3,444 | 3,267 | 8,117 | 7,747 | 1,526 | 1,371 | 1,560 | 1,467 | 2,696 | 2,732 | 17,343 | 16,584 |

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, 2014, 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 €0 million (2013: €12 million) relating to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and the income of €2 million (2013: €0 million) from this investment (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 2014, 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 2014). 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 impairments of property, plant and equipment, amortization and impairments 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 and 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 the previous fiscal year 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 provided in the section headed "Estimation uncertainties and exercise of discretion." The write-downs in fiscal 2014 mainly related to a pilot facility of the Butyl Rubber business unit (Performance Polymers segment).

In 2014, the exceptional items that impacted EBITDA mainly related to measures associated with the "Let's LANXESS again" and "Advance" programs. The corresponding exceptional items in the previous year mainly resulted from reorganizational measures taken as part of the "Advance" program.

**Reconciliation of Segment Sales**

| € million | 2013 | 2014 |
|---|---|---|
| **Total segment sales** | **8,325** | **8,019** |
| Other/Consolidation | (25) | (13) |
| **Group sales** | **8,300** | **8,006** |

**Reconciliation of Segment Results**

| € million | 2013 | 2014 |
|---|---|---|
| **Total segment results** | **906** | **969** |
| Depreciation and amortization | (717) | (426) |
| Exceptional items affecting EBITDA | (111) | (164) |
| Other financial income and expense | (40) | (71) |
| Net interest expense | (106) | (69) |
| Income from investments accounted for using the equity method | 0 | 2 |
| Other/Consolidation | (171) | (161) |
| **Income (loss) before income taxes** | **(239)** | **80** |

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, 2013 | Dec. 31, 2014 |
|---|---|---|
| **Total segment assets** | **5,712** | **6,125** |
| Cash and cash equivalents | 427 | 418 |
| Deferred tax assets | 254 | 380 |
| Near-cash assets | 106 | 100 |
| Income tax receivables | 56 | 34 |
| Derivative assets | 78 | 19 |
| Other financial assets | 17 | 16 |
| Other/Consolidation | 161 | 158 |
| **Group assets** | **6,811** | **7,250** |

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and impairments in fiscal 2013 and 2014 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, 2013 | Dec. 31, 2014 |
|---|---|---|
| **Total segment liabilities** | **2,065** | **2,494** |
| Other financial liabilities | 2,317 | 1,880 |
| Derivative liabilities | 34 | 121 |
| Income tax liabilities | 70 | 69 |
| Deferred tax liabilities | 29 | 21 |
| Other/Consolidation | 396 | 504 |
| **Group liabilities** | **4,911** | **5,089** |

## 38 Audit fees

In 2014, total audit fees of €2,731 thousand (2013: €2,151 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,322 thousand (2013: €1,333 thousand) related to the auditing of financial statements, €560 thousand (2013: €485 thousand) to other audit-related services and €849 thousand (2013: €333 thousand) to other services rendered to Group companies. The amount recognized for other services is influenced, among other things, by a purchase in the area of IT services made by the auditors of the financial statements. The fees for financial statements audit services comprise all fees, including incidental expenses, paid or to be paid for the audits of the consolidated financial statements of the LANXESS Group and the mandatory financial statements of LANXESS AG and its German subsidiaries.

## 39 Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act

A Declaration of Compliance with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act (AktG) and made available to stockholders on the LANXESS website.

## 40 Utilization of disclosure exemptions

In 2014, the following German subsidiaries utilized 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
- Rhein Chemie Rheinau GmbH, Mannheim
- Saltigo GmbH, Leverkusen
- Vierte LXS GmbH, Leverkusen

Outside of Germany, LANXESS Limited (registration no. 03498959), Newbury, United Kingdom, utilized the exemption from the auditing of its annual financial statements as permitted by Section 479A of the U.K. Companies Act 2006. As required by law, LANXESS AG, as the parent company, guaranteed all outstanding liabilities as of December 31, 2014, with respect to Section 479C of the U.K. Companies Act 2006.

# 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 earnings, asset and financial position 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, February 27, 2015

LANXESS Aktiengesellschaft

The Board of Management

| | | |
|---|---|---|
| Matthias Zachert | Dr. Bernhard Düttmann | 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, 2014. 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 2, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Bernd Boritzki | Carsten Manthei |
| German Public Auditor | German Public Auditor |

# About this Report

## Reporting methodology and data collection

The full report made here is aligned to national and international standards for financial and sustainability reporting: the International Financial Reporting Standards (IFRS), the Global Reporting Initiative (GRI) and the principles of the Global Compact. It thus combines financial and sustainability reporting by the LANXESS Group.

The reporting period is 2014. In compiling the data, we applied the principles of balance, comparability, accuracy, timeliness, clarity and reliability. The report covers the Group companies that are included in the consolidated financial statements.

Environmental protection data are gathered only at those production sites in which the company has a holding of more than 50%. On account of their recent acquisition by the LANXESS Group, the following production sites are not yet included: Epierre, France, and Lipetsk, Russia. By contrast, the lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, applies to all sites in which LANXESS has a holding of more than 50%. In the case of other indicators which do not refer to the LANXESS Group, the areas of scope are explicitly defined in the report.

We use an electronic data capture system for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. With regard to data collection, we have additionally taken the following recommendations into consideration: Greenhouse Gas Protocol (GHG Protocol), International Energy Agency (IEA).

We use a standardized corporate information system for reporting HR data worldwide.

## GRI

The report is compiled in accordance with GRI Guidelines. We used the G3.1 Guidelines, issued in March 2011, which include more than 120 indicators that describe the company, its sustainability information and the report itself. GRI reporting is performed annually.

In the GRI Content Index, we list which criteria from the current GRI Guideline are addressed in the LANXESS Annual Report 2014. In addition to the disclosures contained in this report, supplementary information can be found on the LANXESS Group website. Our disclosures have been made in accordance with GRI Application Level B. This has been confirmed by the Global Reporting Initiative in the context of an audit (B+). To ensure the quality of the data, PricewaterhouseCoopers has audited selected indicators with limited assurance. These are identified accordingly in the report.

# HSEQ: Independent Assurance Report

## Independent Assurance Report

To LANXESS AG, Cologne

We have been engaged to perform a limited assurance engagement for selected environmental and safety performance data including supplementing annotations for the period January 1, 2014 to December 31, 2014. These data can be found in the "Environmental and Safety Performance Data" table in the "Health, safety, environment and climate protection along the value chain" section of the "Corporate Responsibility" chapter in the Annual Report 2014 of LANXESS AG, Cologne (hereinafter the Company) marked with*) (hereinafter sustainability data).

### Management's Responsibility

The Company's Board of Managing Directors is responsible for the proper preparation of the sustainability data in accordance with the criteria stated in the Sustainability Reporting Guidelines Vol. 3.1 (pp. 7–17) of the Global Reporting Initiative (GRI):

- Materiality,
- Stakeholder Inclusiveness,
- Sustainability Context,
- Completeness,
- Balance,
- Clarity,
- Accuracy,
- Timeliness,
- Comparability and
- Reliability.

This responsibility includes the selection and application of appropriate methods to prepare the sustainability data as well as the use of assumptions and estimates for individual environmental and safety performance data which are reasonable in the circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the "Corporate Responsibility" chapter in the Annual Report 2014.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Practitioner's Responsibility

Our responsibility is to express a conclusion based on our work performed as to whether any matters have come to our attention that cause us to believe that the selected sustainability data in the "Health, safety, environment and climate protection along the value chain" section of the "Corporate Responsibility" chapter in the Annual Report 2014 of LANXESS have not been prepared, in all material respects, in accordance with the above mentioned criteria of the Sustainability Reporting Guidelines Vol. 3.1 of the GRI. The sustainability data subject to our procedures are marked with*). Any links to external sources of documentation as well as prospective statements and statements from external experts were not in scope of our engagement. We also have been engaged to make recommendations for the further development of CR management and CR reporting based on the results of our assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to express our conclusion with limited assurance.

In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement.

The procedures selected depend on the practitioner's judgement.

Within the scope of our work we performed amongst others the following procedures:

- Interviews with employees who are responsible for reporting the environmental and safety performance data regarding the processes and controls in place when collecting the environmental and safety performance data;
- Inventory of the processes and inspection of the systems and processes that are implemented to collect, calculate, analyze, verify and aggregate the environmental and safety performance data as well as sample testing;
- Analytical evaluations of the environmental and safety performance data based on samples in line with the quarterly and annually data collection;
- Review of internal documents, contracts and invoices/reports of external services providers.

## Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the selected sustainability data have not been prepared, in all material respects, in accordance with the criteria of the Sustainability Reporting Guidelines Vol. 3.1 (pp. 7–17) of the GRI.

## Emphasis of Matter – Recommendations

Without qualifying our conclusion above, we make the following recommendations for the further development of CR management and CR reporting:

- Consistent implementation of the internal control system for the HSE data based on the defined target processes particularly with respect to organizational changes and new business units;
- Further development of an integrated understanding at the different company levels with regards to controlling in order to use synergy effects to financial controlling more efficiently and to further improve data quality.

Cologne, February 27, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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| (German Public Auditor) | (German Public Auditor) |

# GRI Content Index

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Status: ■ Fully reported □ Partly reported □ Not reported    **T** Core indicator T Additional indicator

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| GRI Indicators | | Location | Explanation | Status | UNGC |
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| EN3 | Direct energy consumption by primary energy source | p. 38 | | | 8 |
| EN4 | Indirect energy consumption by primary source | p. 38 | | | 8 |
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| EN19 | Emissions of ozone-depleting substances by weight | p. 38 | | | 8 |
| EN20 | $NO_x$, $SO_x$ and other air emissions by type and weight | p. 38 | | | 8 |
| EN21 | Total water discharge | p. 36, p. 38 | | | 8 |
| EN22 | Quantity of waste by type and disposal method | p. 36, p. 39 | | | 8 |
| EN23 | Total number and volume of significant spills | | During work to clean a vessel in Krefeld-Uerdingen, Germany, on September 9, 2014, a chemical reaction occurred which resulted in the emission of HCl and $SO_2$. The road adjacent to the Chempark site was closed as a precaution. The vapors were knocked down by the Fire Department. No personal injury occurred.<br><br>On September 17, 2014, a technical defect at the site in Antwerp, Belgium, resulted for a short time in elevated emissions of sulfur dioxide from a stack. Due to the prevailing weather conditions, this had a negative impact on one production area in a neighboring facility. Several employees received medical treatment but were subsequently able to continue working. The incident's causes were investigated in detail and technical improvements were installed. | | 8 |
| EN26 | Initiatives to mitigate environmental impacts | p. 31, p. 36, http://lanxess.com/en/corporate/about-lanxess/megatrends/water/ | | | 7–9 |
| EN27 | Reclaiming of packaging materials | p. 35 | | | 8–9 |
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| GRI Indicators | | Location | Explanation | Status | UNGC |
|---|---|---|---|---|---|
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| LA1 | Total workforce by employment type, region and gender | p. 23, pp. 101–102 | | ■ | |
| LA2 | Employee turnover by age group, gender and region | p. 19 | | ■ | 6 |
| LA3 | Benefits provided to full-time employees | pp. 26–27 | | ■ | |
| LA4 | Employees covered by collective bargaining agreements | p. 27 | | ■ | 1, 3 |
| LA5 | Minimum notice periods regarding significant operational changes | p. 27 | | ■ | 3 |
| LA6 | Workforce representation in health and safety committees | | | ▫ | 1 |
| LA7 | Injuries, occupational diseases and work-related accidents | pp. 28–29, p. 38, p. 101 | | □ | 1 |
| LA8 | Measures regarding serious diseases | p. 26, pp. 28–29 | | □ | 1 |
| LA9 | Health and safety topics covered in formal agreements with trade unions | p. 26 | | ■ | 1 |
| LA10 | Hours of training per employee | pp. 22–24 | | □ | |
| LA11 | Programs for skills management and lifelong learning | pp. 22–25 | | ■ | |
| LA12 | Percentage of employees receiving regular performance and career development reviews | pp. 22–24 | | □ | |
| LA13 | Composition of governance bodies | p. 3, p. 25, pp. 60–61 | | □ | 1, 6 |
| LA14 | Ratio of basic salary and remuneration of women to men | | | ▫ | 1, 6 |
| LA15 | Take-up of parental leave, by gender | p. 25 | | ■ | |

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| GRI Indicators | | Location | Explanation | Status | UNGC |
|---|---|---|---|---|---|
| **Human rights** | | | | | |
| | Management approach | pp. 13–15, p. 18, pp. 24–27, pp. 74–75 | | | 1–6 |
| HR1 | Investment agreements and contracts that include human rights clauses or that have undergone human rights screening | | All acquisitions of companies or interests in companies are subject to a careful due diligence process to ensure that human rights are also respected by the target company. Significant suppliers of goods and services are regularly the subject of supplier assessments that include aspects such as compliance with our Supplier Code of Conduct, which also covers human rights. In fiscal 2014, we received no reports or other indications of human rights violations by our suppliers. | ■ | 1–6 |
| HR2 | Percentage of suppliers and contractors that have undergone human rights screening | p. 16, pp. 74–75 | | ■ | 1–6 |
| HR3 | Employee training on human rights aspects | | We do not implement training dedicated to the topic of human rights. In our view, the principles set forth in human rights are so firmly anchored in LANXESS's corporate culture that no further training appears to be necessary. There was no statistical measurement of the amount of time devoted to the topic of human rights in general compliance training. | ■ | 1–6 |
| HR4 | Incidents of discrimination and actions taken | | We have received no reports nor are we aware of any systematic discrimination of employees by LANXESS with regard to race, skin color, age, gender, sexual orientation, ethnicity, religion, disability, union membership or political opinion. In individual cases, misconduct by employees in respect of colleagues or third parties was reported. We will never tolerate such misconduct, if verifiable, and it will always result in disciplinary sanctions up to and including dismissal. Such incidents are processed decentrally at LANXESS and there is no central reporting system. | ■ | 1, 2, 6 |
| HR5 | Violation of the right to exercise freedom of association or collective bargaining | | | □ | 1–3 |
| HR6 | Principles and measures to eliminate child labor | | The LANXESS Group does not use child labor. By accepting our Supplier Code of Conduct, suppliers also undertake not to use child labor. Significant suppliers of goods and services are regularly the subject of supplier assessments that include aspects such as compliance with our Supplier Code of Conduct. We have received no reports or other indications of the use of child labor by our suppliers. | ■ | 1, 2, 5 |
| HR7 | Principles and measures to eliminate forced or compulsory labor | | The LANXESS Group does not use forced or compulsory labor. By accepting our Supplier Code of Conduct, suppliers also undertake not to use forced or compulsory labor. Significant suppliers of goods and services are regularly the subject of supplier assessments that include aspects such as compliance with our Supplier Code of Conduct. We have received no reports or other indications of the use of forced or compulsory labor by our suppliers. | ■ | 1, 2, 4 |
| HR8 | Security personnel training | | LANXESS does not employ its own security personnel at its sites but procures security services from specialized external providers. They, like all our suppliers, are subject to our Supplier Code of Conduct, which also covers human rights. | ■ | 1, 2 |
| HR9 | Violations involving rights of indigenous people | | In fiscal 2014, we received no reports or other indications of cases involving the violation of indigenous rights. | ■ | 1, 2 |
| HR10 | Operations that have been subject to human rights reviews and/or impact assessments | | Our global Compliance Management System (CMS) covers all of LANXESS's business activities. Like all LANXESS's business entities, the CMS itself is subject to internal and external audits. On account of the full integration of our CMS in the LANXESS organization, all business activities are subject to permanent compliance monitoring, which also covers the respect of human rights.<br><br>In respect of our suppliers, LANXESS is actively involved in the TfS (Together for Sustainability) initiative, which was established and is operated by a number of major chemical companies. Respect for human rights is one of the main objectives and criteria of the supplier evaluations and audits that are jointly performed by this initiative. | ■ | |
| HR11 | Number of grievances related to human rights filed | | In fiscal 2014, we received no reports or other indications of grievances related to human rights. | ■ | |

| GRI Indicators | | Location | Explanation | Status | UNGC |
|---|---|---|---|---|---|
| **Society** | | | | | |
| | Management approach | pp. 13–15, pp. 17–18, pp. 41–43, http://lanxess.com/en/corporate/about-lanxess/public-affairs/ | | | 10 |
| SO1 | Percentage of operations with implemented local community engagement, impact assessments and development programs | pp. 41–43 | | ■ | |
| SO2 | Business units analyzed for risks related to corruption | | The analysis and monitoring of risks related to corruption are the responsibility of our Legal & Compliance Group Function. Various analytical approaches and scopes are applied:<br>1. Assessment of the risk of exposure to corruption and general monitoring of the internal control system: all business units<br>2. Transaction monitoring to ensure compliance with company regulations with an influence on the prevention of corruption in the standard SAP system: approximately 80% of all transactions<br>3. Dedicated corruption scans in seven countries which Transparency International deems to be particularly at risk: approximately 20% of all transactions | ■ | 10 |
| SO3 | Percentage of employees trained in anti-corruption policies and procedures | | LANXESS applies a risk-oriented training concept. Corruption training targets exposed professional groups and countries. The proportion of employees from the total workforce who have received classroom-based training is around 15%. | □ | 10 |
| SO4 | Actions taken in response to incidents of corruption | | In fiscal 2014, we received no reports or other indications of cases of active corruption by LANXESS employees. In individual cases of verifiable corruption of LANXESS employees (passive corruption), we take disciplinary action (usually dismissal) and, if the legal chances of success are high enough, initiate civil damage claims (damages and criminal litigation). In fiscal 2014, we recorded a single-digit number of cases of passive corruption. | ■ | 10 |
| SO5 | Public policy positions and lobbying | pp. 17–18, http://lanxess.com/en/corporate/about-lanxess/public-affairs/ | | ■ | 1–10 |
| SO8 | Penalties for non-compliance with laws and regulations | | | ▫ | |
| SO9 | Operations with significant potential or actual negative impacts on local communities | pp. 32–34, pp. 36–37, p. 120 | | ■ | |
| SO10 | Prevention and mitigation measures implemented | pp. 32–36 | | ■ | |

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| GRI Indicators | | Location | Explanation | Status | UNGC |
|---|---|---|---|---|---|
| **Product responsibility** | | | | | |
| | Management approach | pp. 13–15, pp. 28–31 | | | 1, 8 |
| PR1 | Health and safety impacts during product life cycles | pp. 28–32, pp. 74–75 | | ■ | 1 |
| PR3 | Type of product and service information required by legislation | pp. 30–31 | | ■ | 8 |
| PR4 | Incidents of non-compliance with regulations and voluntary codes concerning product and service information | | At the present time, neither our compliance organization nor the Legal & Compliance Group Function yet has a system for recording such cases. We met the labeling and reporting deadlines resulting from the REACH and GHS regulations for all affected substances in our portfolio. | ■ | 8 |
| PR5 | Customer satisfaction including results of surveys measuring customer satisfaction | p. 17 | | ■ | |
| PR6 | Programs for adherence to laws, standards and voluntary codes related to advertising | | Our communication and marketing activities comply with the relevant laws and regulations, our corporate values and the Code for Legal Compliance and Corporate Responsibility at LANXESS. The same applies to product marketing and advertising. | ■ | |
| PR8 | Complaints regarding breaches of customer privacy and losses of customer data | | In fiscal 2014, we received no reports or other indications of complaints regarding breaches of customer privacy and losses of customer data. | ■ | 1 |
| PR9 | Fines for non-compliance with laws and regulations concerning the provision and use of products and services | | | □ | |

# Glossary

## Industry-specific terms

CLP and GHS CLP is the abbreviation for classification, labeling and packaging. The E.U. CLP Regulation contains new provisions for the classification, labeling and packaging of substances and mixtures. It was announced on December 31, 2008 and has already entered into force.

This new regulation is based on the Globally Harmonized System of Classification and Labeling of Chemicals – or GHS for short – which ensures that hazards are labeled in the same way all over the world. The use of internationally agreed classification criteria and labeling elements is aimed at making things easier for distributors and at protecting people and the environment worldwide from the hazards that may be caused by chemicals.

Compounding facility A facility for processing and finishing engineering plastics to enhance their functional properties.

Elastomers Stable yet elastic and formable polymers that are used to manufacture tires, rubber bands and sealing rings, for example.

ISO 14001 International standard which supports organizations in introducing an environmental policy, formulating environmental targets and implementing these with the aid of an environmental management system.

ISO 50001 International standard which defines requirements for systematic energy management to help organizations reduce energy costs, greenhouse gas emissions and other environmental impacts.

ISO 9001 International standard which defines minimum requirements for quality management systems.

Polyamide A synthetic polymer with very good mechanical and electrical properties and high resistance to chemicals and wear.

REACH Abbreviation for the Registration, Evaluation, Authorization and Restriction of Chemicals. The E.U. REACH Regulation stipulates the registration, assessment and approval of chemicals before marketing. It imposes a duty on manufacturers and importers to determine the hazardous characteristics of substances and estimate their impact on health and the environment.

Synthetic rubber Synthetic rubber is the term used for elastic polymers produced from petrochemical raw materials. It is the starting product for rubber production. With a 50 to 60% share of production volume, styrene-butadiene rubber is the most important of the synthetic rubbers. It is used especially in the manufacture of car tires.

VOC emissions Volatile organic compounds is the collective term for organic carbon compounds that evaporate easily or already become gaseous at low temperatures.

Vulcanization Vulcanization is a process that applies heat and pressure over time to make rubber more durable. It destroys the plastic properties of the rubber or rubber blend and makes it elastic.

## Financial glossary

Capital employed This is defined as total assets less deferred tax assets and interest-free liabilities.

Cash flow Inflows and outflows of cash and cash equivalents.

Corporate governance Responsible corporate management and oversight aligned with long-term value creation. It comprises the observance of laws, regulations, recognized standards and recommendations as well as the implementation and application of company guidelines and management and control structures.

Deferred taxes Tax expense or tax income that is likely to arise in the future from temporary differences between the carrying amount used in the annual financial statements and the taxable value of assets and liabilities and tax income that is likely to arise in future from unused loss carryforwards or tax credits.

Due diligence The careful investigation and analysis of a company, particularly in respect of its economic, legal, tax and financial condition and its performance in the areas of technology and the environment. It is undertaken especially by potential purchasers involved in acquisition projects.

EBIT Earnings before interest and taxes: the operating result before deduction of interest and income taxes.

EBITDA Earnings before interest, taxes, depreciation and amortization: the operating result before deduction of interest and income taxes plus depreciation and impairment losses on property, plant and equipment and amortization and impairment losses on intangible assets.

EMEA Europe, Middle East, Africa region

Equity method Accounting method that sets the interests in affiliated companies against the acquisition costs, with the result that any changes in the stakeholder's interest lead to an adjustment in the net assets of the affiliated company.

Financial covenants Clauses or (side) agreements in loan agreements and term sheets. These are contractually binding promises by the borrower or obligor during the term of the loan agreement, for example, that net financial liabilities will not exceed a defined multiple of an earnings indicator such as EBITDA pre exceptionals.

GDP Gross domestic product: the sum of all goods and services produced by an economy over the period of one year and destined for consumption.

Goodwill Intangible assets from the acquisition of a company. This is measured as the excess of the cost of acquisition over the fair value of the net assets acquired.

Hedging An investment position intended to limit or offset certain clearly identified risks such as exchange rate fluctuations or interest rate changes.

IAS/IFRS International Accounting Standards/International Financial Reporting Standards. These are uniform international accounting regulations issued by the International Accounting Standards Board with the aim of ensuring the global comparability of financial statements and the publication of information of relevance to decisions.

Joint venture A contractual agreement between two or more partners concerning an economic activity which they manage jointly.

Net financial liabilities Calculated as the sum of current and non-current financial liabilities (adjusted for liabilities for accrued interest) less cash, cash equivalents and near-cash assets.

Net working capital The sum of all inventories and trade accounts receivable less trade accounts payable.

Purchase price allocation Distribution of the cost of an acquisition to the acquired assets, liabilities and contingent liabilities.

Rating Assessment of a debtor's credit standing. Ratings are issued by, for example, the world's leading rating agencies such as Standard & Poor's, Moody's Investors Service and Fitch Ratings, but also by banks applying their own criteria.

ROCE Return on capital employed: ROCE is the ratio of EBIT pre exceptionals to capital employed and a measure of profitability.

Sell-side analysts Sell-side analysts work for banks and brokerages. They produce industry-specific analyses of listed companies. These are used to assess the stock of the companies analyzed and to make investment recommendations. Published in the form of research studies, these recommendations are targeted at external users, especially institutional investors, and are intended to provide investment ideas.

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**August 6**
Interim Report H1 2015

**November 5**
Interim Report Q3 2015

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